

THE POSITIVE AND NEGATIVE EFFECTS OF CUSTOMS UNION ON
TURKEY

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**THE POSITIVE AND NEGATIVE EFFECTS OF CUSTOMS
UNION ON TURKEY**

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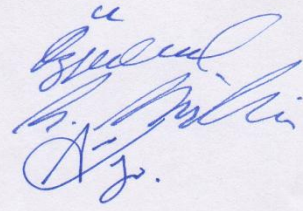
THE POSITIVE AND NEGATIVE EFFECTS OF CUSTOMS UNION ON
TURKEY

GÜMRÜK BİRLİĞİ'NİN TÜRKİYE'YE OLUMLU VE OLUMSUZ
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ABSTRACT

In the 21st century, globalization and regionalization have become faster than they had been in the 20th century. In this framework, new economic integration models were established in the world. The most successful economic integration model in the world is the European Union. Customs Union is a step for Turkey on the path to full-membership to the European Union. On 1st Jan. 1996, the treaty, which provides the customs union was put into practice. With the Customs Union, various impacts have happened in Turkish economy. The purpose of this study is to examine different impacts of Customs Union on Turkey. The impacts of Customs Union are going to be analyzed in terms of the Union's static and dynamic effects. Additionally, the analysis will be enriched with the interviews which have been done with the experts.

ÖZET

Globalleşme ve bölgeselleşme 21. Yüzyılda 20. Yüzyıla göre hız kazanmıştır. Bu çerçevede dünyada yeni ekonomik entegrasyon modelleri kurulmuştur. Dünyadaki en başarılı ekonomik entegrasyon modeli Avrupa Birliđi'dir. Gümrük Birliđi ise Avrupa Birliđi'ne tam üyelik yolunda Türkiye için bir basamaktır. 1 Ocak 1996' da Gümrük Birliđi'ni sađlayan anlaşma yürürlüğe girmiştir. Gümrük Birliđi'nin tesis edilmesinin ilk yıllarından itibaren, Gümrük Birliđi'nin Türkiye üzerinde çeşitli etkileri olmuştur. Bu çalışmanın amacı Gümrük Birliđi'nin Türkiye üzerindeki farklı etkilerini analiz etmektir. Bu çalışma, Gümrük Birliđi statik ve dinamik etkilerine bađlı olarak analiz edilmiştir. Buna ek olarak, bu çalışmada uzmanlarla yapılmış röportajları da görmek mümkündür.

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ABBREVIATIONS

- AKP-** The Justice and Development Party
- CEN-** The European Committee for Standardization
- CENELEC-** The European Committee for Electro-technical Standardization
- CU-** The Customs Union
- D-8-** Developing 8 Countries
- ECU-** European Currency Unit
- EEC-** European Economic Community
- ECSC-** European Coal and Steel Community
- EFTA-** European Free Trade Association
- EU-** European Union
- EURATOM-** European Atomic Energy Community
- FDI-** Foreign Direct Investment
- GATT-** The General Agreement on Tariffs and Trade
- GNP-** Gross National Product
- GSP-** The Generalized System of Preferences
- G-77-** The Group of 77 at the United Nations
- ILO-** International Labour Organization
- IMF-** International Monetary Fund
- MEDA-** The Euro-Mediterranean Partnership Program
- NAFTA-** The North American Free Trade Agreement
- NATO-** The North Atlantic Treaty Organization
- NGO-** Non- Governmental Organization
- OECD-** Organization for Economic Co-operation and Development
- OEEC-** Organization for European Economic Co-operation
- OPEC-** Organization of the Petroleum Exporting Countries
- PHASE-** Poland and Hungary: Action For The Reconstruction of the Economy
- SEA-** The Single European Act
- UNCTAD –** The United Nations Conference on Trade and Development
- WB-** The World Bank
- WTO-** The World Trade Organization

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CHAPTER 1

INTRODUCTION

New economic integration models have been created because of the acceleration of globalization. Economic and political competition leads this acceleration of globalization around the world. In other words, the global economy is the real reason behind this acceleration. Countries have begun to dispense with the protection of the domestic trade and encourage the policy of free trade policy. So, we can say that economic integrations are the most important steps of globalization and can be seen in various ways.

According to Balassa, the term “economic integration” refers to both a process and a state of affairs. Viewed as a process, it covers “measures designed to abolish discrimination between economic units belonging to different national states”; regarded as a state of affairs it is the “absence of various forms of discrimination between national economies” (Saphir 1202). Major industrialized countries want to expand their spheres of influence and increase the profit rates based on multinational cooperations. Usually, the developing countries are the exporters of agricultural products or raw materials. They aim to achieve dominance in the market. Increases in productivity, the growth and demands on welfare are the aims of the nation states, which want integration.

If some obstacles are removed such as import and export tariffs, non tariff barriers, capital controls, barriers to FDI, technology transfer, and real estate transactions, countries move toward some potential economic integration. Removing or diluting institutional obstacles, therefore, becomes a necessary condition for economic integration. These obstacles can be removed unilaterally, bilaterally, multilaterally, and multilaterally. New supranational organizations can also be created to oversee such agreements. The General Agreement on Tariffs and Trade (GATT), the Maastricht Treaty, and the North American Free Trade Agreement (NAFTA) are examples of institutional integration through removal of obstacles and, in some cases, creation of new supranational organizations (Prakash and Hart 95-96).

Among different integrations in the world the most advanced model is the European Union which includes the Customs Union. Asian Economic

Cooperation, and the North America Free Trade area are other examples of economic integration, and they are not as developed as the EU.

The idea of the European Union appeared after the First World War and was put into practice after the Second World War. The effects of the war showed that there was a need for a system that would prevent a new war. These thoughts appeared firstly among the governments of European countries. The governments started to look for a new political and economic system for Europe. Some intellectuals and politicians began to defend a federal structure for Europe. However, these expectations gave negative results after a European Conference in the Hague in 1948 (Kaya, Düzgit, Gürsoy, Onursal 3).

The U.S. supported European integration during this period. It helped the European integration with the Marshall Plan. Europe was devastated because of the many years of conflict during the Second World War. Two millions of people had been killed, and economy and agriculture were devastated. From 1945 to 1947, the United States assisted the European economic recovery with direct financial aids. One of the countries that got financial aid was Turkey within the framework of Marshall Plan (The Marshall Foundation Web Page, 02.10.2014).

The United States contributed to the establishment of the North Atlantic Treaty Organization. Marshall Plan increased the economic cooperation among the countries within the OECD. However, the OECD and the European Council did not have a structure that applied to the united European integration project. This pushed the European states to form closer cooperation models. The Prime Minister of England, Winston Churchill, stated that a supranational structure would not be accepted by England, because it would impair the sovereignty of England. As a result of the Hague Conference, the Council of Europe was established in 1948 (Gürsoy and Beşgül 3).

The Cold War and the Soviet threat encouraged the economic integrations around the World. Also, defeated Germany after the Second World War could be a real threat for European countries after the Second World War. The basic reason of this fear was the power of Germany due to coal and steel production. Also, Germany could be stronger if it followed an imperialist politics. Thus, Germany had to be controlled and disciplined.

The first attempt for an integrated Europe came from French Foreign Minister Robert Schuman on May 9th 1950. Jean Monnet prepared the plan and

Schuman explained it. The plan stated that the coal and the steel resources of France and Germany and the production of them should be managed commonly. Any European country would be free to enter the European Coal and Steel Community. The invitation was answered by three Benelux Countries (Belgium, Luxembourg, Holland). After negotiations, Schuman Plan was declared on May 9th 1950 (Europa Web Page, The Schuman Declaration, 10.10.2014).

Six countries established the European Coal and Steel Community on April 18th 1951. The treaty was signed on April 18th 1951 in Paris and came into force on July 25th 1952. The countries that signed the Paris Treaty wanted to widen their cooperation to other fields like they had done in Coal and Steel Community. They focused on an economic integration model. The foreign ministers of six founding countries summoned a conference in Messina on June 1st -2nd 1955. They wanted to establish the European Atomic Energy Community (EAEC) and European Economic Community (EEC).

Also, the OECD is an important organization for economic development of the Community. The roots of the OECD go back in Europe to the post World War period. It was established on April 16th 1948 to run the US-financed Marshall Plan for reconstruction of Europe (OECD Website, Access Date: 20.09.2014). It aimed to reduce the tariffs and other barriers to the expansion of trade, and to create the utilization of labor. American financial aid was implementing economic programs. OECD is the inheritor of OEEC. It was established on Sep. 30th 1961 in Paris. There are twenty founding countries in OECD, and Turkey is one of them. Today, it has thirty four members. OECD wants to reach answers for common problems and co-ordinate domestic and international policies.

In addition, European countries worked to establish the European Economic Community. The attempts of the countries brought positive results in 1956, and representatives of six countries established European Economic Community and the common market on March 25th 1957 (Cillov 2). The aims of the European Economic Community were to increase commerce and productivity of productions among European countries, and to provide full employment within the Community. They wanted to increase economic power of Europe and life standards of European people.

The European Economic Community (EEC) was established by the participation of six countries (Germany, France, Belgium, Holland, Luxembourg and Italy) with the Treaty of Rome in 1957. The Community became a supra-national institution with the Treaty of Rome (Avrupa Birliđi Genel Mdrlđ 10). The ultimate purpose of EEC was to achieve political integration. The establishment of the CU and free movements of goods, capital, service and labor would lead to political integration. As a result, economic progress would establish a common market.

The roots of new restructuring in Europe tie with the CU. The CU prevents discrimination among its members applying common competition and commerce policy. The signatories of the Treaty of Rome aimed to remove all customs barriers and other restrictions. The CU was completed in 1968. However, it was not easy to remove all restrictions in a short period of time, so countries planned to reach single European market gradually till 1985 (Avrupa Topluluđu Koordinasyon Genel Mdrlđ 3).

Moreover, after the establishment of the European Coal and Steel Community, the founding countries of ECSC decided to spread their economic integration policies to other sectors. EURATOM was established by the Treaty of Rome on March 25th 1957. The aim of EURATOM was to provide atomic energy's peaceful use (Avrupa Birliđi Genel Mdrlđ 10).

Until 1965 the development of the community continued and the first important attempt appeared on April 8th 1965 with a Merger Treaty. According to this treaty, the European Coal and Steel Community, the European Atomic Energy Community and the European Economic Community were brought under a single authority. In this way, the European Community (EC) was established in July 1967 (Europa Web Page, EEC Treaty 10.10.2014).

The Treaty of Rome was put into practice in 1958. The Customs Union rules were provided to the most of industrial goods and agricultural products before the deadlines. Although, there were delays in the transportation and energy sectors, the European Economic Community finished its transition period on July 1st 1968. The 1970s is a stagnation period for European integration. The 1970s brought the European Political Cooperation. It was established because there was a need for integration in foreign policy. Also, the European Council was established in 1974. In spite of these institutions, the

European integration was not achieved completely. These establishments brought coordinated acts to the union (Gürsoy, Beşgöl 27).

The Cold War conditions established a bipolar world system. The dissolution of the United Soviet Socialist Republics (USSR), and the fall of the Berlin Wall brought a new understanding in world politics. Since the 1980s the United States and major industrialized countries have begun to implement economic liberalization policies. Some international organizations such as the International Monetary Fund (IMF), World Bank and GATT, which eventually became WTO, apply the exercise of these policies. Also, the intense competition leads to the establishment of regional integrations. Also, the existence of the United Nations organizations makes the countries around the world more dependent on each other.

The White Paper report was explained to a council of ministers on June 29th 1985 in Milan. According to the White Paper report, what had been done until the 1980s were not enough for the development of common market (Çimen 102). The report provided a clear vision for the development of the market, and defined some limits of the market. It aimed to make a solid plan for the development of the market. According to the report, the problems of the market can be defined as physical, technical and financial limits. For the development of a single market, these specific problems had to be solved by the member countries until 1992.

Until the 1980s, European integration was also in stagnation because of the international economic crisis in the world. After a period of time, the Single European Act was signed in 1986. It aimed to create a common market and to remove all barriers in commerce, capital and service. The Single European Act is the second most important event after the Treaty of Rome in terms of European integration (Gürsoy, Beşgöl 27).

If the platform for the revival of European integration was laid in the early 1980s, the mid-1980s marked a turning point. The Commission under Jacques Delors, who assumed office in 1985, championed the scheme for a new integrative push starting with an ambitious project to free the internal market of the European Community (EC) of non-tariff barriers. This push led to the Single European Act (SEA), which marked a key moment in the history of European integration. It was the collective response of the EC states to the

global economic challenges of the late twentieth century and marked a new phase in European integration (Bache and George 157).

The SEA had potential for revolution, suggesting a shift in the existing balance of power away from the member states towards the Community institutions. When a new Commission assumed office in 1985 under the presidency of Jacques Delors, it offered a visible symbol of a new start under a dynamic leadership. Delors proposed that the EC should set itself the target of removing a whole series of barriers to free trade and free movement of capital and labour that had grown up during 1970s. This project would be pursued with a target date of 1992 for completion of the end, and be known as the '1992 programme' (Bache and George 158).

The success of the 1992 project revived European integration although the difficult issue of monetary union had yet to be addressed. Following the collapse of Communism in eastern Europe and the reunification of Germany, the future of European integration was once again brought into focus. The result was the Treaty on European Union (TEU), signed in Maastricht in December 1991, which brought agreement on moves towards a single currency and further institutional reforms (Bache and George 166).

Intergovernmental negotiations leading up the Maastricht Summit of December 1991 were tough and much of what was agreed reflected the lowest-common-denominator bargaining position of governments. The treaty on the European Union was signed in February 1992 and it was in force November 1993. Despite the lowest-common-denominator position of governments, the Treaty marked another big step on the road to European integration, with important implications for both internal and external activities (Bache and George 169).

The name of the 'European Economic Community' was changed to the 'European Community' and there were important new areas of co-operation in the fields of Common Foreign and Security Policy (CFSP) and Justice and Home Affairs (JHA). Along with the existing Community system (EC, ECSC and Eurotom), CFSP and JHA became part of a three-pillar structure known as the European Union (Bache and George 169).

It has been difficult for Turkey to evolve on its own in this growing regional movements since Tanzimat up till now. Turkey followed the path of the

West. After the proclamation of the Republic of Turkey, it aimed to have relations with the West during the 1960s, Turkey joined the developments within the framework of the European integration. Two weeks later Greece's application, in 1959 Turkey wanted to join the EEC. Greece can be seen as a stimulus for Turkey in its application to the European Economic Community. At the time, the relationship between Turkey and Greece played significant role in the membership aspiration of Turkey to the European Union. Turkey has always compared itself with Greece and wanted opportunities from the European Union Greece has.

Also, Turkey has been the member of the North Atlantic Treaty Organization (NATO) since 1952 (Şenyuva and Üstün 1). Turkey always followed the path of the West, so the CU aimed full membership to the European Union at the end of the twenty two years. The relationship with the European Economic Community (EEC) has started in 1959 with Turkey's application (TC, Avrupa Birliği Bakanlığı, 10.10.2014). The EEC responded to the Turkey's application negatively. The European Economic Community stated that the level of economic development of Turkey was not high for the membership. Until satisfying the appropriate conditions, Turkey could sign a partnership agreement with the Community according to the Community's advice (Demir 23).

To conclude, in order to understand the CU, the definition and the roots of economic integration should be understood first. The improvement of EEC should be known for a solid understanding of the current CU and Turkey. The definitions and explanations which have been provided in the introduction aim to facilitate understanding the background of Turkey-EU customs union process. Since the end of the last period of Customs Union (1996-), the effects of the economic integration with EEC have discussed in Turkey. The benefits and problems of the CU are important for both sides. Together with the CU, some macro economic effects appeared in the economies of both sides. The positive effects of the CU appeared in the fields of know-how competence of Turkey, and of institutionalization and the approximation with European legislation. The agreements with third countries, trade balance deficit, the lack of technology transfer and foreign trade investment can be counted as the negative results of the CU. For further integration, Turkey and the EU need closer relations in the

social and political spheres. Turkey's most developed integration model with the European Union is the Customs Union. Turkey is party to the CU without full-membership to the European Union. As being only party to the CU, Turkey did not participate in the decision-making authority of the Customs Union, but it is heavily influenced by its decisions. This can be counted as a negative factor in the EU- Turkey Customs Union relations.

CHAPTER 2

ECONOMIC INTEGRATION MODELS AND THE THEORY OF

CUSTOMS UNION

Chapter 2 consists of the definition of economic integration, different integration models, the historical background of CU, theory of the Customs Union and its development by different theorists. Economic integration means the unification and integration of different economies. There are different definitions of economic integration. For example, Balassa defines economic integration as removing all limits and adapting different policies in an integrating economy (Balassa 174). For Robson economic integration is efficient use of resources between different regions. For achieving economic integration, it is necessary both to provide free movements of production factors, and goods and to remove economic differences between economies (Sönmez 5). Also, according to Mahchlup, economic integration is the free movements of goods without considering consumers and producers. Mahchlup also says that the concept of integration can be used in the whole world. It defines different economic integrations such as national, regional and global integration (Sönmez 6).

After the Second World War, economic integration process gained speed. Huge percentages of the world trade have begun to happen in economically integrated regions. One of the most important economic integrations is the European Union. Similar economic and political structures, geographical closeness, common historical, cultural and social values, and small disparities of the economic development among the members, all make it easy to establish an economic integration.

In addition, first economic integration types appeared as economic cooperation agreements. They have been the first steps for the liberalization of trade and the cause of the prospective trade agreements. It is possible to see this type of agreements in the 19th Century. At the beginning of the 19th century forty small German city states were living separate from each other. One of the forty city states, Prussia, removed customs duties internally. Due to the benefits of removing customs duties, all German city states joined to the integration, which was established by Prussia in 1834. This movement led to the establishment of German unification.

In 1862, San Marino joined Italy. In 1865, Monaco joined France. Both unions still continuing today. After the unification of Germany, two other custom unions appeared Austria Customs Union and the South Africa Customs Union. Also, the United States of America completed its unification at the end of the 18th century. In the years following the Second World War, smaller customs unions were formed. For example Luxembourg and Belgium established a union. Also, Switzerland and Liechtenstein established a union in 1923 (Kırdar 11). Also, Brazil and Argentina established the first customs unions in 1941. In Africa free markets were established in 1959 among Chad, Congo, Gabon and Central African Republic. Also, Mauritania, Senegal, French Sudan, Volta, Ivory Coast and Dahomey established free markets among themselves. However, the most important developments appeared in Europe after the Second World War. First Belgium and Luxembourg were integrated in 1921; then they integrated with Holland on 1 January 1948. In this way, they established the first big common market in the 20th century by creating Benelux Customs Union (Kırdar 12). After the German unification, Benelux countries removed customs duties and other limits (Çimen 18).

There are five different integration models. Countries can apply different economic cooperation among themselves. According to Seyidoglu, it is possible to order them in comparison to their levels of integration as being preferential trading agreements, free trade associations, customs union, common market and economic union.

The first of integration models, preferential trading agreements, is not a very extensive integration model. In the implementation of it, the contracting states allow a reduction in customs tariff for the specific goods. The reduction in customs tariff can be mutual or unilateral. The countries of the Islamic Conference and D-8 are examples of preferential trading agreements (Demir 7).

The second integration model is the free trade associations. In this type, countries remove customs tariff and quantity restrictions among themselves. Also, there are no customs duties in this integration model. However, they apply their own agreements to non-member countries in case of any commodity being imported from them. Then, union members apply their own national customs duties to them. Sovereignty of a country will still continues in this type of

association. EFTA and NAFTA are examples of free trade associations (Demir 8).

Customs Union is the third model. It is a model more developed than preferential trade agreements and free trade associations. Countries remove customs tariff and quotas among themselves and apply a common tariffs to non-member countries. Members of customs union have limits when they apply free trade policy. The integration between Turkey and European Union is a kind of customs union. However, Turkey is not a member of the European Union, so some disadvantages apply for Turkey. The most important advantage of this integration is forming big markets for countries. The enlargement of the market causes reductions in prices, and increases in the production quality and diversity. The basic target of customs unions is to achieve political integration (Ay 19).

Moreover, common market is a more developed model than customs union. In addition to customs union's traits, labor and capital have a right to free movement in the member states of the common market. The concept of common market took place in Spaak Report in 1965 and began to be used after the Treaty of Rome (Demir 18).

Economic Union is the fifth integration model and the most developed model among economic integration models. The concept of economic and monetary union was used in 1959 by Jean Monnet to form European Fiscal Policy (Demir 18). In addition to the common market's traits, economic unions require the coordination of economic and financial policies. For an economic union, there is a real need for a single currency, banking system, common financial policies and supranational institutions to implement all of these. Another type of economic integration is monetary union. Monetary Union aims to harmonize national currencies and financial policies (Seyidoğlu 205). This model of economic union is the model of European Union. The European Union aims to integrate economic, financial, social and legal policies more than the common market does (Demir 18).

Table 1. Integration Models:

	Reduced Tariffs	Elimination of Tariffs	Common Trade	Common Currency and Economy
Preferential Trade Agreement :	X			
Free Trade Area :	X	X		
Customs Union :	X	X	X	
Common Market :	X	X	X	
Economic Union :	X	X	X	X
Resource: Ünsal 2005, International Economics				

The theory of the customs union is the resource of other economic integration models. The subject of the economic integration is about the economic policies of those countries which intend to have free trade. In economics, the theory of CU began to be used in 1950s. The first work about the CU belongs to Jacob Viner (Seyidoğlu 204). Viner studied forming customs union and the union's trade creation and trade diversion effects. Viner's theory is based on the assumption of full employment and competition. Viner's theory of the CU was built under the production effects of the customs union (Seyidoğlu210).

After Viner, in 1955 J. E. Meade contributed to the literature. Viner and Meade are the first two social scientist who form the first studies about the CU. However, there are studies which have been made before their researches. Smith, Taussing and Torren's studies are examples of the previous studies. Smith defends that the entrance to the CU is beneficial for countries. Taussing associates the utility and cost analysis with the share of countries' foreign trade. According to Torrens, the result of mutual tariff reductions reflects positively on foreign trade. Multilateral tariff applications reflect on foreign trade negatively (İspir 13).

Lipsey and Lancaster (economists) have improved the theory of the second best by verifying the theory of Viner. According to the theory, if first best situation is not completed, it is not possible to reflect the desired situation. The most common field of the theory of the second best is the customs unions. Because, some restrictions continue in the customs unions while some restrictions do not continue (Seyidoğlu 216).

The theory of the CU was developed with the practice of customs unions, especially with the establishment of the European Economic

Community. In 1960s, the theory of customs (static effects) union was improved by other economists. They improved the theory of dynamic integration. Static integration is the fundamental theory. The static structure of the theory does not allow the dynamic effects, which appear in long term to be considered (Sönmez 10). When different economies have started to integrate, some variables have appeared and the analysis of the variables has created the necessity of using dynamic tools. The theory of static effect disregard some results of the CU, for example the distribution of the income in the world. The theory of dynamic integration tries to explain the redistribution of the resources, the effects of the large scale production economies, the technological innovation, the economies of scale and market conditions and the effects of foreign competition.

Customs Union is the half-way of economic union. Countries first need to establish it by continuing their improvements in the way to economic union. According to Viner, free trade is the best policy to increase world welfare. To remove foreign trade restrictions is a step for free trade for increase of the world welfare. However, the CU analyses showed that free trade of a group of countries and their common external tariffs to third countries may not increase the welfare. This idea is the reason of the second best theory (Seyidoğlu 215).

Full competition and free trade are the best policies to increase welfare in the world. They can be called as *the first best theory*. Full competition assumes that market prices consider people and societies' interests on goods and services in terms of costs and benefits, but this assumption is often not true. Because monopolies, state interventions and external factors which affect production process cause a difference between costs and gains. In this case, full competition does not occur (Seyidoğlu 215). If states do not intervene into the market, this situation is called the first best policy. On the other hand, governments can make intervention a second best policy. For example: implementation of new customs tariff by states. In brief, the policies that make zero difference between social and private price rates are the first best policies. For example, states can put value added-tax from a good or they can import the same good from abroad. Imported good is the put of value added tax system in the country, so this situation makes imported goods cheaper according to local goods. Consumers prefer to buy imported goods and there is

a need for foreign exchange to buy them. This foreign exchange has a cost to the country. This cost is equal to the use of resources in the production process of the good. In this situation, the governments may take taxes from the imported goods. This government intervention serves the welfare of government (Seyidoğlu 216).

In this context, mostly, Customs Unions use the second best theory. Because there is liberalization of trade in the member states of the union and common external tariffs against third countries do still exist. However, it is not possible to say that second best theory defends the protectionism. Second best theory considers whether import restrictions are useful for the social welfare or not. This theory tries to repair market problems (the differences between private and social prices).

Chapter 2 has stated the definition of economic integration, different integration models and the historical background of the theory of the CU. Chapter 2 is important because it offers the historical background of the CU and the theoretical framework of the study.

CHAPTER 3

TURKEY AND CUSTOMS UNION

Chapter 3 will present the historical background of Turkey-Customs Union relations. This process and the development of the CU will be explained both as the stages of Customs Union and the necessity for the implementation of the Treaty of Ankara. In chapter 3, the partnership bodies, which were established for facilitating the implication of the CU, and their responsibilities will be explained. Chapter 3 will also explain the obligations of parties which arise from the Additional Protocol, the legal and institutional changes resulting from the CU and the developments between Turkey and EU after the CU.

On May 27th 1960, the military launched a coup because of political problems in Turkey (Demirel 9). The coup did not change the route of Turkey towards the EEC. Thus, the representatives of the parties came together on Sep. 12th 1963 and established a partnership between Turkey and the EEC by signing Ankara Agreement. Turkey became the associate member in the EEC by the Treaty of Ankara. The article 28, the final article of the treaty, explains how Turkey is going to pass to the full membership. The Treaty of Ankara is a mutual agreement between Turkey and the EEC, so Turkey does not have to give up its sovereign rights (Özkul 37). Turkey has wanted to be a part of the political integration in Europe for a long time. The treaty was put into practice on Dec. 1st 1964 (Avrupa Topluluğu Koordinasyon Genel Müdürlüğü 158). The Treaty of Ankara aims to create economic development in Turkey, increase employment, and standards of living, and strengthen commercial and economic relations between Turkey and the EEC.

The principles of the Treaty of Ankara:

- Making up the economic deficit between Turkey and EEC.
- To develop the social relations between citizens of Turkey and EEC.
- To help Turkey economically.
- This treaty must help Turkey to achieve a full membership (Avrupa Topluluğu Koordinasyon Genel Müdürlüğü 158).

3.1. Stages of Customs Union:

3.1.1. The Preparatory Period (1964-1973):

The preparatory period provided preparations for second and third periods. The preparatory period was completed in nine years. The EEC provided financial credits to the Turkish economy during this period. The EEC gave project-related development loans. The 1st Financial Protocol was provided in the preparatory period. The free movement of labor, the right of settlement, and the freedom of obtaining service didn't improve during the preparatory period (Kırdar 45). The Treaty of Ankara led to the European Community-Turkey Association Agreement. This agreement predicted a preparatory period for five years until the Additional Protocol, which was accepted on Jan. 1st 1973.

3.1.2. The Transitional Period (1973-1995):

The transitional period aims to make Turkey and the EEC's economic policies closer by common action. The transitional period was predicted to be completed in twelve years. It was put into practice between 1973-1995 (Avrupa Topluluğu Koordinasyon Genel Müdürlüğü 160). Transitional period was applied within the framework of the additional protocol. Transitional period brought responsibilities to both sides. The necessary conditions will be provided to the CU for what is related to Turkish industrial and agricultural productions during the transitional period. Turkey has extended its custom liberalization list. This period has started legally with the Additional Protocol (Kırdar 59).

The most important purpose of Ankara agreement was to raise the standard of living in both sides and to provide trade between Turkey and the EEC. After achieving these objectives, a full membership to the EEC would be easier for Turkey. It would be the most important result of the relations. The Customs Union was accepted in 1971 and started actually with the implementation of the Additional Protocol in 1973.

The Additional Protocol explains a transitional period for twenty-two years. It also explains the provisions and rules of the transition period. According to the protocol, the CU will be completed in twelve years with the free movements of labor, service and capital (Avrupa Topluluğu Koordinasyon Genel Müdürlüğü 160).

The Additional Protocol is based on the CU. It was formed from sixty-four articles. It is an addition to the Treaty of Ankara. The Additional Protocol expresses a process and a time-frame for the free movement of capital, people, service, transportation, taxation, competition, approximation of

economic and commercial policies (Kırdar 55). It is an implementation agreement.

In the first half of the 1970s, the community, with few expectations, has removed customs duties on industrial goods and liberalized the import of agricultural products. Turkey has begun to implement reduced tariffs on goods which are imported from the community. Turkey has not taken any steps towards the implementation of the CU. The second half of the 1970s is a period in which Turkey has had economic difficulties due to the negative impacts of Turkey's internal and external factors. Turkey exhibited a complaining attitude in the fields of generalized system of preferences, the third countries, EFTA, common customs tariff and foreign trade deficit (Dura, Atik 491).

Together with the Additional Protocol, the Community removed the quantity restrictions for the industrial goods unilaterally. At the end of 1973, the OPEC countries increased the oil prices, so Turkish economy entered a difficult period because of the increased oil prices (Sönmez 117). It increased the energy costs for Turkey. Also, the Cyprus problem increased the military spending and reduced the military aid from abroad (Kepenek and Yentürk 194).

In addition to the economic difficulties, the European Economic Community criticized Turkey's intervention to Cyprus, so Turkey was facing pressures from the EEC. Cyprus is a problematic issue, so the United Nation's authority appeared in the Cyprus problem. Although Cyprus problem is not related to the CU and the European integration, it became a problem in the relations. After Turkey's intervention to Cyprus, it became a problem in Turkey and the European Economic Community relations (Tekeli and İlkin 246).

Between 1973-1977, the export revenues were still at the same rate although goods and service import increased. The long term debt of Turkey increased from 3.3billion Dollars to 11.5 million Dollars. Short term debts increased to 6.1 billion Dollars in 1977. Between 1978-1980 , the % 70 of deferred debt in the world belonged to Turkey (Sönmez 120).Between 1975-1977, the foreign trade deficits reached %8,5 of Gross National Product. The 1/3 of the deficit was financed with worker's remittances. The 2/3 of the deficit was financed with foreign borrowing. However, beginning with 1978, the

payment time of the foreign debts started to come and Turkey entered a crisis due to its debts (Pamuk 261).

From 1954 to 1980, the import substitution policies were applied as an economic development model. In this context, between 1963-1977 the import substitution policy provided high accumulation and improvement in Turkey's economy. However, Turkey's industry structure was tied to foreign exchange. At the end of the 1970s, Turkey entered a currency crisis because of the foreign exchange dependency (Pamuk 250).

According to the Article 60 of the Additional Protocol, Turkey decided to stop its relations with the EEC about the CU on Dec. 25th 1976. Turkey wanted to have the opportunities the other Mediterranean Countries had. Also, Turkey wanted eight billion Dollars credit from the European Community. The EEC accepted only to halt the relations for five years (Çimen 151). As a result, Turkey stopped its responsibilities for five years.

In the first months of 1980, Turkish government explained that Turkey would apply for a full-membership to the EEC. The European Economic Community's relationship lagged behind in time, so Turkey applied to the European Economic Community a second time in 1987 (T.C. AB Bakanlığı, 10.10.2014). The European Commission replied negatively. The Commission stated that Turkey was not ready for full membership. The coup in 1980 was a negative factor for Turkey's entrance to the European Union. After the coup, the relations between Turkey and the EEC halted. The Community started to state some problems of Turkey such as economic and social ones, its weak competitiveness in the industry, continental shelf problems with Greece, and Cyprus intervention. According to the European Community, Turkey had problems about human rights and democracy, too.

Instead of a full membership, Turkey had to establish the CU, so Turkey had to have a strong economy. It had to be able to get out of debt and liberalized. It had to have a free economy to enter to the European Union.

In this perspective, the Jan. 24th decisions in 1980 were prepared to change the economy of Turkey. After the acceptance of the Jan. 24 1980 Decisions, Turkey could be a part of the international organizations such as International Monetary Fund, World Bank and Organization for Economic Co-operation and Development (Kazgan 127). On Sep. 12th 1980, Turkish Armed

Forces took power with a coup. Turgut Özal was responsible for the economic policies as deputy prime minister in the new government (Sönmez 126). The capital market was established in this perspective. Turkey had to have more liberalized economy for the consistency of the Turkey-European Union relations. In time, privatization and foreign direct investment (FDI) appeared due to the changing economic structure of Turkey.

The effort of the government founded in 1983, which defended the free-market since 1986, was to normalize the relations with the Community. Turkey re-applied a program for tariff reductions. Turkey applied for full-membership to the European Community in 1987. After two years later, in 1989, The European Commission issued a report on Turkey's full-membership request. According to this report, the EEC does not have a certain idea about having fifteen-eighteen members, so Turkey's application should be taken to a later date. For Turkey's full membership application, the EEC reported a negative opinion for some reasons (structural differences, the high inflation and unemployment in Turkey, high protection rates in the industry) (Dura, Atik 492).

Also, as a result of the collapse of the Soviet Union, the European Union started to have more members (This new enlargement project includes Center and Eastern European countries with Copenhagen Summit in 1993). Turkey was not accepted as a part of the enlargement project. As reason, the European Union showed the economic instability of Turkey, in addition to the political reasons and Cyprus problem.

Between 1992-1994, the Association Council focused on the subject of political dialogue. It decided to realize the CU in 1995. In 1995, the transition period, which was predicted to be twenty-two years, ended. Turkey signed the Customs Union Protocol on March 6th 1995. This document is called Association Council Decision (Dura, Atik 497). The final step of it was completed with the Decision of 1/95's acceptance in 1995 by the Association Council and the decision was approved by the European Parliament on Jan. 1st 1996.

On the other hand, the membership negotiations start before the CU in European Union. However, this situation is different for Turkey. Firstly, Turkey had to be party to the Customs Union. Then, some obligations could be given to

Turkey by the Union. Turkey opened its national markets to foreign trade policy and the practices of European Union.

According to the CU, the Union predicted some financial assistance for Turkey. However, there are differences between the amount of financial assistance and predicted financial assistance which is stated before. This situation has brought out various problems. In spite of these problems, Turkey considers its own foreign trade and national interests, so it had to be party to the CU. Together with Turkey's entrance to the CU, tariff against the imports were reduced to zero and the quota limit was removed between Turkey and the European Union, but against the third countries the Union began to apply a common customs tariff.

3.1.3. Last Period (1996 -):

Last period follows the transitional period. It continues since 1996. When transitional period was completed, last period began. In this period, coordination between Turkey and the Community has been increased. Last period is also based on the CU. There is no certain deadline to complete the last period. Economic policies and the coordination with the Community will be more developed and stronger in the last period.

3.2. Partnership Bodies within the Context of Customs Union:

According to the Article 6 of the Treaty of Ankara, the two parties can establish association council for implementation of corporation. According to article 24, association council can establish some committees for simplifying its works (Avrupa Birliği Genel Müdürlüğü 291).

3.2.1. Association Council:

Association Council tries to develop partnership between the countries in the customs union. It identifies the provisions, usage, time of the decisions in the customs union. Association Council tries to provide approximation of economic policies between Turkey and the European Community. Association Council has decision-making authority and takes measures (Avrupa Birliği Genel Müdürlüğü 291).

3.2.2. Customs Union Joint Committee:

The decision of 1/95 provides the approximation of common commercial policy, common competition policy, and customs organization with the Joint Committee. (AB Genel Müdürlüğü 294).

3.2.3. Settlement of Disputes:

The article 25 of Ankara Agreement predicts a mechanism for the settlement of disputes which may arise in association relations. However, the past of the relations shows that the mechanism was not managed. The problems were blocked by EC-Turkey Association Council. The blocked problems don't have the opportunity to be discussed in another area. If The Association Council could not solve a problem, the problem should be moved to the authority of arbitration. However, the disputes which move to the arbitration were limited, for example social and financial ones (Duna and Kutay 52).

3.3. The Obligations of the Parties Which Arise from the Additional Protocol:

The first obligation of Turkey has brought common customs tariff and the practice of the free movements of goods. The most famous economic integration models are free trade areas and customs union. They both remove all restrictions between countries such as *quantity restrictions, measures having equivalent affect*. However, the distinctive characteristics of the CU are customs district and distribution of the customs revenues. *Common Customs Tariff* is fundamental resource of the European Union. According to the common customs, no country has a special superiority or advantage in the system of common customs tariff. The countries of Customs Union apply common customs tariff among themselves and against other countries.

Turkey, Andorra and San Marino are countries that have the CU with European Union without full membership. According to the decision of 1/95, the CU between Turkey and EU has had an effect since 31.12.1995 (Dotto 9). It involves industrial products and processed agricultural goods. Namely, the decision of 1/95 is applied for all products in the free trade except agricultural products. The free movement of goods can be limited only in some special situations like public morality, public health and safety (Dotto 25). In the scope of customs union, the parties co-operate in the fields of standardization, metrology, calibration, quality, accreditation, test and certification.

On the other hand, Turkey's liabilities on the industrial products include removing customs duties and charges that have equivalent effect between Turkey and the Community. It also includes the elimination of quantitative restrictions and approximation of common customs tariff (Kırdar 58).

The Article 50 of the Additional Protocol states that Turkey tries to improve the regime of the foreign capital which comes from the EEC for achieving the goals which mentioned in article 19-20 of the Treaty of Ankara. The Article 50/2 of the Additional Protocol predicts the freedom of payment of capital movements and facilitating processes which are related to quantitative restrictions and capital movements (Kırdar 58). In spite of the Treaty of Ankara and the related articles of the Additional Protocol, no favorable process completed in the issue of the free movement of capital (Kırdar 63).

In a similar way, the additional protocol includes the issue of free movement of labor and service together with the free movements of goods. However, this situation is not binding; it is only an expectation for the future. According to the article 36 of the Additional Protocol, the free movements of workers should be provided in twelve-twenty two years. However, the free movements of the workers did not occur in time. Because Europe was facing an economic crisis in 1973-74. Europe stayed in a stagnation in 1970s and 1980s. As a result, On Dec. 1st 1986, the council of ministers explained that the free movement of labor was not possible (Avrupa Birliği Genel Müdürlüğü 302).

The articles 17 and 23 of the decision of 1/95 refer to the situation of the processed agricultural products. Unprocessed agricultural products are not part of the CU, while processed agricultural products have an additional value as a result of this process. The decision predicts to remove the protection of processed agricultural products mutually (Duna and Kutay 37). For removing the protection of processed agricultural products Turkey has to adopt the Community's administration.

In fact, the decision of 1/95 does not includes the agricultural products. However, the decision's sentences mention that the commerce of the agricultural products should be improved. The article 24 of the Additional Protocol states the agricultural policies. The Community's Common Agricultural

Policy regards Turkey's agricultural interests. However, this article was not applied in Turkey-EU relations (Duna and Kutay 38).

Finally, the decision of 1/95 was accepted on March 6th 1995. It also refers to the Treaty of Ankara for the full membership of Turkey (Duna and Kutay 27). The Decision 1/95 ends the transitional period which has been defined in the Additional Protocol (Kızılkor, indepth-interview, 01.10.2014).

3.4. The Legal and Institutional Changes Resulting from the Customs Union:

The Generalized System of Preferences (GSP) is prepared by the United Nations Conference which is related to UNCTAD. The GSP allows the undeveloped countries to enter into the markets of the advanced countries. The General Agreement on Tariffs and Trade (GATT) also allows the generalized system of preferences. This system has been implemented since 1971. It supports the economic development of the countries. The countries which are members of the GSP are called G-77 countries. The GSP applies discounts in the customs duties. In the framework of economic development, it also supports the standards of International Labor Organization (ILO), the protection of the labor rights and environment (Dotto 32, 33). Turkey is one of the members of the GSP.

Ekin Kalemдарođlu has stated his thoughts on The System of Cumulation of Origin and Generalized System of Preferences. He states that “ [a]fter being party to the CU, Turkey made agreement with EFTA countries. Turkey made agreement with Pan-European Mediterranean system of cumulation of origin like other European Countries did. Actually, Turkey is in more advantageous situation comparing to the weak countries by selling more production to this countries. On the other hand, Turkey is in a disadvantaged situation as buying from the stronger countries ” (Kalemдарođlu, indepth-interview 22.08.2014).

Yalçın Kızılkor also gave information about the system of cumulation of origin system: “ The system of cumulation of origin shows the origin of goods. In international trade, the implementation of customs depends on the origin of the goods. Therefore, the determination of the origin of goods and the classification of tariff are necessary for the implementation of customs duties and charges have an equivalent effect. The exporter countries and the producers countries are different things. Both countries may always not be the same. For

example, goods made in Tunisia can be exported to Turkey by Switzerland. Tunisia is the origin of the goods. There are two types of origin rules: preferential and non-preferential. Currently, Turkey is a part of two different systems: diagonal cumulation of origin system and a regional convention one “ (Kızılkor, indepth-interview, 01.10.2014).

In other words, Turkey is the member of the three different systems of cumulation of origin.

- Pan Euro-Mediterranean System of Cumulation of Origin
- Western Balkans System of Cumulation of Origin
- Regional Convention

(Serbest Ticaret Anlaşmaları,T.C. Ekonomi Bakanlığı Web Page).

Also, Kızılkor stated that “ The first one is Pan Euro-Mediterranean Cumulation of Origin System. This cross cumulation system is based on the principle of free trade area system and includes Turkey, European Union, EFTA Countries (Switzerland, Liechtenstein, Iceland and Norway), Algeria, Morocco, Palestine, Israel, Lebanon, Egypt, Tunisia, Jordan and the Faroe Islands. If Turkey completes the network of free trade agreements, it may apply diagonal cumulation of origin in preferential trade with EU, EFTA Countries, Morocco, Israel, Egypt, Tunisia and Jordan.

The second one is the Cumulation of Origin System of Western Balkans which includes Western Balkan countries (Albania, Bosnia-Herzegovina, Macedonia, Montenegro and Serbia), is based on a diagonal cumulation of origin system in the free trade. Turkey, (only for the products covered by the Customs Union) EU, Albania, Bosnia and Herzegovina, Macedonia, Montenegro and Serbia apply cross-cumulation of origin. The cumulation of origin system of the Western Balkans becomes part of Pan Euro-Mediterranean Regional Multilateral Agreement on Preferential Rules of Origin on Nov. 4th 2011.

And the last one is Regional Convention. In fact, the Regional Convention text was accepted at the 8th Euro-Mediterranean Conference of the Ministers of Trade which was made on Dec. 8th -9th 2009 in Brussels. With this agreement, the rules of origin of Pan Euro-Mediterranean cumulation system was edited with a multilateral agreement “ (Kızılkor, in-depth interview, 01.10.2014).

According to Kızılkor, ‘‘ Nowadays, Germany, Austria, Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Finland, France, Croatia, The Netherlands, United Kingdom, Ireland, Spain, Sweden, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, Poland, Portugal, Romania, Slovakia, Slovenia, Greece have the CU agreement with Turkey ‘‘ (Kızılkor, indepth-interview 01.10.2014).

In addition, the CU brings technical legislation which gives more importance to animals, plants, environment protection and to the rights of consumers. In this context, technical standards are used more and more in daily life. National economies use technical standards for protecting themselves from international competition. World Trade Organization also made some regulations for international trade. National standards should not limit the international trade, so Turkey has a responsibility to World Trade Organization. Within the framework of the CU, Turkey has to approximate its technical legislation to common technical legislation of the Community (Avrupa Birliği Genel Müdürlüğü 322).

Also, competition is another important point of the CU. After 1980s, the globalization of trade increased. The rules of competition and commerce began to be more integrated to each other. The rules of competition became closer to each other. Information networks started to increase. The import substitution for industrialization in 1980s was left. There were non-tariff barriers and anti-dumping practices in 1990s. The treaties of WTO established changes in commerce. The World Trade Organization (WTO) is a global international organization dealing with the rules of trade between nations. Its goal is to help producers of goods, services, exporters, and importers which conduct their business (WTO Web Page, 10.10.2014).

Increased competition raised the quality of the products. Turkey started to be much more adequate country for foreign direct investments. January 24th 1980 Decisions introduced a liberal economy. The CU that was made with EU brought obligations about the competition policy. Turkey has to obey the rules of European Union. Firstly, the practice of the CU is an opportunity for the development of Turkish economy. When Turkey signed the Treaty of Ankara, it became a part of the single market. Secondly, the accepted competition policy provides a transformation in Turkish business environment, government and industry. The aim of European Union is to use the competition policy for joining the global competition. One of the important issues about the competition law is state aid. It provides

support in some sectors. Turkey could achieve being a part of a single market by completing its responsibilities about free trade.

The competition law is effective in Turkey. The decision of 1/95 provides the approximation of competition laws between Turkey and European Union. The Competition Authority of Turkey follows the decisional law of the European Union. People and establishments have a right to defend their interests. In this case, if there is a situation that disobeys competition law, they can be damaged by unfair competition methods. In this situation, they can apply to the judicial ways.

Some aids are appropriate to the implementation of the CU as mentioned in the following part:

- There can be some aids in unemployment and low standards of living conditions. The aids are given for economic development.
- Some aids are for preventing serious economic problems in Europe and implementation of some common interest with a project is not a problem for the competition policy.
- In the context of the CU, EU can help for structural adaptation with aids.
- The aids that are given for regional development are appropriate to competition law.
- The aids that are given for protecting cultural heritage and values are appropriate to competition law.

Competition policy is formed from state aids and company law. According to the CU, all state aids are not appropriate. Because they are considered to be damaging to the competition between countries. However, some aids are accepted in the CU:

- Social welfare benefits
- The aids that are given after a natural disaster and exceptional cases
- Regional development
- The protection of environment
- The improvement of small enterprises

- Research and development aids
- Aids that improve the quality and the standard of productions (Rumford 108).

The European Union uses many different policies. One of them is consumer policy. The consumers are important for free market economy. For example, % 56 of gross national product of European Union in 2011 belonged to consumer expenditures (Atamer 212). Turkey become party to the Customs Union with the Decision of 1/95. The consumer policy is also part of it. The European Commission have responsibilities about the protection of consumers' rights. Together with the Treaty of Maastricht, the protection of rights is completely accepted under the responsibility of European Union. The Treaty of Amsterdam improved the conditions of consumer policy. The aim of this policy is to provide health and safety of consumers and their economic gains. The consumers can have more information about the consumer policy with education as well. Also, it is possible to perform in an organizational structure for the consumers.

Another policy is taxation. It is a part of the approximation of legislation. In direct taxation, tax evasion should be prevented and some actions should be taken. In indirect taxation, the approximation of legislation is important between Turkey and European Community. The taxes should be equal in both sides. Reciprocity and providing perfect competition are fundamental (Çimen 185).

In the same context, the decision of 1/95 should be mentioned. This decision aims to approximate the public procurement with the European Union. Public procurement law put into practice on Jan. 1st2003 and an independent public procurement agency was established in July 2002. Public procurements have the transparency, equal treatment, free competition and non-discrimination principles in the application of acquisition communautaire by applying construction work, service procurement and common rules for supply tenders (IKV Web Page).

However, Turkey wants to prevent unequal competition in the imports, so a legislative act about the imports has been accepted on 1.10.1989. This legislative act ties to the principles of GATT and its related agreements in Uruguay Round. In the context of approximation of rules, Turkey has accepted

a rule on July 21st 1999. This legislation aims to protect domestic producers and national interests.

Also, European Union has applied anti-dumping and anti-subsidy policies against Turkey. In the time period of 1990-1994, the European Union opened thirteen judicial inquiry against Turkey. In terms of these judicial inquiries, Turkey comes after China between 1990-1994 (Dotto 72). After Turkey signed the CU, these implementations disappeared in time. Turkey should create equal competition environment for integration to European Union. After the acceptance of the decision of 1/95 on March 6th 1995 in Brussels, the treaties that are mentioned in above have been accepted by Turkey: the law of patent, the law of competition, the protection of consumer rights.

On the other hand, the Article 41 of the CU Decision regulates Turkey's approximation of legislation to the Treaty of Rome in the field of public undertaking or other enterprises. Also, article 41 states that state monopolies should not create discrimination between citizens of member states and Turkey in the practice of marketing and production of goods. It is necessary to create a good environment for competition. The provisions aim to achieve a comprehensive establishment for competitive environment in the CU area. The transition periods are usually one or two years and they provide flexibility to Turkey's adjustment period (Duna and Kutay 43).

The differences in national standards are fundamental factors that prevent the commerce between states. For more successful economic integration, the EEC put this issue on the agenda and made an effort to establish the EEC standards. Together with the Single European Act, a qualified majority voting was preferred by the EEC. Instead of describing standards in detail, the minimum rules were defined. CEN and CENELEC (European standardization establishments) created binding standards for the member states. If a non-member country wants to send an export product to the EEC, one of the establishments in the EEC has to confirm suitability of the products according to the legislation of the European Communities (Duna, Kutay 32).

Also, it is important to mention common commercial policy. In the context of the CU, countries have to apply common import and export rules

and common customs tariff against the third countries. For the integration of economy, Turkey has to approximate its foreign trade with the customs union (Duna, Kutay 33). Common commercial policy is the first step of European integration. The establishment of common commercial policy aims to develop international trade, remove all limits of customs tariff and create cooperation instead of protecting European market.

In the same context, the EEC provides financial aids to Turkey for economic development. The provisions and quantity of financial aids are provided by the European Investment Bank. The European Economic Community has started to help Turkey with financial aids in 1963. The Treaty of Ankara started with an additional financial protocol. Four financial protocols were signed in total. All credits that were provided by the first Financial Protocol were used. These credits were used for the infrastructure and investment projects. In total, eleven public and thirty three private sector projects were financed by the financial credits (Avrupa Birliği Genel Müdürlüğü 304). First one covers the years 1964-69. Second covers the years between 1971-1977. Third financial protocol's aid was given between 1979-81. Last financial protocol covers the years between 1982-86. In total, 175 million European Currency Unit was provided with these protocols. Last protocol was not implemented because of the veto of Greece in 1981 (Avrupa Birliği Genel Müdürlüğü 307).

Moreover, the protection of intellectual, industrial and commercial property rights are necessary. In fact, the sources of these rights are different, and the protection of industrial rights are based on the Treaty of Paris's last addition in Stockholm. Intellectual property rights are based on the Treaty of Bern's Paris text. In the framework of these rights some protections are provided:

- The protection of copyrights and neighborhood rights
- The protection of industrial property/ patent rights
- The protection of brands
- The protection of geographical indications
- Preventing material breach in the protection of industrial rights

(Avrupa Birliđi Genel Müdürlüğü 382).

Turkey worked hard to provide an infrastructure for the sake of right protection of industrial property, so it became possible to evaluate specific results in three parts. They established Turkish Patent Institute, generated legislations in effect, and participated to international treaties.

Also, Turkey had to approximate its commerce policy to the European Union's commerce policy. Turkey applied common commerce policy to third countries. At the same time, Turkey had to integrate its policies to European Union's autonomous tariffs and preferential agreements. European Union had regional agreements or bilateral agreements with different countries. As a requirement of the CU, Turkey had to apply the Community's directives. Also, Turkey applied a special regulation to underdeveloped countries. Turkey didn't apply customs tariff and quotas to underdeveloped countries. It provided opportunity to free entrance except the entrance of weapons (Avrupa Birliđi Genel Müdürlüğü 33).

3.5. The Developments between Turkey and EU After Customs Union:

The developments between Turkey and EU after Customs Union can be summarized into five main stages. Turkey was accepted as a candidate on December 11th-12th 1999 in Helsinki Summit. Helsinki Summit created a new period in Turkey-EU relations. Like other candidates Turkey got used to a pre-accession strategy. In 2000, eight sub-committees were established to analyze Turkey's legislation in the framework of pre-accession strategy in Association Council Meeting (Topalođlu 66).

After that, the Accession Partnership Document and national program occurred. Accession Partnership Document guides countries during the integration process to European Union. They determine the priorities of integration process, for example political and economic criteria and looking after the Community's legislation. In this context, Turkey prepares a national program for achieving the aims of Accession Partnership Document. Also, European Union evaluates the situation of Turkey every year with a progress report. Since 1998, European Union Commission has prepared reports regularly

(Topaloğlu 67).

Then, the Brussels Summit (December 16th -17th 2004) was done. In this way, Turkey signed an additional protocol on July 29th 2005 because there was a real need to do some changes to the Treaty of Ankara after the enlargement of new European Union. The Treaty of Ankara includes the new members of the European Union after the Brussels Summit. (The Protocol includes ten new countries together with the South Cyprus). However, Turkish government published a declaration after the Additional Protocol. The declaration states that Turkey still does not recognize the South Cyprus (Topaloğlu 68).

After that, the negotiations with the European Union started on Oct. 3rd2005. The screening process started on Oct. 20th2005 and ended on Oct. 13th 2006. The criteria was defined for nine chapters which include the free movement of goods, competition policy, agricultural and rural development and taxation.

On Nov. 29th 2006, the Commission suspended eight chapters because Turkey did not apply the additional protocol to the Treaty of Ankara. The free movements of goods and the CU are part of these closed chapters. In this way, the negotiations were stopped in some chapters (Topaloğlu 70).

Turkey established European Union General Secretariat on July 4th 2000 to achieve integration with the European Union in a fast way. This new established Secretariat prepares national programs for short, medium and long terms. These programs enable Turkey to start a full membership negotiations with the European Union (Aslan 23). Turkey needs financial aids from the European Union for overcoming economic problems. The full-membership speed depends on the speed of the success of the national programs. As a result, the approval process of accession treaty existed.

Finally, it is necessary for Turkey to apply some adjustment laws in addition to the help of national programs of integration with the European Union. These regulations are mentioned below in terms of economic regulations: improvement of market economy, the establishment of Turkish Competition Authority, increased competition power in the fields of agriculture, livestock and meat products, removing technical barriers in trade, the protection

of intellectual property, industrial property, commercial, patents rights, regulations for foreign direct investment, the protection of the rights of consumers and so on (Aslan 25).

To conclude, the obligations of parties, the legal and institutional changes resulting from the CU, the developments after the CU were explained in Chapter 3. These titles present the content of the CU between Turkey and EU. Also, chapter 3 presented the historical background of Turkey- Customs Union relations. This process and the development of the CU were explained as the stages of the CU and the necessity for the implementation of the Treaty of Ankara. In chapter 3, as well, the partnership bodies which were established for simplifying implications of the CU and their responsibilities were explained. Chapter 3 also explained the obligations of parties which arise from the Additional Protocol, the legal and institutional changes resulting from the CU and the developments between Turkey and EU after customs union.

CHAPTER 4

THE IMPACTS OF CUSTOMS UNION

After the reduction of barriers of trade, some changes appear in the market. For example, while some goods become more expensive, other goods become cheaper. The quality and the structure of goods change. The income level of the country

change. All these changes happen, when the CU remove its duties and limitations to establish one single market. This chapter will be about the impact of the CU.

It is possible to divide the changes which are resulted from the CU to two parts. If they happen just for one time, they are called ‘static effects’. If there are effects that often happen according to the economic variables, these effects are called ‘dynamic effects’. Ahmet Çimen’s classification about the effects of the CU is more comprehensive compared to other classifications in order to understand different effects of the CU. So his classification and explanation have been preferred over other explanations of static and dynamic effects.

4.1 THE STATIC EFFECTS OF THE CUSTOMS UNION:

After removing the customs tariffs, the production of expensive goods will not be preferred anymore. Instead of this, the cheap goods will be imported without the customs duties. This means that after the establishment of the CU, the imports will be done inside of the union instead from a third country (Çimen 22). Namely, the imports move to the inside of the union. There are four different static effects of the CU: commerce, production, consumption and income distribution effects.

4.1.1. The Effects of Commerce:

There are two commerce effects:

4.1.1.1. Trade creation effect of the customs union

4.1.1.2. Trade diversion effect of the customs union

4.1.1.1. Trade Creation effect:

In trade creation effect, the production moves from outside of the union, which means low cost will be preferred instead of high-cost. Member states of the Union remove their own customs barriers. In this way, if a country has low cost, it will start to export to other country easier. According to the trade creation effect, the productions move from the producer country A which has expensive production to country B which produces cheaper. In this way, production costs will reduce and new trade will be created (Kılıç 24).

4.1.1.2. Trade Diversion Effects of the Customs Union:

If a country is a member of the CU, it can import the same goods from a member of the CU cheaper instead of producing expensively. Third country will not be preferred by the customs union's countries (even if a third country can be cheaper at production). Because of the CU treaties, countries have to import from the member states of the CU (the effects of the common customs tariff). Trade will be moved from third countries to the CU countries. This movement is the trade diversion effects of the customs union (Çimen 23).

4.1.2. The Production Effects of the Customs Unions:

Two different effects (negative and positive effects) form the production effects of the CU.

4.1.2.1. Positive Effects of the Production:

If any country has an expensive production, it can easily choose to import it cheaper from any other country into the CU. These goods might be raw and semi-finished goods. This import has no customs tariffs in terms of the CU. In this situation, the exporter country can increase its demand on production and this increase of demand creates new investments for achieving the new demands. The additional investments increase the production in the CU. The increased production is the positive effect of the CU (Çimen 23).

4.1.2.2. Negative Effects of the Production:

Before the establishment of the CU countries were able to choose to import from third countries. They preferred the third countries goods. But when the CU countries became apart of the common customs tariff importing from third countries became expensive. This causes a decrease in producing capacity. It means that the production will be decreased. Decrease in production is the negative production effect of the CU (Çimen 23). The CU creates negative and positive effects. The difference between negative and positive effects is called net production effect.

4.1.2.3. The Competitor Economies in terms of Production, Complementary Economies:

The countries of the customs union can be in a competition in terms of producing the same and similar goods. This situation creates a significant volume of trade. The country whose production has lower cost can reach new markets by competition. Countries which produce different goods are called

complementary economies. When they establish a union, trade diversion will occur. Countries produce different goods (Kılıç 28).

4.1.3. The Consumption Effect of The Customs Union:

Consumption effect of the customs union appears in the increase of the production, and in this situation consumption has more shares. The CU and the integrity of the countries influence the economic structure of the members of the union. Members of the union will have more integrity as a result of the CU. This integrity will be benefited by all parties of the CU. In this way, the member states will increase the income of their citizens. The income of the citizens stimulates the demand; so, more funds will be transferred to the consumption. This situation is a result of the decreasing of the prices of the union and the increase in the revenues of the citizens of the union (Hatıplı 19).

4.1.3.1. Positive Consumption Effect:

Country A can produce X by itself before joining the union. After its membership to the union, and because of the abolition of customs, same goods (i.e. produce X) can be imported from another country. Because they may have a lower cost. In this situation, it is possible to say that the consumption effect is positive (Kılıç 29).

4.1.3.2. Negative Consumption Effect:

While country A is making imports from another country which has cheaper production after the establishment of the union, it can import from a country which has a higher cost. In this situation, the price of Y increases compared to the previous situation (Kılıç 29).

4.1.4. The Income Distribution Effect of the Customs Union:

Together with the influence of the CU, the trade creation effect will occur. Because of the trade creation effect of the CU, commercial activities move to the union. The production of the members of the union leads to an increase in the incomes. Also, the trade diversion effects of the CU will decrease the demand for the production of goods which comes from the third countries. As a result, the revenues of this country will reduce. When the income levels of the members of the union increases, the incomes of third countries will reduce. This reflects the income distribution differences among the countries (Hatıplı 19).

4.2. DYNAMIC EFFECTS OF THE CUSTOMS UNION:

The dynamic effects do not depend on the changes of the economic structure. Accompanied with the establishment of the customs union, a dynamism in the economy occurs. It provides an increased welfare in the world. Dynamic impacts affect the economic development of the countries. The effects of the large scale production economies, technological development and increased external competition are the three different titles of the dynamic effects.

Dynamic effects of the customs union can be divided into advantages and disadvantages. In this case, dynamic advantages would be as follows:

- To increase the market size of the country provides benefits to the companies of the countries through the economies of scale.
- To increase the trade can provide improvements in the infrastructure of countries.
- Bargaining power of the countries influences the foreign trade of the country positively.
- Increase in the competition encourages investment and reduces monopolistic competition.
- Integration provides a rapid spread of technology.

Dynamic drawbacks will be as follows:

- Resources can move from the less active members of the CU to the more active members of it.
- Extensive cooperation between the firms of the member states may lead an oligopolistic restructuring. In this case, consumers will be forced to buy goods with high prices.
- When the CU allows the establishment of extremely large companies, extremely bureaucratic and inefficient structures can appear. Administrative costs of the CU may become higher (Kılıç 30).

4.2.1. The Effects of the Large Scale Production Economies:

Division of labor, the specialization at work, machinery and equipment abundance and new sales research techniques establish the economies of scale. The large scale production provides reducing cost expenses and increased production of goods and productivity. The economies of scale is formed by

three titles: Internal scale economies, external scale economies and less external economies of scale (Çimen 25).

4.2.1.1. Internal Scale Economies:

They appear as a result of the skills and qualifications in the firm and industry sector (Çimen 25).

4.2.1.2. External Scale Economies:

Firms make decisions independently from each others. In this way, they can affect each other directly or indirectly. As a result, the decisions of the firms and their cost expenses form the external scale economies (Çimen 25).

4.2.1.2.1. External Non-market Economies:

Economies of scale can affect each other. They are called as the external non-market economies (Çimen 25). For example, technological developments, qualified managers and workers, efficiency advantages affect other sectors positively by providing their development.

4.2.1.2.2. External Economies of Scale in the Market:

The relationship of manufacturers between each other affects supply and demand conditions. As being depend on the effect of supply and demand, a firm or sector can reduce the expense cost. A firm can benefited from this situation. As being independent from the benefited firm, an effect that appears in the market is called the external economies of scale (Çimen 25).

4.2.1.2.3. Negative External Economies of Scale:

Some firms and sectors can make decisions independently from other firms. The decision that is made can affect competing firms and sectors negatively. This effect causes an increase in the cost of expense and decrease in the production. These kinds of economies are called negative external economies of scale.

Specialization, division of labor and technical superiorities provide the use of the full capacity of tools and machinery. Production increases as a result of commerce, marketing and sale techniques (Çimen 28). The reduced prices affect demand and national income positively. The welfare of states starts to increase in this way. If a country has this kind of firms within its territory, it will affect the world trade. They can reach the international market with their power.

4.2.2. The Influences of the Technological Development:

The Customs Union can increase technological progress in three ways. Firstly, to find more efficient working methods is necessary in increased competition. Because of this necessity, domestic firms can increase R&D investments for the sake of technological progress. Secondly, domestic firms will be face to face with larger markets as a result of the CU, so they may prefer to produce in large scale. In this way, domestic firms which allocates R&D will invest more. Finally, increase FDI brings the technology to the domestic market. Technological progress appears in receiving country's domestic market. Any increase in the technological progress that arises as being tied to the competition provides growth in the production scale and increases foreign investments and technology transfer (Yıldırım, Dura 148).

4.2.3. The Effects of the Foreign Competition:

When countries continue to protect their domestic industries with high barriers, foreign competition will be reduced and domestic industry will start slowing down. The elimination of tariffs stimulates competition in the union. Inefficient enterprises start to close or move to work in another area where they will be more efficient. Business which competes in imports reduce their competitive prices. The reduction in the costs provides specialization at work (Kılıç 31).

Compared to the states, there is much more competition between firms. To perform an international market is difficult in general. If a firm is strong, it can perform successfully in international market. This kind of firms/ multinational firms that are strong at international trade provides their own countries with commercial profits. An increased commerce means an increased welfare for a country (Çimen 29). Also, labor force, the cost of goods and their quality and the prices of the goods are fundamental stipulations for competitiveness. The CU includes the free movement of goods, workers. Compared to the free movements of workers, the free movement of goods is faster.

4.2.4. Productivity:

The establishment of the union impacts the industries that have high production volumes. When the volume of production increases, the cost of goods decreases. Because the market growth encourages mass production. Technological

improvement is one of the important reasons which influences productivity (Kılıç 32).

4.2.5. Investment:

Both the positive effect of competition and the increase in productivity which is increased by the help of economies of scale stimulate economic development. In this case, the total revenues increase. An increase in revenues provides an increase in savings. The investments will also increase. To pass into the mass production and the increase in productivity and technical facilities positively influence increase in the investments (Kılıç 33).

To conclude, the dynamic and static effects were explained in details in chapter 4. The CU has different effects on economies. The static and dynamic effects are results of the CU. Chapter 4 helps the reader to understand the effects of the CU on Turkey's economy by explaining the impact of the CU in general.

CHAPTER 5

THE IMPACTS OF THE CUSTOMS UNION ON TURKEY'S ECONOMY

Theoretically the Customs Union has various impacts. In chapter 5 theoretical impacts of the Customs Union on Turkey's Economy will be analyzed with data. Many researches were done about the customs union. They have different points of view. Some of these arguments are going to be discussed below.

Togan's study (2000) is analyzing the data of the employment and the value added for the years 1993-1995 and 1996-1998. During 1993-1995, the rate of increase in value added was % 3.16. During 1997-1998 it reached % 5.15. The increase at the employment was % 0. After the CU, the rate of employment increased % 0.12 (Ay 103).

Bakkalcı (2002) has an empirical study about the CU. Bakkalcı states that after the customs union, the trade with third countries has created the trade creation effect. However, foreign trade with the European Union has had trade diversion effect. In this framework, increase in economic welfare did not occur in Turkey-CU relations (İspir 3).

On the other hand Seyidoglu and Kemer (2002) studied Turkey's import. There was an expectation for import issue: import was expected to increase after the customs union. Seyidoglu and Kemer analyzed the performance of Turkey during 1996-1999. They observed the import and export changes in Turkey. According to their observation, they decided that the share of industrial productions in export was reduced from % 52.8 to % 49.7. On the other hand, the share of imports of industrial goods in EU increased from % 46.4 to % 50. These results were connected to the Additional Protocol which was signed on Sep. 1st 1970 (Ay 103).

In addition, Güney and Akbay (2008) have a study about the European Union's industrial policy and its effects on Turkey's industry. They state that Turkey and the European Union economies are complementary. The CU provides big opportunities such as achieving big markets (İspir 3).

Another study is Altundal's (2008) study which covers the evaluation of the CU on Turkey's macro economy. He studied different variables such as gross national product, inflation, economic development and comparison of the customs union periods of Turkey. Altundal evaluates some results of the customs union negatively such as the loss of customs duties, the right of free movement of labor, and the decline in the rate of gross national product (Altundal 143).

Temiz (2009) has an empirical research for the years between 1997-2007. This research does not reach certain results about the static effect of the customs union to Turkey, but it states that dynamics effects of the customs union are going to be useful for Turkey in the long run (İspir 3).

Finally, Antalya Chamber of Commerce and Industry (2010) has a research for the years 1985-2007. It analyzed the rate of foreign trade. According to the research, foreign trade balance improved positively. The total foreign trade improved to the benefit of Turkish economy (ATSO11).

The CU has various impacts theoretically. In this part of the chapter, the theoretical impacts of the CU on Turkey's economy will be analyzed with data.

5.1. The Evaluation of the Static Effects of the Customs Union on Turkey's Economy:

Some theoretical effects were mentioned in previous part of the research. In this chapter some theoretical data of the static effects on Turkey (trade creation, trade diversion, public revenue, terms of trade) will be analyzed.

5.1.1. The Evaluation of the Trade Creation Effect:

Table 2. Trade Creation Effect of the Customs Union:

Trade Creation :					
	Average Cost of X	Average Cost of X	Average Cost of X in		
		(applied % 100 tariff)	Customs Union		
A	50	50	50		
B	40	80	40		
C	30	60	60		
Resource:	Ünsal 2005, International Economics Page 413				

The trade creation effect of the CU was shown in Table 2., Country A imports the goods A from country C which produces the goods at the lowest cost, $30 < 40 < 50$. If %100 import tariff is applied to the goods, country A produces the X goods itself, $50 < 60 < 80$. In the Second column of the tables 3, there is the CU between country A and country B. Also, country A applied common external tariff before the CU. Country A gave up to product the X goods. Instead of producing by itself, it will prefer to buy it from country B, because country B produces the X goods cheaper, $40 < 50 < 60$. Hence, in the table 3, it is possible to see that the CU changes the trade between countries. Before the CU, country A was producing the X goods. After the CU, the X goods are bought by country B. In brief, the CU affects the trade between countries.

The production which has a high cost moves to another country whose production has a low cost. In this situation, trade creation effects appear and trade volume between countries increases. It affects the trade positively. The consumers can reach the same goods with lower prices. It is possible to evaluate the situation of Turkey with the table 3. which is mentioned in the following part.

Table 3. Turkey's Foreign Trade Indicators (million\$):

Years	Exports		Imports		Balance of	Volume of	Proportion of imports covered by exports
	Value	Change %	Value	Change %	foreign trade	foreign trade	
1995	21 637 041	19,5	35 709 011	53,5	-14 071 970	57 346 052	60,6
1996	23 224 465	7,3	43 626 642	22,2	-20 402 178	66 851 107	53,2
1997	26 261 072	13,1	48 558 721	11,3	-22 297 649	74 819 792	54,1
1998	26 973 952	2,7	45 921 392	-5,4	-18 947 440	72 895 344	58,7
1999	26 587 225	-1,4	40 671 272	-11,4	-14 084 047	67 258 497	65,4
2000	27 774 906	4,5	54 502 821	34,0	-26 727 914	82 277 727	51,0
2001	31 334 216	12,8	41 399 083	-24,0	-10 064 867	72 733 299	75,7
2002	36 059 089	15,1	51 553 797	24,5	-15 494 708	87 612 886	69,9
2003	47 252 836	31,0	69 339 692	34,5	-22 086 856	116 592 528	68,1
2004	63 167 153	33,7	97 539 766	40,7	-34 372 613	160 706 919	64,8
2005	73 476 408	16,3	116 774 151	19,7	-43 297 743	190 250 559	62,9
2006	85 534 676	16,4	139 576 174	19,5	-54 041 498	225 110 850	61,3
2007	107 271 750	25,4	170 062 715	21,8	-62 790 965	277 334 464	63,1
2008	132 027 196	23,1	201 963 574	18,8	-69 936 378	333 990 770	65,4
2009	102 142 613	-22,6	140 928 421	-30,2	-38 785 809	243 071 034	72,5
2010	113 883 219	11,5	185 544 332	31,7	- 71 661 113	299 427 551	61,4
2011	134 906 869	18,5	240 841 676	29,8	- 105 934 807	375 748 545	56,0
2012	152 461 737	13,0	236 545 141	-1,8	- 84 083 404	389 006 877	64,5
2013	151 802 637	-0,4	251 661 250	6,4	- 99 858 613	403 463 887	60,3

Resource : TÜİK, Foreign Trade by years " http://www.tuik.gov.tr/PreTablo.do?alt_id=1046 "

According to the table 3., in 1995, export was 21.637 million \$. Export reached 102.142 million \$ in 2009. In this situation, export increased 5.750 million \$ for a year in fourteen years. There is a decrease in 2000 because of the economic crisis. Because of economic crisis, export changed negatively between 1999-2000. At the same time, import increased from 35.709 million \$ to 140.928 million \$. According to this rate, in fourteen years, an increase in the average of import was 7.515 million \$ for a year. In 1995, foreign trade deficit was 14.071 million \$. This rate reached 38.785 million \$ in 2009. There are

serious increases in foreign trade deficit since 2003. According to the data of 2009, these rates were reduced. Also, it is possible to see a serious increase in foreign trade volume. In 1995, foreign trade volume reached 243.071 million from 57.346 million \$. Increases in the foreign trade volume and import show the customs union's positive effects in the union. On the other hand, increases in the foreign trade and import caused negative effects. In the first years of the CU, these negative effects are natural, because the technological and research-development investments have been low in these years. According to the data of 2009, it is possible to see an increase in the imports. The trade creation effect of the customs union shows that there is not a positive effect to Turkey. The expectations were not fulfilled in time.

5.1.2. The Evaluation of the Trade Diversion Effect:

Table 4. Trade Diversion Effect of Customs Union:

Trade Diversion:					
	Average Cost of X	Average Cost of X		Average Cost of X	
		(applied % 50 tariff)		(in Customs Union)	
A	50		50		50
B	40		60		40
C	30		45		45
Resource: Ünsal 2005, International Economics Page 414					

Table 4 shows the trade diversion effect of the customs union. According to the table, Country A imports the X from Country C which produces the X goods at the lowest cost in free trade, $30 < 40 < 50$. If country A applies %50 import tariff to X, country A prefers to buy from country C, $45 < 50 < 60$. In this case, the consumers in country A pays 45 TL for buying X. However, 15 TL of 45 TL was taken away by the government as tax. In fact, country A pays 30 TL for the unit of X goods. The cost of one unit of X goods is 30 TL to country A's economy. The second column of the Table 4 shows the CU between country A and country B. Common External Tariff Rate of Country

A was %50 before the CU. Instead of buying from country C, country A prefers to buy from country B after the CU, $40 < 45 < 50$. Hence, Table 4 shows the country A's changes in buying. Before the CU, country A was buying from country C which has produced the goods at the cheapest cost (30 TL). After the CU, country A starts to buy from country B in spite of the high price of the same goods in country B. A prefers to buy from country B. Thus, trade moves to the country which has high cost (trade diversion effect of the CU).

The countries of the CU applies tariffs and quotas to third countries. Because of these tariff and quotas, third countries are affected negatively. The trade increases in the union instead of a third country. The goods of the third country become more expensive for the countries of the union. The same trade diversion effect is available for Turkey too. It is possible to understand trade diversion effect of the CU from the table which is below.

Table 5. Foreign Trade by Country Groups / Export (Million Dollars):

Foreign Trade by Country Groups (million \$)	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Export										
EU	12,569	13,435	14,813	15,424	15,664	17,546	20,415	27,394	36,581	41,365
OECD	14,456	15,609	17,003	18,077	19,006	20,616	23,551	30,425	40,518	44,355
Turk. Rep.	747	908	835	574	572	557	619	899	1,194	1,409
Mid. East	2,595	2,821	2,681	2,566	2,573	3,261	3,44	5,465	7,921	10,184
N.Africa	986	980	1,502	1,344	1,087	1,15	1,267	1,577	2,203	2,544
Export	2006	2007	2008	2009	2010	2011	2012	2013	2014	
EU	47,935	60,399	63,39	46,977	52 934 452	62 589 257	59 398 377	63 039 810	45 865 136	
OECD	54,481	65,675	70,472	55,832	57 394 215	67 113 921	66 289 740	68 683 836	51 881 698	
Turk. Rep.	1,982	2,874	3,749	3,399	3 921 072	5 039 884	5 840 703	6 908 137	4 589 988	
Mid. East	11,316	15,081	25,43	19,208	23 294 873	27 934 772	42 451 153	35 574 660	22 937 559	
N.Africa	3,097	4,03	5,85	7,445	7 025 168	6 700 805	9 443 604	10 041 750	6 464 400	
Resource:	TUİK, " www.tuik.gov.tr/PreIstatistikTablo.do%3Fistab_id=626 ", (25.10.2014).									

Table 6. Foreign Trade by Country Groups / Import (Million Dollars):

Foreign Trade by Country Groups (million \$)										
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Import										
EU	24,321	26,119	25,282	22,53	28,527	19,823	25,689	35,14	48,103	52,696
OECD	31,919	35,64	33,496	29,053	36,821	26,886	34,155	45,545	62,309	69,583
Turk. Rep.	304	399	449	457	628	283	468	623	946	1,267
Mid.East	3,315	2,774	2,084	2,124	3,373	3,016	3,186	4,455	5,585	7,967
N.Africa	3,86	4,641	4,23	3,257	4,167	3,39	3,421	3,741	5,114	5,823
Import	2006	2007	2008	2009	2010	2011	2012	2013	2014	
EU	59,401	68,612	74,802	56,588	72 391 053	91 439 406	87 657 462	92 457 992	58 673 306	
OECD	77,813	91,857	102,902	75,144	94 162 761	121 327 626	113 723 573	124 206 736	76 227 540	
Turk.Rep.	1,967	2,669	4,279	2,874	2 923 668	3 642 096	3 558 042	3 600 058	2 116 066	
Mid.East	10,568	12,641	17,628	9,595	13 010 828	20 439 413	21 410 008	22 214 051	13 569 472	
N.Africa	6,936	9,033	13,404	9,513	3 098 091	3 342 055	3 308 343	3 508 479	2 233 439	
Resoruce : TÜİK, " www.tuik.gov.tr/PreIstatistikTablo.do?istab_id=625 ", (25.10.2014)										

There was an increase in the trade with the European Union in 1996. From 1996 to 2009, export increased from 12.569 million \$ to 46.977 million \$. Also, import was 24.321 million \$ in 1996. This rate reached 56.588 million \$ in 2009. The trade with third countries increased after the customs union, as shown in the trade with European Union. Imports with the third countries were more in comparison to the export. In other words, trade diversion effect did not affect Turkey's trade with the third countries.

The trade diversion effect shifts production from the countries outside the customs union which have optimum production to member countries of customs union. We can see the development of Turkish foreign trade with EU-27 and non-EU countries in Table 7. Turkey's trade volume with non-EU countries has increased as trade volume with EU-27 following the Customs Union. This demonstrates that there has been no trade diversion effect in favor of the EU during the Customs Union. The most of Turkey's import consists of capital goods and intermediate goods. While Turkey imports major capital goods from the EU which includes developed countries, Turkey imports major energy sources such as oil, natural gas from the Middle East, the North Africa and Russia. Because EU countries are not rich in terms of energy resources, they

cannot be competitor against countries such as the Middle East, the North Africa and Russia. These countries which are rich in terms of energy resources also cannot be competitor against the EU countries because they do not have advanced technologies. Therefore it is normal that there is no trade diversion effect (Yılmaz and Özekicioğlu 23).

Table 7. Turkey's Foreign Trade with EU-27 and Non-EU Countries

	EXPORT		IMPORT		(000 dollars)
YEAR	EU-27	NON-EU COUNTRIES	EU-27	NON-EU COUNTRIES	
1991	7,783,847		5,809,615	10,675,418	10,371,596
1992	8,476,903		6,237,726	11,514,284	11,356,771
1993	8,272,435		7,072,632	14,913,449	14,514,921
1994	9,389,060		8,716,812	11,643,573	11,626,446
1995	12,206,751		9,430,290	18,024,577	17,684,434
1996	12,563,345		10,661,120	24,320,639	19,306,004
1997	13,434,739		12,826,333	26,118,947	22,439,774
1998	14,809,293		12,164,658	25,282,204	20,639,188
1999	15,424,238		11,162,987	22,529,938	18,141,334
2000	5,664,421		12,110,485	28,526,902	25,975,919
2001	17,545,567		13,788,650	19,823,457	21,575,626
2002	20,415,034		15,644,055	25,688,833	25,864,964
2003	27,393,762		19,859,074	35,140,139	34,199,553
2004	36,580,859		26,586,294	48,095,671	49,444,095
2005	41,364,962		32,111,446	52,695,793	64,078,358
2006	47,934,746		37,599,930	59,387,030	80,189,144
2007	60,398,502		46,873,248	68,394,869	101,667,845
2008	63,390,419		68,636,777	74,407,779	127,555,795
2009	47,013,415		55,129,198	56,508,918	84,419,503
2010	52,685,304		61,197,915	72,179,705	113,364,627
2011	62,347,441		72,559,428	91,128,441	149,713,235
2012	59,197,802		93,263,935	87,447,696	149,097,445
2013	62,853,636		89,014,915	92,253,638	159,396,922

Source: TURKSTAT, 2014' <http://eccsf.ulbsibiu.ro/SBE%20V9.2/922bayar&ozekicioglu.pdf> "

5.1.3. Consumption Effect:

After the establishment of the CU, customs tariff and charges, which had an equivalent effect, were removed for the union. The goods which come from foreign countries become cheaper, so the demand on foreign goods increased. After the CU, the production of expensive goods reduced in the union. Also, because of the common customs tariff, the production of goods of third countries was reduced. Reduced prices affected the buying power of the citizens in the union. This situation increased the import in the union. The increase in import reflects the consumption effect of the CU (İspir 39).

European Countries have developed in terms of technology and capital. Turkey is a developing country in terms of industry, so free trade between Turkey and EU develops in favor of the EU. Turkey's industry depends on abroad. After the CU foreign trade deficits appeared in Turkey's economy, the imports of the industrial products increased. Turkey adopted to import dependent

development after 1980. In this framework, customs duties and similar restrictions were removed for the intermediate and investment goods. In this way, Turkey's dependency to imported inputs were increased. This dependency on imported inputs affected the development of Turkish intermediate and investment goods (İspir 39).

Table 8. According to Distribution of Goods Turkey's Export to EU (Million \$):

Years	Investment	Rate (%)	Intermediate	Rate (%)	Consumption	Rate (%)
			Good			
1994	252	2,9	2,805	32,5	5,577	64,6
1995	318	2,9	3,528	31,8	7,232	65,3
1996	396	3,4	3,727	32,3	7,425	64,3
1997	423	3,5	4,105	33,5	7,721	63
1998	489	3,6	4,612	34,2	8,397	62,2
1999	631	4,4	4,981	34,7	8,737	60,9
2000	666	4,6	5,203	35,9	6,631	59,5
2001	960	6	5,751	35,7	9,359	58,1
2002	1,274	6,9	5,834	31,6	11,33	61,4
2003	2,077	8,5	7,431	30,4	14,929	61
2004	3,776	11	10,772	31,3	19,759	57,4
2007	6,959	13,9	18,14	36,3	24,855	49,8
2008	9,947	15,7	25,184	39,9	28,052	44,4

Resource: İspir, Yusuf. The Effects of Customs Union to Turkey's Economy, page 39

According to the table 8, in Turkey's export to EU, %60 of the rate belongs to consumption goods. Intermediate goods has %30 rate in the export. The investments increased from %3 to %15. From 1994 to 1996, Turkey's rate of investment goods increased %2,9 to %3,4. These rates appeared in time. In 2000, this rate was %4,6. In 2004, this rate increased to %11 and reached to %15,7 in 2008.

The rate of the intermediate goods in export was %32,5 in 1994. This rate changed as %32,3 in 1996. In 2000, the rate of intermediate goods was %35,9 and changed as %31,3 in 2004. In 2008, this rate increased to %39,9. The rate of consumption goods in export was %64,6 in 1994. Consumption rate nearly did not change in 1996. In 1996, the consumption rate was %64,3. In 2000,

the consumption rate was %59,5 and % 57,4 in 2004. However, it reduced to % 44,4 in 2008.

Table 9. According to Distribution of Goods, Turkey's Imports from EU (Million \$):

Years	Investment	Rate(%)	Intermediate	Rate(%)	Consumption	Rate(%)
			Good			
1994	3,209	29,4	6,912	63,3	795	7,3
1995	4,831	28,7	10,539	62,5	1,491	8,8
1996	7,388	31,9	12,88	55,7	2,87	12,4
1997	7,327	29,5	14,009	56,3	3,535	14,2
1998	7,182	29,8	13,27	55,1	3,622	15
1999	6,069	28,4	11,823	55,2	3,525	16,5
2000	7,254	27,3	14,116	53	5,114	19,2
2001	4,317	23,6	11,168	61,1	2,595	14,2
2002	5,361	23	14,417	61,8	3,196	13,7
2003	6,999	22,1	19,233	60,7	5,147	16,2
2004	10,672	23,5	26,819	59	7,613	16,8
2007	13,227	22,9	35,597	61,7	8,864	15,4
2008	15,049	20,2	48,568	65,1	10,932	14,7

Resource: İspir, Yusuf. The effects of Customs Union to Turkey's Economy. Page 40

According to table 9, the rate of the investment goods was % 29, 4. This rate increased to 31,9 in 1996. The rate of investment was % 27,3 in 2000. In 2004, the investment rate was % 23,5 and reduced to 20,2 in 2008. In total import, the rate of intermediate goods was % 63,3 in 1994. It reduced to % 55,7 in 1996. In 2000, the rate of intermediate goods was % 53 and increased to % 59 in 2004. Lastly, it increased to % 65,1 in 2008.

The rate of consumption goods in total import was % 7,3 in 1994. This rate increased to % 12,4 in 1996. The rate of consumption goods was % 19,2 in 2000. The rate reduced to % 16,8 in 2004 and % 14,7 in 2008. It is possible to say that after the CU, the rate of imports of intermediate and investment goods did not change significantly. The most important reason of this was economic relations between Turkey and EU. Since 1970 customs duties and similar barriers were removed in EU's industrial goods. Turkey performed the

import of the industrial goods from EU without limits. Also, Turkey experienced an economic crisis and a earthquake in 1999. In 2001, Turkey had an other economic crisis. The import decreased due to the effects of these events (İspir 40).

5.1.4. The Effect of Terms of Trade:

Terms of trade defines the share of countries which is taken from increased welfare as a result of division of labor. After the customs union, the increased trade increased the production and income in the union. The countries which are out of the union experienced the opposite. Also, the country which produce goods cheaply started to reduce production and income. In this way, the income moves from the union. The incomes move because cheap goods are more preferable to expensively produced goods (İspir 41).

Terms of trade show the rate of the export prices to import prices. A possible worsening in terms of trade causes the welfare loses. There are too many goods in trade, so import and export prices are stated with indexes. The start is accepted as one hundred and the values are analyzed in years.

Terms of Trade are shown as follows:

$$N = P_x/P_m$$

N: External terms of trade

P_x: Export Price Index

P_m: Imports Price Index

In the customs union, customs tariffs were removed and common customs tariffs were applied to the third countries. As a result of these practices, the prices changed and changing prices affected the terms of trade. Terms of Trade affects the countries in the union and the countries out of the union. In this way, the welfare of countries can be affected positively or negatively. Changing in bargaining power, productivity increase and the movement of trade from out of the union to the union reflects the changes (Demir 40).

5.1.4.1. Changes in Bargaining Power:

The parties of the customs union increased their self-sufficiency in the CU. The CU countries had less dependency to the out of the custom union. This situation increased the bargaining power of the countries. The increase in bargaining power affected the terms of trade for the union (Demir 40).

5.1.4.2. Economic Size of the Union:

The economic size of the union consists of potential size and actual size. Potential size refers to the total production volume of the union, namely gross national product of the customs union countries. The actual size refers to the similarities in consumers' habits and culture of the countries and low transport costs between the member states. In this way a union can change the world by affecting the supply and demand conditions (Demir 41).

5.1.5. Increase in Productivity:

Economic activities and technologic developments increase in the CU. These increases reduce the costs and become effective in terms of trade and the balance of payments. Productivity increases in the goods of the CU provide low-cost consumption for consumers and increases in the welfare of EU citizens. The productivity increases in the CU affect the third countries too. Firstly, the prices of imported goods start to reduce if a decline does not occur in the third countries and then terms of trade changes against the benefits of the union (Demir 41).

5.1.6. The Movement of Trade from the out of the Union to inside of the Union:

The CU creates trade diversion effect. The trade which is made in the world moves to the union. If there is no changes in the prices of the goods which are sold by the CU, the demand to third countries starts to reduce. The prices of third countries' goods turn to favor of the CU (Demir 41).

Table 10. Terms of Trade in Turkey:

Years	Export Price Index		Imports Price Index		Net Change Terms of Trade (Px/Pm)	
	(Px)		(Pm)			
1993		108,9		88,6		122,9
1994		105,7		94,9		111,4
1995		119,1		110,8		107,4
1996		113,8		104,1		109,3
1997		108,4		95		114
1998		104		91,2		114,1
1999		97		86,2		112,6
2000		92,8		90,1		103
2001		90,4		89,8		100,7
2002		88,7		88,7		100,1
2003		100		100		100
2004		116,3		115,1		101
2005		122,9		123,3		99,7
2006		127,7		134,1		95,2
2007		144,5		147,2		98,1
2008		167,5		177,5		94,4
Resource: İspir, Yusuf. The Effects of Customs Union to Turkey's Economy						
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During the period between 2003-2008, export price index increased to % 67,5. Import price index was less than hundred between 1993-2002 except the years between 1995-1996. After 2003, these rates started to increase. Between 2003-2008 years, import price index increased to % 77,5. Fast increase in the import prices in the field of energy is effective in this increase.

Between 1993-2000, the terms of trade developed in favor of Turkey. Between 2001-2005 terms of trade was in the level of hundred. While there is a rapid increase in the import price index, the terms of trade has regressed to % 5,6 in 2006-2008. This situation affected Turkey's economy negatively.

Table 11. Terms of Trade (2010-2014):

Annual and quarterly terms of trade by standart international trade classification (2010=100)						
Terms of Trade						
		General	Food, bevarages and tobacco	Crude materials except fuels	Fuels	Manufactu red goods except food, beverages and tobacco
2012		96,8	100,3	92,1	103,2	101,7
2013		98,3	98,1	99,7	104,0	101,1
2010	I	101,4	103,4	105,3	101,7	100,1
	II	99,1	100,2	95,6	100,3	99,5
	III	100,5	100,2	101,0	99,8	100,4
	IV	99,0	96,3	98,1	98,2	100,0
2011	I	98,8	97,5	90,5	103,2	101,5
	II	98,0	93,9	92,5	108,1	101,6
	III	96,5	99,3	86,6	104,7	101,9
	IV	95,1	102,4	84,6	98,2	100,4
2012	I	96,9	106,3	87,6	105,5	102,4
	II	95,6	104,1	88,3	102,2	100,6
	III	97,9	99,4	95,5	105,3	102,8
	IV	97,2	92,6	98,2	100,0	101,7
2013	I	98,0	94,7	98,7	104,2	102,4
	II	98,7	95,9	98,4	103,5	102,0
	III	99,4	99,1	102,6	105,3	102,5
	IV	98,1	102,2	100,8	103,0	100,8
2014	I	99,0	100,4	99,3	103,2	101,4
	II	99,6	98,2	101,6	108,2	101,4
Resoruce: TUIK						

Table 11 shows the terms of trade according to different sectors between 2010-2014 years. In 2010, terms of trade was at the level of 101,4. By the end of 2012 this rate reduced to 95,1 in general. After the end of 2011, it increased again to the level of 99,6. So it is possible to say that there is a decrease in terms of trade between 2010-2012.

Table 12. The Sectorial Distribution of Foreign Trade (1994-2008):

Years	EXPORT			IMPORT		
	Agricultur.	Mineral	Industrial	Agricultur.	Mineral	Industrial
	Products	Products	Products	Products	Products	Products
1994	2,301	262	15,517	881	3,353	19,031
1995	2,133	391	19,089	1,907	4,09	29,706
1996	2,152	368	20,525	2,165	5,081	36,207
1997	2,353	404	23,312	2,416	5,127	39,802
1998	2,357	363	24,064	2,125	3,747	39,024
1999	2,057	384	23,957	1,648	4,245	33,935
2000	1,659	400	25,517	2,123	7,096	44,2
2001	1,976	348	28,826	1,702	6,576	32,686
2002	1,754	387	33,701	2,535	7,192	41,383
2003	2,12	469	44,378	2,535	9,02	55,689
2004	2,541	649	59,579	2,757	10,98	80,447
2005	3,328	810	68,813	2,801	16,321	94,208
2006	3,48	1,146	80,246	2,902	22,033	110,378
2007	3,725	1,66	101,081	4,64	25,314	133,928
2008	3,936	2,155	125,187	6,391	35,649	150,252
Resource: İspir, Yusuf. The Effects of Customs Union to Turkey's Economy						
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According to table 12, there is no differentiation in the trade of agricultural products and mineral products. Also, the trade of industrial products increased rapidly. Export of the industrial products increased from 15.517 million Dollars to 125.187 million Dollars between 1994 and 2008. The imports of the industrial products increase from 19.031 million Dollars to 150.252 million Dollars during the same period. In 1994, foreign trade deficit in industrial products was 3.514 million Dollars. This rate increased to 25.065 million Dollars in 2008. After the CU, increase in the imports of industrial products was more developed compared to the exports. The import of the industrial products increased more than the exports. The countries started to produce goods cheaply in the union. The countries increase their welfare in this way. The income distribution effect results positive for developed countries, but terms of trade results positive for Turkey (İspir 42).

Table 13. The Sectorial Distribution of Foreign Trade (2010-2014):

Value: Thousand Dollars

EXPORT		2010	2011	2012	2013	2014
Agriculture and Forestry		4.934.710	5.166.596	5.188.858	5.653.323	3.962.358
Mining and Quarrying		2.687.124	2.805.449	3.160.765	3.879.449	2.608.857
Manufacturing Industry		105.466.686	125.962.537	143.193.911	141.358.199	111.100.409
IMPORT		2010	2011	2012	2013	2014
Agriculture and Forestry		6.456.707	8.895.184	7.446.641	7.718.045	6.260.496
Mining and Quarrying		25.932.549	37.331.370	42.246.825	38.205.124	27.717.865
Manufacturing Industry		145.366.975	183.930.287	176.235.027	196.822.807	138.977.027
Resource: TÜİK						

Table 13 shows the sectorial distribution of the foreign trade between 2010-2014 according to the export and the import. According to table 13, agriculture and forestry sector's export rates increased from 4.934.710 Dollars to 5.653.323 Dollars in 2010-2013. In mining and quarrying sector, export increased from 2.687.124 Dollars to 3.879.449 Dollars in 2010-2013. In the export rates of the manufacturing industry, there is an increase from 105.466.686 Dollars to 141.100.409 Dollars between 2010-2013. However, the increases do not continue in 2014 for the export of all sectors.

On the other hand, from 2010 to 2013, import rates of agriculture, forestry, mining and quarrying and manufacturing industry were increasing like in the export rates. In the same way, this increase did not continue in 2014. Also, according to comparison of export and import, import was more than export during the all years between 2010-2014.

5.1.7. The Effects of Public Revenue:

The CU affected the public revenues. Revenues which have been taken from collective housing fund and customs tariffs for industrial goods and had their origin in the EEC were removed together with the CU. Common Customs Tariff was started to be used and a decrease appeared in the public revenues. This affected the public balance negatively (İspir 42). However, the decrease in protection could be useful for consumers. To remove the custom tariffs of the imported industrial goods reduced the prices of goods. The reduced prices affected consumers' welfare. So, cheaper prices of imported goods affected local industry too. If local industry uses the imported goods as an input in production, this situation will affect competition power positively (İspir 42).

The CU changed the customs tariff which was applied before. Value added tax is apart of the domestic taxation system. It is not charges that have equivalent effect. Value added taxes can be used for the imported goods today. Together with the CU, taxation system of Turkey was harmonized with EU (ITO 62). After the CU, some studies were done for measuring the effect of the CU. A study which was done in 1996 defended that Turkey would lose % 17 of public revenue of its Gross National Product because of the customs union (ITO 63). Another study which was done in 1997 defended that % 1,4 of gross national product will be lost because of the CU (ITO 63).

Table 14. The Share of Foreign Trade Taxes in GNP:

Years	%	Years	%
1975	3,63	1991	2,03
1976	3,91	1992	2,07
1977	3,59	1993	2,31
1978	3,21	1994	2,3
1979	3,06	1995	2,47
1980	1,53	1996	2,58
1981	1,63	1997	2,81
1982	1,55	1998	2,46
1983	2,06	1999	2,52
1984	2,01	2000	3,4
1985	2,68	2001	3,14
1986	2,52	2002	3,46
1987	3,03	2003	3,51
1988	2,65	2004	3,95
1989	2,49	2005	4,49
1990	2,8	2006	4,21
Resource : ITO. The Analysis of Foreign Trade Taxes and Export Revenues, 2007. Page 66			

Especially after 2003, there was an increase in the share of trade taxes in GNP. Turkey added private consumption tax to the system of taxation. After the CU was signed, especially in the first three years, the share of foreign trade taxes in GNP was increased. In 1998, Asia and Russia Crisis reduced the share of foreign trade taxes but the rates started to increase after 2000 (ITO 66).

Table 15. The share of Customs Tariff and The Share of Value Added

Tax which is Taken from Imported Goods in GNP:

Years	Customs Tariff	Value Added Tax from the Import
1994	0,56	1,7
1995	0,61	1,82
1996	0,41	2,16
1997	0,42	2,38
1998	0,33	2,12
1999	0,3	2,21
2000	0,3	3
2001	0,21	2,91
2002	0,21	3,23
2003	0,24	3,26
2004	0,28	3,65
2005	0,28	3,67
2006	0,36	4,41

Resource : ITO. The Analysis of Foreign Trade Taxes and Export Revenues,2007. Page 67

After analyzing the table, it is possible to say that the CU does not cause huge losses in the public revenues. Because the value added tax which wastaken for imported goods was not removed and increase in the imports provided increase in the taxes (ITO 67).

Table 16. The Share of Value-Added Tax in General Budget:

The Share of Value-Added Tax in the General Budget		(2008-2013)	(Thousand TL.)
Years	Value-Adds Tax on Imports	Percentage of Value Added Tax in Tax Revenues	
2008	29.980.574		% 15.8
2009	26.135.212		% 13.3
2010	36.210.987		% 15.4
2011	48.690.345		% 17.1
2012	50.005.155		% 15.8
2013	62.733.522		% 17.1

Resource: ' <http://www.gib.gov.tr/index.php?id=271> "

According to table 16, there is a high increase in the value-added tax on imports from 2008 to 2013. However, there is no huge increase in the percentage of value added tax in tax revenues. There is only an increase at the percentage of two from 2008 to 2013.

5.2. The Evaluation of Dynamic Effects of Customs Union:

The dynamic effects of the customs union will be evaluated under different headings. Competition effect, the effect of economies of scale, the effect of technological progress and the effect of capital and encouraging investment are the titles of the dynamic effects. The Dynamic effects appear in intermediate and long term period.

5.2.1. Competition Effect:

According to Helsinki Summit (Dec. 10th -11th 1999) , Turkey was being accepted as a candidate country. However, EU defined Copenhagen Criteria for possible new members of the European Union. One of the Copenhagen Criteria is to have power against competition pressure and market force. Turkey has to cope with the competition (Bahçekapılı 66).

The competitive power of a country can be measured according to the quality and prices of its products. Competitive power affects the increase in production and productivity, the living standards and the development of welfare. After the establishment of the CU, some producers who produce their goods with high prices and low productivity left the sector. The increased competition forced the existing firms in industry to develop themselves. This change is a factor which affects the welfare of consumers in medium and long term periods (Kırdar 110).

The equal competition is the aim of the governments. State monopolies should not discriminate between the citizens of EEC and Turkey. The establishment of the Competition Authority reflects that the government wants to create an equal competitive environment for the firms. In this way, monopolization can be prevented. In this context, there is an expectation about the competition, namely that it will increase for some sectors: automotive

industry, electrical and electronic products, machinery, metals, wood products, furniture, paper products and printing industry (Bahçekapılı 67).

Table 17. The Competitive Power of Turkey According to Industries:

	Small Scale		Medium Scale		Large Scale	
	Competitiveness(%)	Competition Level	Competitiveness(%)	Competition Level	Competitiveness(%)	Competition Level
Vehicles:	32,4	R	50,3	R	47,5	R
Electrical Machine:	34,5		42,9	R	75,6	R
Metal except Iron and Steel :			20,6		34,5	R
Metal Goods:	38,1	R	20,6	R	49,3	R
Stone and Soil :	87	R	81,8	R	61,3	R
Iron and Steel Industry:	41,9		70,8	R	27,2	R
Tyre and Plastic:	12		51,7	R	58,6	R
Porcelain glass:			24,1	R	54,4	R
Chemical Products:	62,9	R	39,9	R	55,1	R
Wood Products and Furniture:	0.0		5,6	R	84,8	R
Paper-Printing :	0.0		43,2	R	74,4	R
Clothing:	46.7	R	36,3	R	82,6	R
Fur, Leather, Shoes:	0.0		36,9		44,4	
Food, Drink, Tobacco :	13,8	R	58,3	R	48,2	R
Weaving:	43,1	R	55,2	R	68,7	R
Resource:	Bahçekapılı Kağan. The Theory of Customs Union and The Effects of Customs Union to Turkey, 2006, page 67					

According to table 17., Turkey's competitive power increases from small scale to large scale. In small scale business establishments, some sectors have competitive superiority such as stone and soil based products and chemical products. Petroleum products, food, tobacco, textile, stone and soil based products have competitive superiority in the medium size businesses. Large scale businesses have competitive superiority in stone and soil based products, plastic products, forest products, paper products, clothing and furniture (Kakıcı 105).

Turkey's competitive superiority is in agriculture sector. However, the CU with European Union does not include agriculture sector. The sectors which are stated above and included in the CU, increased their productivity and production after the practice of it. On the other hand, the firms which do not have competitive power started in time. Because their production decreased and they lost their market share (Bahçekapılı 68). The CU predicts the integration of

Turkey's commercial and competition policy. It brings important changes for Turkish economy. Especially rules on competition and the protection of intellectual property rights create a more appropriate environment for Turkish economic activities (Bahçekapılı 68).

According to 2013-2014 Global Competitiveness Report, Turkey provided significant improvement in terms of competitive performance and by rising sixteen steps, it become 45th among one hundred and forty four countries. The Global competitiveness index was formed from three different indexes. The first sub-index is the basic requirements which consists of institutional structure, infrastructure, macro economic stability, health and primary education. The second sub-index (factors which increase efficiency) consist of higher education and training services, the effectiveness of product market, the effectiveness of labor market, development of financial market, technological infrastructure and market size. The sub-index of innovation factors was formed from the development level of business world and innovation (Competition Authority Website.

“<http://www.rekabet.gov.tr/default.aspx?nsw=tO88KwbDXzw5U3hRxPa0Eg==H7deC+LxBI8=>”, access date: 10. 10.2014).

Table 18. Global Competitiveness

Index:

Global Competitiveness Index (GCI)		Ranking		Value	
		(2013-2014)	(2014-2015)	(2013-2014)	(2014-2015)
GCI		44	45	4,5	4,5
Basic Requirements (%36,0) :		56	56	4,8	4,8
Institutional Structure:		56	64	4,1	3,9
Infrastructure:		49	51	4,5	4,6
Macro-economic Stability:		76	58	4,6	4,8
Health and Primary Education:		59	69	5,9	5,8
Factors Increase Efficiency:		45	45	4,4	4,4
Higher Education & Training Services:		65	50	4,3	4,7
The Effectiveness of the Product Market:		43	43	4,5	4,6
The Effectiveness of the Labor Market :		130	131	3,7	3,5
Development of Financial Market:		51	58	4,4	4,2
Technological Infrastructure:		58	55	4,1	4,3
Market Size:		16	16	5,3	5,3
Innovation and Diversity Factor (% 14) :		47	51	3,9	3,9
The Development Level of the Business World:		43	50	4,4	4,3
Innovation:		50	56	3,5	3,4
Resource: Global Competitiveness Report (2013-2014) and (2014-2015)					

According to the sub-indexes of global competitiveness in 2014-2015, Turkey ranks 56th in the basic requirements. In the factors which increase efficiency, Turkey ranks 45th. According to innovation and diversity factor, Turkey ranks fifty-one among the other countries in the ranking. Compared to 2013-2014, Turkey developed four steps. Compared to 2013-2014, imported developments appeared in the field of macro-economic stability, higher education, training services and technological infrastructure. In the titles of factors which increase efficiency, higher education and training services, development in infrastructure, the effectiveness of labor market fell in the ranking compared to the last year's competitiveness report. In 2013-2014, Turkey showed its best performance in market size. It showed its worst performance in the effectiveness of labor market.

The report states that developments provided a positive movement in competitiveness. The development might be possible with the reforms in problematic fields as in the effectiveness of labor market. According to the report, Turkey ranks 64th among other countries in the field of public institutions and private sector establishments indexes. (Last year, Turkey ranked 56th in these fields). According to the effectiveness of labor market, Turkey ranks 131. among other countries in 2013-2014 (Last year, Turkey ranked one hundred thirty).

According to the technological infrastructure indexes, Turkey is 55th (Last year, Turkey ranked 58th during 2012-2013 global competitiveness report). However, Turkey's rank fell from sixty-two to fifty-six in the field of innovation capacity, research and development expenses, the cooperation of university and industry in research and development, the existence of scientist and engineers, patents and the protection of intellectual property rights. According to the intellectual property rights, Turkey ranks 72nd among one hundred and forty-four countries. Last year, Turkey ranked seventy-four (Competition Authority Website.

<http://www.rekabet.gov.tr/default.aspx?nsw=tO88KwbDXzw5U3hRxPa0Eg==&H7deC+LxB18=> ‘’, access date: 10. 10.2014).

Ekin Kalemardođlu stated his thoughts on the field of competitiveness. He explained that ‘‘ Countries of the European Union are better at intermediate goods, industrial productions and high technology. In this sense, since Turkey

has been party to the CU, an unfair competition was formed. For increasing competition policy, Turkey should produce high quality and high value added productions. Turkey's competition power can increase as being dependent on high quality and high value added productions. Turkey should attach importance to productions which are in the fields of R&D and technology. Turkey has cheaper production cost comparing to the European Union countries, so the European Union countries made investment in Turkey (by the help of investment incentive regime and inward processing regime). This investment provided an increased employment for Turkey. However, the qualified employers and high value added productions can make Turkish economy stronger “ (Kalemdaroğlu, indepth-interview 22.08.2014).

5.2.2. The Effect of Economies of Scale:

The economies of scale mean increasing productivity, reducing expense costs and gaining benefits by changing the functions and capacity of production for a firm and branch of industry. The CU provides the growth of production in a huge market structure. This situation forms the economies of scale. Economies of scale can be divided into two titles; internal economies of scale and external economies of scale (Demir 50).

Economic cooperation creates enlargement in the market. Decrease in costs appears in the structure of firms. These effects are internal economies of scale. External economies of scale appear outside of firms. After cooperation and enlargement in the market and the branch of industry, growth and savings appear outside of the firm. These savings are called external economies of scale (Demir 50). Economic integrations try to reduce the condition of costs by producing at reduced cost.

Increased competition of the CU and developed production technics were started to be used in the firms. These impacts formed the internal economies of scale. Also, mass production provided the development of the marketing structure. The firms started to use qualified workers for the sake of the quality of production. On the other hand, the CU creates the external economies of scale. For example consumers can reach cheaper goods after the CU. The free movement of information and technology provides the development of underdeveloped areas. The big market, which appears after the CU, reduced the risk and uncertainty of investments (Demir 50).

Turkey does not have a competitive power in the scale-intensive industries and differentiated good producing industries. However, the competitive power of Turkey started to increase in comparison to the past. Turkey has problems in finding capital for business, and low level of marketing opportunities. Also, there are not enough qualified workers (Kırdar 113).

The small and medium size enterprises (SME), which worked in textiles, clothing and leather industry, did not have any negative effect from the CU. The sectors which worked in wood production and furniture were affected positively from the CU. Reaching raw materials and supplies became easier for them. The use of CE marks increase in the quality since 2001 in metal products, machinery and transportation sector (Kırdar 113).

Also, Ekin Kalemdaroğlu evaluates economies of scale effect of the CU. According to him, “ After entrance to the customs union, Turkey started to produce more, and it reduced production costs, but this was not effective in all sectors ” (Kalemdaroğlu, indepth-interview 22.08.2014). Kalemdaroğlu also evaluated how the structure of economy has been affected by the CU. He explained that “ Until 1980, Turkish economy developed as a closed one according to other countries. After 1980, Turkey opened its doors to the World and started to look for new markets. Because Turkey is a consumption based society. After the CU agreement, Turkish productions can move to European Countries. When other CU countries’ productions enter to Turkish market, Turkey started to produce new goods for European countries. This showed the real need for the machinery and new investments. Thus, both of mechanization and investment’s cost of a unit has been reduced in Turkey ” (Kalemdaroğlu, indepth- interview 22.08.2014).

5.2.3. The Effect of Technological Progress:

In 1980, more than $\frac{1}{4}$ of the exports were formed from the finished goods. Other parts of the export were formed from raw materials. Today, $\frac{3}{4}$ of the export was formed from the finished goods. In spite of these improvements, Turkey is still the exporter of labor – intensive and primitive goods. % 40 of the total export was formed from textiles. The half of the textile sector was formed from SME (Bahçekapılı 69).

R&D investments need huge financing sources; Because of that, developing countries such as Turkey could not give enough importance to them. For

example, R&D spending change depending on countries' economic development levels. %2 of GNP in the EU, %2,8 of GNP in U.S., %3 of GNP in Japan are belong to R&D spending. In Turkey 0,5 of GNP belongs to R&D spending. Turkey can not produce high technology products, so in technology it need to follow the developed countries (Bahçekapılı 69).

In 2015, it is possible to see that labor intensive structure of Turkey still continues despite of the existence of the CU. Expectations on technological improvements did not appear in time. SME forms the huge percentage of production. Also, there is unregistered and cheap employment in Turkey. Huge percentage of export is formed from labor intensive sectors and textile and confection sector which do not have high technology. In 2010, China had 136 billion Dollars for R&D. U.S. had 130 billion Dollars and Japan had 129 billion Dollars for R&D. Turkey had 1,9 billion Dollars for R&D in 2010 (İspir 47).

Due to the effect of increasing competition, the firms started to co-production with firms which have high technology. In this way, the movement of information and technology increases among firms. The development of new technologies, and the use of them affected the competition positively. Countries started to produce high quality products with the cheap cost products. To be successful is to depend on the increase of R&D investments in this perspective (Kırdar 115).

Selda Çakın evaluated the effect of high technology in terms of logistic sector and Turkey's performance in the CU. She thinks that that "[t]oday new processes are more simplistic by the help of the CU. It is not possible to ignore this situation. The legislations of Turkey and logistic sector tries to adopt the changings of European Union, but we see that Turkey is making unilateral concessions for providing desired conditions" (Çakın, indepth-interview). According to Çakın, Turkey's economy is affected negatively from the CU by following the path of European Union. Çakın states that the negative results of the CU constitute a concession for Turkey.

5.2.4. Encourage Investment and The Effect of Capital:

Foreign Direct Investment is one of the factors that shapes the world economy as being apart of globalization. International mergers and acquisition manage the foreign direct investment flows and they have increased in the last

decade. Today, foreign direct investment flows reached high levels. Investors prefer to work in the country where they can acquire the maximum profit. These investments are important for the receiving countries. Because the countries can provide their capital needs in short term with the help of FDI (Sönmez 82).

After the CU, there was an expectation about possible increasing foreign capital flows. The foreign capital flows was going to increase according to the general expectation. Increased foreign capital flows which would come from the Union and the third countries could be able to affect Turkey's economy positively. According to the legal framework of the CU, countries use the common customs tariff. In this way, the countries of the union expect that taxation will stay stable. There will be no imbalance in economy in the long run period, so these countries can decide to make investments in Turkey.

Cheap raw material and labor force and Turkey's location which is near to the Middle East, Asia and Black Sea may make Turkey an important center for investments. Also, Japan, U.S. and the Far East Countries may want to benefit from Turkey, which is party to the CU (Demir 69).

Table 19. The Distribution of Foreign Investment by Years (Million \$):

Years	Inputs	Outputs	Net	Years	Inputs	Outputs	Net
1981	141	46	95	1995	934	49	885
1982	103	48	55	1996	914	192	722
1983	87	41	46	1997	852	47	805
1984	113	0	113	1998	953	13	940
1985	99	0	99	1999	813	30	783
1986	125	0	125	2000	1,707	725	982
1987	115	0	115	2001	3,374	22	3,352
1988	354	0	354	2002	622	5	617
1989	663	0	663	2003	745	8	737
Years	Inputs	Outputs	Net	Years	Inputs	Outputs	Net
1990	684	0	684	2004	1,291	100	1,191
1991	907	97	810	2005	8,537	336	8,201
1992	911	67	844	2006	17,814	1687	16,127
1993	746	110	636	2007	19,19	2,28	16,91
1994	636	28	608	Total	63,43	5,931	57,499

Resource: Demir, Gizem. The Effects of Customs Union to Turkey's Economy, 2011. Page 70

According to the table 19., there is an expectation about increased foreign capital investments. Increase did not occur in 1996 compared to 1995. On the other hand, from 2005 to 2006, a serious increase attracted attention. The bilateral agreements, which are done with the EU, can be the reason of this increase (Demir70).

Table 20. The share of EU in Foreign Capital (%):

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
61.4	65.9	62.9	70.5	66.2	73.2	74.5	79.4	58.5	66.8	56.3

Resource : Demir, Gizem. The Effects of the Customs Union on Turkey's Economy, 2011. Page 70.

According to table 20., foreign capitals, which had gone to Turkey, were analyzed by the EU. According to the table, a serious increase in the foreign capital did not appear in Turkey after the customs union. After 1980 liberalization policies of Turkey, there was an expectation about the foreign

capital. However, Turkey did not have enough investments as much as it had expected (Demir 71).

Table 21. Foreign Direct Investment by Years (1981-2014):

Foreign Direct Investment by Years							(In Millions of Dollars)
Years	Permits		Realized				
	Cumulative	Annual	Inflows	Outflows	Net		
1981	338	338	141	46	95		
1982	505	167	103	48	55		
1983	608	103	87	41	46		
1984	879	271	113	0	113		

1985	1.114	235	99	0	99
1986	1.478	364	125	0	125
1987	2.133	655	115	0	115
1988	2.954	821	354	0	354
1989	4.466	1.512	663	0	663
1990	6.327	1.861	684	0	684
1991	8.294	1.967	907	97	810
1992	10.114	1.820	911	67	844
1993	12.178	2.063	746	110	636
1994	13.655	1.477	636	28	608
1995	16.593	2.938	934	49	885
1996	20.429	3.836	914	192	722
1997	22.107	1.678	852	47	805
1998	23.754	1.647	953	13	940
1999	25.454	1.700	813	30	783
2000	28.931	3.477	1.707	725	982
2001	31.656	2.725	3.374	22	3.352
2002	33.899	2.243	571	5	566
2003	35.107	1.208	696	8	688

2004					1.190	98	1.092
2005					8.535	401	8.134
2006					17.639	657	16.982
2007					19.137	743	18.394
2008					14.748	35	14.713
2009					6.266	82	6.184
2010					6.256	35	6.221
2011					16.136	1.991	14.145
2012					10.759	633	10.126
2013					10.241	568	9.673
2014-1					841	0	841
2					1.162	4	1.158
3					1.096	14	1.082
4					886	5	881
5					363	18	345
6					947	21	926
7					679	3	676
8					178	0	178
Total					133.557	6.836	126.721
Source: CBRT, Ministry of Development, UT							
(1) As of the end of May.							
(3) As of the end of September							

Investment incentives are not enough in Turkey compared to Central and Eastern Europe countries too. There are problems in the practice of existing incentives. These problems affect Turkey's competitive power in investment incentives negatively compared to Central and Eastern Europe countries (İspir 48).

Mahfi Eğilmez states that " 15,1 billion dollars foreign direct investment moved to Turkey between 1950-2002. 148,2 billion dollars foreign direct investment also moved to Turkey between 2003-2014 years. Between 2003-2014

years, the annual growth rate was 4,7. In general, the foreign direct investments might be counted as a positive factor for the economic growth. In the Turkish case, although foreign direct investment increased tenfold, the rate of economic growth was reduced. The reasons of this negative results are inefficient use of the capital and incompetence in the growth “ (Eğilmez personal website, 04.07.2015) .

Table 22. The Foreign Direct Investment and The Rate of Growth 1950-2014 (%):

YEARS	FDI /MILLION DOLLARS	THE GROWTH (%)	YEARS	FDI /MILLION DOLLARS	THE GROWTH (%)
1950	2	9,4	1986	125	6,8
1951	7	12,8	1987	106	9
1952	10	11,9	1988	354	1,5
1953	8	11,2	1989	663	1,6
1954	8	-3	1990	84	9,4
1955	3	7,9	1991	810	0,4
1956	2	3,2	1992	844	6,4
1957	17	7,8	1993	636	7,9
1958	13	4,5	1994	608	-6,1
1959	7	4	1995	885	8
1960	24	3,4	1996	722	7,1
1961	34	2	1997	805	8
1962	36	6,2	1998	940	3,8
1963	21	9	1999	783	-3,4
1964	25	4	2000	982	6,8
1965	22	3,1	2001	3.352	-5,7
1966	30	12	2002	1.082	6,2
1967	17	4,2	2003	1.702	5,3
1968	13	6,7	2004	2.785	9,4
1969	24	5,4	2005	10.031	8,4
1970	58	5,8	2006	20.185	6,9
1971	45	10	2007	22.047	4,7
1972	43	7,4	2008	19.851	0,7
1973	79	5,4	2009	8.585	-4,8
1974	88	7,4	2010	9.099	9
1975	114	8	2011	16.176	8
1976	10	7,9	2012	13.282	2
1977	27	3,9	2013	12.457	4,2
1978	34	2,9	2014	12.539	2,9
1979	75	-0,4			
1980	18	-2,8			
1981	95	4,8			
1982	55	3,1			
1983	46	4,2			
1984	113	7,1			
1985	99	4,3			

Resource: TÜİK, TCMB

The increase in the foreign direct investment did not bring positive results because since 2003 the FDI which has come to Turkey did not create new production capacity. They come for the privatization of the existing firms. Because of this, they did not provide any contribution to the growth of Turkish economy (Eğilmez personal website, 04.07.2015). According to this information, in 2003-2014, when AKP (the Justice and Development Party) government had power, the FDI did not provide any growth in Turkey’s economy. Instead of

increased production capacity, AKP policies increased the privatization of the existing firms. In other words, these policies are not appropriate to the Customs Union's possible positive effects on FDI.

According to Mahfi Eđilmez, one-party rule of AKP government which has continued since 2003 was successful at two fields: inflation and budget balance. Eđilmez states that ‘‘ the reason of this success at inflation is the success at balanced budget. While current account balance was reducing, the inflation was also reduced ‘‘ (Mahfi Eđilmez personal website, 04.07.2015). The growth can be counted successful moderately, according to the table 23.

Table 23. The Macro Economic Changes between 2002-2013 Years:

YEARS	GROWTH	UNEMPLOYMENT	INFLATION	BUDGET BALANCE	CURRENT ACCOUNT BALANCE
2002	6,2	10,8	29,8	-11,2	-0,3
2003	5,3	11	18,4	-8,8	-2,5
2004	9,4	10,8	9,3	-5,4	-3,7
2005	8,4	9,5	7,7	-1,5	-4,6
2006	6,9	9,1	9,6	-0,5	-6,1
2007	4,7	9,2	8,4	-1,6	-5,9
2008	0,7	10	10,1	-1,8	-5,7
2009	-4,7	13	6,5	-5,5	-2,2
2010	9,2	11,2	6,4	-3,6	-6,2
2011	8,8	9,2	10,5	-1,3	-9,7
2012	2,2	8,4	6,2	-2	-6
2013	4	9,1	7,4	-1,2	-7,9
AVERAGE	5	10	9,1	-3	-5,5
(03-13)					

Resource: " <http://www.mahfiegilmez.com/2014/08/turkiye-ekonomisinin-son-12-yl-ve-brics.html> "

On the other hand, according to Eđilmez, ‘‘ Turkey is in the middle-income trap. Turkey's economy has not developed since the last six years of AKP government. Although there was a decrease in the inflation, the inflation rate could not come down the desired rate of %5. Turkey needs to make structural reforms in addition to the regulations which were done because of the economic crises ‘‘ (Mahfi Eđilmez personal website, 04.07.2015).

Eđilmez mentions that ‘‘ [w]hile the budget deficit was being reduced, the current account deficit increased. Until 2000s, Turkey has followed a growth model which is based on budget deficit and public borrowing. After AKP government came to power in 2002, the growth model started to be based on budget deficit, private sector and households borrowing. As a result of these policies, the increased current account deficit caused the foreign financing problems. Turkey has become one of the fragile economies. The studies which

were done for reducing the current account deficit caused decreases in the growth ‘‘ (Mahfi Eđilmez personal website, 04.07.2015).

Table 24., which is stated below, shows the changes in the debt structure during the AKP government (2003-2014). In this table, the changes in the budget deficit and borrowing can be observed.

Table 24. AKP Government Period Changes in the fields of Budget Deficit, Current Account Deficit, Public Debt, Foreign Debt and Household Debt (%):

YEARS	BUDGET DEFİCİT/GNP(%)	CURRENT ACCOUNT DEFİCİT (%)	PUBLIC DEBT/GNP (%)	FOREIGN DEBT/GNP (%)	HOUSEHOLD DEBT/ GNP (%)
2002	-11,2	-0,3	69,2	18,7	2
2003	-8,8	-2,5	62,2	16,1	3
2004	-5,4	-3,7	56,6	16,4	5
2005	-1,5	-4,6	51,1	17,6	7
2006	-0,5	-6,1	45,5	23	9
2007	-1,6	-5,9	39,6	24,8	11
2008	-1,8	-5,7	40	25,4	12
2009	-5,5	-2,2	46,3	27,9	13
2010	-3,6	-6,2	43,1	26,1	15
2011	-1,3	-9,7	39,9	25,9	17
2012	-2,2	-6	37,6	29	18
2013	-1,2	-7,9	37,4	32,4	19
2014	-1,3	-5,7	34,9	34,4	19

Resource: " <http://www.mahfiegilmez.com/2015/04/akpnin-ekonomide-13-yl.html> "

During the AKP government, the public budget deficits were closed with the tax increases, privatizations and transitory incomes. To be able to reach financial credits for the private sector and households has become easier. Although there were improvements in the fiscal discipline, private sector and households were pushed to the fiscal indiscipline. Instead of short term goals, Turkey should follow the long term benefits and make correctly identified structural reforms (Mahfi Eđilmez personal website, 04.07.2014).

5.3. OTHER EFFECTS OF THE CUSTOMS UNION

5.3.1. POSITIVE EFFECTS OF THE CUSTOMS UNION:

Nusret Ekin emphasizes the importance of the profits of the customs union. He makes his classification by dividing the positive effects of the CU to two: economic and political profits (Ekin 115). However, only economic profits are mentioned below as being suitable to the context of this study.

As a result of the competition in the market, to buy high quality productions has become cheaper than before. The consumers will be more protected by the help of the CU. Turkish consumers may start to buy high quality goods by paying low prices.

Also, Ekin Kalemdaroğlu stated that “ [w]hen consumers buy a new product, they always give importance to the cost, quality and diversity of productions. After the CU, they have started to buy many high quality productions. They were able to reach what production they want in a short time ” (Kalemdaroğlu, indepth-interview 22.08.2014).

The World Bank 2014 report states that Turkey signed an agreement with the World Bank. The World Bank started to give financial aids to Turkey for its custom modernization. The modernization predicts the implementation of modern customs legislation and the simplification of customs procedures. Today, %99 of the customs procedures occur in an electronic form. Also, regional and local agencies started to have more responsibility in customs compared to the past. In the field of approximation of customs legislation, Turkey is coherent with the CU today (the World Bank Report 2014).

5.3.2. NEGATIVE EFFECTS OF THE CUSTOMS UNION:

5.3.2.1. The Decision Making Problem of Turkey:

The biggest problem of Turkey appeared in full membership to the EU. There is no country like Turkey’s situation in the CU except San Marino and Andorra (because Turkey is not the member of the European Union but it is party to the CU). Turkey has to satisfy the full-membership obligations. While other countries of EU can use their rights and authorities, Turkey can not do the same thing. It has to obey decisions of the member countries. Turkey is not part of the decision-making authorities. On the other hand, the third countries can make special economic and commercial treaties with the European Union. In that way, they can behave according to their own demands such as Switzerland and Norway (Manisalı 45). The CU is not only established to remove the customs. It is also interested in applying common economic and commercial policies. Economic issues are related to foreign trade; Turkey should be able to decide its own policies by itself.

Another possibility for Turkey is to pass the free trade area agreement instead of the customs union. Also, the European Union and Turkey can revise the customs union. Turkey has a committee for protecting its own benefits in the customs union. The EEC considers the opinions of Turkey but Turkey does not have the authority to action. It only has a right to comment about itself. Turkey does not have a full membership status. Turkey is not a member of the Council of Ministers and Commission. These authorities may make a decision that brings negative results to Turkey's economy and foreign policy. Also Turkey does not have a right to veto in the customs union.

It is possible to use Mustafa Hatipler's categorization by explaining the negative effects of the customs union.

5.3.2.2. The Negative Effect of High Competition, Unemployment Problem:

As a result of high competition in the union, some firms are closed in time. Too many people can become un-employed. Some new issues should be discussed such as social security reform, professional education and the structure of wages. They are problems for Turkey. They are the negative effects of the CU. Also, the CU does not bring the free movements of Turkish workers in the European Union.

Furthermore, there are (some serious) problems about standardization. Turkey made an agreement with the World Bank. According to this agreement, Turkish Standards Institution becomes a responsible institution in Turkey about accreditation, certification, the service of laboratory (TUSIAD 43). The accreditation may bring some problems for Turkey. Because Turkey has legislation problems about the approximation of legislation. The transition of the European legislation to Turkey takes a long time, and at the same time, the legislation of the EU can be changed. There is a lack of qualified people for this technical legislation. Also, the laboratories are not enough in terms of infrastructure.

5.3.2.3. Foreign Trade Deficit Problem:

When Turkey's foreign trade increases, the foreign trade deficit has increased with the CU too. This happens because imports increase too fast, while exports go slowly, so foreign trade deficit will grow (Dura, Atik 517). It is one of the most important problems of the CU.

In addition, according to World Bank Report (2014), there should be an appropriate negotiation system between Turkey and the European Union. For example, the European Union countries sometimes sign free trade agreements with third countries. However, some countries which have free trade agreements with the European Union may not accept the free trade agreement with Turkey. The products of these third countries can enter Turkey without customs. Turkish companies don't do the same thing for Turkish goods. When the EU prepares its free trade agreement, it should co-operate with Turkey. It is a fundamental necessity to have an appropriate negotiation platform between European Union and Turkey. Third countries should sign free trade agreements with Turkey too. The goods which are produced in Turkey should be accepted as coming from the European Union because Turkey use common customs tariff as being party to the customs union. Turkey is not part of the decision-making authority in the customs union. These free trade agreement problems are also results of this absence. If Turkey does not sign a free trade agreement with third countries, it losses its revenues on the taxes and has a high level of competition within the customs union.

There was not too many free trade agreements in 1990s. However, together with negotiations with U.S.A, India, Japan and China, the European Union increased its interest in regionalism. The free trade agreement which does not include Turkey, affects Turkey's economy and welfare negatively. For example the European Union negotiate with U.S.A for a transatlantic trade and investment partnership. The partnership includes the half of the global economic profits. On the other hand, if Turkey wants to have a free trade agreement with Russia, Azerbaijan and Iran, it can not do this. Turkey's economic policy depends on common trade policy of the customs union. The European Union should sign an agreement first with these countries, if Turkey wants to have an agreement with them (World Bank Report 2014).

5.3.2.4. Lose of the Customs Tariff Revenues:

Turkey has to apply the same tariffs to third countries like EU does. By applying this tariffs, Turkey has lost the custom revenues that will come from the third countries. Turkey had some bilateral and tripartite agreements with some countries. After the entrance to the CU, they are removed and this causes the effect of retaliation by the other countries to Turkey. In addition to this,

Turkey has to apply some protection measures to some countries as being a party to the CU (such as Japan and U.S.A.) .This causes economic losses; Turkey loses nearly three hundred and fifty billion Dollars customs duty revenues (Altundal 122).

5.3.2.5. The Negative Effect of Cheap Inputs:

The low prices of inputs that come from some countries like Bangladesh, Pakistan and China affect Turkish economy negatively. Turkey's competitiveness reduced because of the cheap inputs (Kalemdaroğlu, in-depth interview, 22.08.2014).

5.3.2.6. The Financial Aid Problem as a Negative Factor:

After entrance to the CU, Turkey reduced its protectionism to third countries. However, the aids that EU will give are not given to Turkey. The given aids are also insufficient for Turkey's economy (Hatipler 26). Financial protocols were made for the economic and social development of Turkey. The aids were used in the infrastructure and industry sector in the shape of the private and public sector projects. According to the decision of 1/95, European Union has to apply four financial aids to Turkey. However, three protocols could be operated. The last protocol / 4th. financial aid was not operated by the European Union because of the veto of Greece. The Financial Protocols generally were provided by European Investment Bank's credits. During the CU period, the financial protocols want to reduce economic differences between Turkey and the EU, and also Turkey should integrate with the competition in the customs union. Also, Turkey benefited from the European Budget and MEDA program. MEDA Program was designed to help Mediterranean non-member countries to reform their economic, social structures and mitigate the social and environmental consequences of the economic development (Europa Web Page, 02.10.2014).

Twice Turkey was face to face with the problem of the veto of Greece. Firstly, Turkey could not get seven hundred and fifty million Euros from the European Investment Bank because of Greece's veto. Then, the CU wanted to provide three hundred and seventy-five millions Euros as a gift to Turkey for improving competitive environment. However, Greece again prevented the gift by its veto (Türkiye Avrupa Vakfı 40). Between 1964-1982 Turkey received eight hundred and twenty-seven millions ECU from the EU in the framework

of three protocols and an additional protocol. Between 1964-1995 this rate was 1.005 millions ECU. Also, between 1964-2000 Turkey received 1.760,3 millions ECU/Euros as a financial aid from the European Union (Hatipler 28,29). European Union applied unequal policy to Turkey. For example, Turkey had eight hundred and twenty-seven millions ECU as a financial aid from the EU since 1963 during thirty-two years. On the other hand, Greece took fifty-one billions Euros as a financial aid between 1982-2000 (Altundal 123).

Helsinki Summit was done in 1999. In 1999, Turkey was accepted as a candidate country and entered a new process. After Helsinki Summit, Turkey became an equal country with other candidate countries. Turkey has to apply Copenhagen Criteria as a candidate country (Sönmez 46). Although there was equality with other candidates, Turkey could not benefit from the structural policies (PHASE, ISPA) and agricultural and rural development programs (SAPARD). The reason of this is the previous decisions have been made by European Union. The Community determined its policies in previous period. Turkey benefited from the MEDA II. Fund which was provided for Mediterranean countries (Sönmez 46). In the framework of MEDA II and EURO-MED (Euro-Mediterranean Partnership Fund), Turkey received 1,470 million Euros.

Table 25. Financial Protocols and Aids:

	PROTOCOLS:	TIME:	EURO/ECU (million) :
I.FINANCIAL PROTOCOL		1964-1969	175
II.FINANCIAL PROTOCOL		1973-1977	220
ADDITIONAL PROTOCOL		1973-1977	47
III. FINANCIAL PROTOCOL		1977-1981	310
PRIVATE COOPERATION FUND		1982-1986	75
GULF WAR CREDIT		1991	175
PRIVATE FINANCIAL COOPERATION		1993	3
BEFORE CUSTOMS UNION		TOTAL:	1.005
(MEDA-I) ADMINISTRATIVE COOPERATION		1995-1999	181.3
ADMINISTRATIVE COOPERATION		1996-2000	3
VARIOUS HELP		1992-1999	14
RENEWED MEDITERRANEAN PROGRAM		1992-1996	340
THE EURO-MEDITERRANEAN PROCESS		1997-1999	205
VENTURE CAPITAL		1999	12
AFTER THE CUSTOMS UNION		TOTAL:	755.3
ASSOCIATION PROCESS (GENERAL)		TOTAL:	1.760.3
Resource: (Doğan,2004)			

The years 2000-2001 were a transitional period for Turkey after the recognition of candidate status. The financial aids which were received from the Community started to be operational after 2002. Turkey received different aids for various projects. Turkey received one hundred and twenty-six million Euros from the community in 2002. In 2003, Turkey benefited from one hundred and forty-four million Euros and two hundred and fifty million Euros in 2004. In 2005, Turkey received three hundred and fifty million and received five hundred million Euros in 2006 (Sönmez 46).

5.3.2.7. Agricultural and Livestock Products:

Turkey lost its benefits in the fields of agriculture. Since 1973, Turkey reduced its customs tariffs to the European Union. However, Turkey has a competitive power in exporting agricultural and livestock products. When Turkey tries to export to the EU, there are high customs tariff at the rate of % 138 and % 225. This reduces the exporting potential of Turkish agricultural products. In principal, the customs union includes free movements of agricultural products. After Turkey has made essential policies for agriculture, agricultural products could move freely in the CU according to the article 34/1 of the Additional Protocol (Altundal 122).

According to the World Bank 2014 Report, new improvements in the fields of agriculture and service can increase competition in the customs union. In the fields of foreign direct investment, Turkey does not have enough Foreign Direct Investment as expected. Central and Eastern European Countries seem more attractive for the investments. In 2000s, the European Union had an enlargement in Central and Eastern Europe. It means an increase in competition for Turkey. Central and Eastern European Countries were more developed as a result of their accession to European Union. They are more integrated than Turkey economically (the World Bank Report 2014).

5.3.2.8. The Issue of the Free Movements of Labor and Visa Problems for Business Environment:

The article 36- 40 of the Additional Protocol predicts to achieve the free movements of Turkish labor force progressively between 1986-1996 (Altundal 122). However, the negative attitude of the European Community and the European Union prevented the free movement of labor force.

According to the W.B. 2014 Report, also, there are restrictive regulations in the visa issue. The cost of visa services is high for Turkish businessmen. European Union has some fear about immigration. Turkey is on a strategic location that goes to Schengen Area. Illicit immigrants that come from Africa, the Middle East and the South Asia try to reach Greece by passing through Turkey. The visa is a problematic issue for European politics. A possible weak visa control is also problematic for businessmen too (the World Bank Report 2014).

Ekin Kalemdaroğlu mentions that ‘‘ the full membership of Turkey to the European Union is significant in terms of Turkish labor force. European Union countries are more developed in the fields of labor force rights, standards of living and social security. Since accession process, new chapters had been opened between the European Union and Turkey. This makes the necessity to form new developments in the field of working hours, wages, social facilities, social security and union rights in Turkey ‘’ (Kalemdaroğlu, indepth-interview 22.08.2014).

Emre Gönen evaluated the issue of free movement of workers in the context of the CU. He said that “ France imported its workers from the colonial workers of Northern European Countries. Germany imported from Turkey. Since 1963, one million qualified workers went to Germany from Turkey. In 1970 and 1980s Turkey played a very important role in the European workforce. Turkey experienced the loss of skilled labor. Especially in construction and industry sectors, a clear deficit emerged. In the legal sense of the CU, the free movements of workers appeared with bilateral agreements and it was one-sided. In that time, Turkey was afraid of the possible immigration of workers from Italy. After 1973 oil crisis, all of the European countries stopped taking workers from abroad. A chronic unemployment started in Europe. Because of the changed conditions, free movement of labor did not occur in 1986 “ (Gönen, indepth-interview 09.10.2014).

5.3.2.9. The Limits in the Road Transportation:

There are quotas that prevent the road transportation. According to the report, there is a need to liberalize the road transport between Turkey and the European Union (The WB Report 2014).

Furthermore, when Selda Çakın was asked how she evaluated the CU between Turkey and EU in terms of free movements of workers, transportation and visa-related issues, she commented that “ [s]implification of legislation provided benefits in terms of logistic sector and customs in Turkey. Some problems still continue with the customs union such as visa problems of the drivers, transition document of Turkish trucks, the problems of the route of trucks. These problems are the most important barriers for an aimed common market” (Çakın, indepth-interview 16.10.2014).

Also, Çakın evaluated the importance of being party to the CU in terms of the logistic sector in Turkey. She stated that “ [t]he CU can be seen as an indispensable step for the full membership. In this way, Turkey can compete in equal conditions in the common market. Simplified procedures are significant in order to make foreign trade, approximation of laws and regulations with the EU. As a result of simplified legislation and logistic services, the customs clearance could be done in a short time “ (Çakın, indepth-interview 16.10.2014).

Chapter 5 stated the previous researches about the CU. The Customs Union has different influences on Turkey's economy. The effects were evaluated as static and dynamic ones. The static effects of the CU on Turkey's economy were ordered and explained as trade creation, trade diversion, consumption effect, the effect of terms of trade, increase in productivity, the movement of trade from out of the union to inside the union and the effects of public revenue. The dynamic effects' influences on Turkey were explained as competition effect, the effect of economies of scale, technological progress, encourage investment and the effect of capital. In terms of the negative and problematic sides, the CU's impacts were also explained in the chapter 5. The decision-making problem of Turkey, the negative effect of high competition, unemployment problem, foreign trade deficit problem, loss of the customs tariff revenues, the financial aid problem, agricultural and livestock products, the issue of the free movements of labor and visa problems for the business environment and the limits in the road transportation are negative results and the problematic issues of the CU. Chapter 5 is the fundamental part of the research. Also, the evaluation of the dynamic and static impacts were presented with current data.

CHAPTER 6

CONCLUSION

Considering the importance of the Customs Union for Turkey, one is reminded of the political and economic history of Turkey reflects the attempts to adopt developments in Europe and catch up with these developments, as stated in the interviews as well.

Since the 19th century, the Ottoman Empire and the Republic of Turkey have attempted modernization. Modernization has been a main goal for Turkey. It has been recognized as adaptation to the West. Modernization is way to turn to the West. The goal is to become a European state.

The establishment of the Republic of Turkey signified that Westernization substantiated legal and institutional infrastructure. However, the economic integration of the European states was limited at the time because of the international systemic conditions after the First World War and during the interwar era. After that, the changing international conditions after the Second World War have brought significant opportunities for Turkey's integration to Europe. Turkey provided its institutional and legal integration to Europe with the membership to the Council of Europe in 1949 and NATO in 1952 in term of military and political integration.

It is possible to say that after the Second World War, Turkey has further developed its aspiration of becoming a European state. However, the economic integration to Europe was weak. In 1948 Turkey has become a member of the OECD, which was established to repair the economies of the European countries. Turkey did not participate in the Second World War. So Turkey benefited from the integrative effect of the OECD in a limited way.

European Coal and Steel was established in 1952 for economic integration in the fields of coal and steel. The members of this organization were satisfied with this organization, so the members provided the establishment of the Customs Union among the members of the European Community. It was a vital step which was taken for the European Community. Two years later, in 1959, Turkey applied for an associate membership to the EEC. Turkey aimed to complete its mission by entering into the Customs Union. The meaning of

Customs Union can be described as an important step in ongoing trend since the 19th century towards the West. Turkey has become party to the Customs Union in 1996. Unfortunately, in spite of this, Turkey did not achieve its goal of completing integration with Europe. The form of the European Union is not formed by the economic structure of the Union. European Union also extends to form political, economic, social and cultural integration in Europe. Therefore, the aim of Turkey to become a European state has become more difficult today comparing to 1960s due to the further deepening in European Integration.

Fundamental importance of the Customs Union for Turkey is related to Turkey's economy. The aim of the Treaty of Rome in 1957 was to create a customs union among the member states of EEC. Turkey also wanted to be included in this formation in order to ensure its economic growth. In this way, the entry of Turkish goods to the European market would be provided. The other importance of the Customs Union was about the relations with Greece. In terms of these relations, Turkey wanted to protect the balance with Greece. Nowadays, the importance of the Customs Union is still going through the trade of Turkish products to the European market, but not as a tool that protects the balance with Greece anymore.

In the 20th century, the globalization has accelerated, and the countries have entered the economic integration process in order to integrate with the world economy. In this way, countries have tried to protect themselves from the intense competition in the world. In this process, important changes have occurred in the world trade. Countries have organized their foreign trade according to increased global competition. Today, there is a highly intense polarization in the world. It is very difficult for Turkey to continue to develop alone. Turkey has to become a part of an integration framework. After the proclamation of the Republic of Turkey, the country began to turn to west's directions in all areas especially in the economic sphere. To be close to the West was important for Turkey; so it made an application to the EEC in 1959. The negotiations resulted with the Ankara Agreement in 1963. The purpose of the treaty was to provide an increase in political and economic relations. In order to achieve the objectives, three periods were defined: a preparatory period, a transition period and the last period. Moreover, the Additional Protocol was signed on Dec. 23rd 1970 when the transition period

started. In 1987, Turkey made an application for the full-membership. On March 6th 1995, The Association Council has taken the decision of the customs union (The Decision 1/95). On Jan. 1st 1996, the customs union came into force.

Emre Gönen evaluated the customs union performance of Turkey: He stated his thoughts about 1963 – 1996 time period and observed that “ Ankara and Athens Agreements are founding agreements of the Customs Union. European countries were party to the Customs Union. Then, they turned into the members of European Union. Turkey is unique in terms of the implementation of the Customs Union. The Community predicted firstly a twenty two-year transition period before the customs union. By being a party to the Customs Union, the economy of Turkey was liberalized. There was no prediction before the customs union about the future of it. In 1971, Turkey removed its customs for the industrial products. Turkey completed the customs union conditions before the expected time. In general, Turkey was successful in the customs union. Turkey did not enter into a serious financial crisis as a result of the customs union, and Turkish industry was able to compete in the market. When the customs union was completed in 1996, Kardak Crisis was appeared with Greece. The crisis resulted with the pressure of the United States rather than EU. The United States was effective to solve the crisis. These events are important events for EU- Turkey Customs Union Process.

In 1992, Martin Mangawan stated that if a country had successfully completed the customs union, it would have been challenged the full membership for itself. Today, it is possible to say that case manifests an exception for the moment, for example in the case of Turkey’s possible full membership situation “ (Gönen, indepth-interview 09.10.2014).

Also, Halit Burç Aka evaluates the customs union performance of Turkey during 1963-1996 through the Treaty of Ankara (Turkey’s Customs Union agreement): “ The Customs Union was formed as having three periods. The preparation period is planned to last five to nine years. The transitional period has been predicted at least twelve to twenty two years and the last period continues since 1996. In terms of the customs union performance, Turkey is not at the desired level. This has three important reasons. Firstly, the European Union has different meanings according to the Ministry of Foreign Affairs and State Planning Organization in 1970s. The rising bureaucratic disputes between

these two institutions reduced the bureaucratic energy. Secondly, the mentality of the Turkish industrialists is not ready to competition. Industrialist in the EU countries were a leading element for governments during 1960s and 1970s. Then European countries have become party to the Customs Union, but the same thing was not valid for Turkey. Thirdly, Turkish intervention in Cyprus in 1974 created problematic relations with the EEC ‘‘ (Aka, indepth-interview 29.09.2014).

Aka also states that: ‘‘ Turkey become party to the Customs Union finally in 1996. Turkey is the only country which is part to the customs union without a full-membership except Andorra and San Marino. This is an exceptional feature for Turkey, but it is wrong to think that this situation is a kind of privilege. Some titles in the negotiations will go without any trouble because of the improvements in the customs union ‘‘ (Aka, indepth-interview 29.09.2014).

On the other hand, Yalçın Kızılkor evaluates the effects of the customs union on Turkish economy: ‘‘ [a]fter the Treaty of Ankara was signed on Sep. 12th 1963, in the framework of full membership process, negotiations are still going on. The Customs Union in 1996 was only a small part of the treaty. The Customs Union also includes the customs system, origin and tariff issues. It tries to solve possible problems. Turkey’s volume of imports and export increased in European markets. FTA agreements gained operability with inward and outward processing regime. Tax burdens are removed from the goods. As a result, in terms of the customs legislation, the customs union brought innovation to Turkish economy. These applications has been very useful to Turkish economy ‘‘ (Kızılkor, indepth-interview 01.10.2014).

In addition, according to Selda Çakın: ‘‘ [t]he effects of the customs union to business environment are known by the business environment. Until today, entering the EEC was evaluated by the benefits of the European standards and the benefits of doing business in this mass market. There is an expectation about European funds. European funds would be transferred to Turkish economy. However, there are problems in the EEC now. The EEC is loosing its power to transform, so business environment looses its interests in the EEC ‘‘ (Çakın, indepth-interview 16.10.2014).

Ekin Kalemdaroğlu evaluated the importance of the customs union for business environment. According to his observation: “ To export is more profitable to business in comparison to selling domestic market. Businessmen started to produce higher quality productions by the entrance to the customs union. Some businessmen did not compete with the European productions and they were bankrupted. The states tried to protect Turkish business with its own commerce policies. This reflects the business environments’ attitude to the competition ” (Kalemdaroğlu, indepth-interview 22.08.2014).

Selda Çakın was asked whether the customs union has any challenges or problems in the logistic sector or not. She thinks that: “ there were huge expectations from the customs union, but it is a disappointment for Turkey today. The losses of Turkey in the field of foreign trade is still continuing. The expectations from the EEC were very high, but today I can say that Turkey-EU customs union is not a good example of customs union “ (Çakın, indepth-interview 16.10.2014).

Ekin Kalemdaroğlu said that: “ [t]he strategic location of Turkey affected the relations between the Middle East and the European Union. Before the customs union, the ways to go to the Middle East were weak for European countries. EU countries had right to transit pass from Turkey, but by the help of the customs union they started to process semi- finished goods in Turkey. They also opened offices in Turkey for selling their goods to the Middle East. New opened firms provided employment but the capital moved to European countries such as in Tofaş and Renault firms. In terms of logistic, Turkey is the heart of international lorry transportation today “ (Kalemdaroğlu, indepth-interview 22.08.2014).

In addition, Emre Gönen mentioned his thoughts about the sustainability of Turkey- EU customs union and the future of the customs union: “ If Turkey is not integrated more with the European Union, it will not experience any improvements in the Customs Union. The future of Customs Union depends on good political relations with the European Union. If the European Union creates a more flexible response, Turkey may become more accommodating. Therefore, the future of the customs union is political “ (Gönen, indepth-interview 09.10.2014).

Halit Burç Aka comments on the same issue: ‘‘ to be a party to the customs union is necessary for the economy of Turkey. Turkey predicts a competitive economy which is based on high technology, so there is no obstacle to the sustainability of the customs union. However, discontinuing Customs Union costs economically devastating results for Turkey.

In addition, there is a need to remember that the technical nature of the Customs Union is also a negotiation process for continuing full membership relations. Ankara Agreement added a new dimension to the relations. The Agreement made full membership possible with the economic integration stages. Turkey’s membership to Customs Union can force EU to assure Turkey’s membership to the European Common Market, Monetary and Economic Union. Turkey’s current negotiation process started with the article 238 of the Treaty of Rome in 1987. In this process, the political nature of the process has often been influential ‘‘ (Aka, indepth-interview 29.09.2014).

Also, Ekin Kalemdarođlu stated that: ‘‘ Turkey should be a country that trust its own goods. In this way, being party to the customs union might be unnecessary for Turkey. A country can earn to rely on its commerce rate. The rate of commerce affects the success of Turkey. Turkey’s imports were more than its exports from 1995 up till now. This foreign trade deficit reflects Turkey’s negative position in the economy ‘‘ (Kalemdarođlu, indepth-interview 22.08.2014).

Also, Selda akin evaluated the sustainability of the customs union and the future of it: ‘‘ if there is no better alternative, to leave the customs union brings more harm to Turkey. The customs union was seen as a key for a full-membership to EU. Today, to enter the European Union is far for Turkey. Turkey should be partof the common market. After an unsuccessful customs union, Turkey can look for new common markets. Turkish markets should not translate into colonial markets. Turkey’s young population should not be exploited ‘‘ (akin, indepth-interview 16.10.2014). akin evaluated the customs union’s effects negatively. According to her, to be party to the customs union means to exploit Turkey’s economy and society.

As of May 2015, some improvements appeared in Turkey-EU Customs Union. The EU and Turkey agreed to update a twenty-year old customs union. Brussels promised to address Ankara’s concerns about a huge European trade

with the United States. In the talks, EU Trade Commissioner Cecilia Malmström and Turkish Economy Minister Nihat Zeybekçi agreed to a roadmap to expand the customs union, broadening it to include services, government contracts and most agricultural goods. Also, Zeybekçi said that “ Turkey has not given up on becoming a full member of the EU and at the end of this process it will be nearer “ (EUbusiness Website, 29.06.2015).

On the other hand, the news states that the minister’s biggest worry is the Transatlantic Trade and Investment Partnership (TTIP), the huge free trade pact being negotiated by the US and the EU that would create the world’s biggest market according to Zeybekçi. Also Zeybekçi said that “ Turkey would like to be in the league of the world economic powers. Therefore Turkey would very much like to take part in the TTIP process.

During the negotiations, both the EU and Turkey have agreed on four items : “ First of all, Turkey will take part in any decision-making mechanism. Second, Turkey will be automatically part of any free trade agreement signed between the EU and third countries, “ said Zeybekçi. “ The EU will remove all obstacles and tariffs that obstruct the free movement of Turkish goods in the EU market within the scope of the Customs Union agreement “ he added (hurriyetdailynews, 29.06.2015).

The results of dynamic effects appear in longer time compared to the static effects. Static effect can be seen, but dynamic effects are continuous and its effects are versatile and effective in economic development. Within the framework of the growth strategy of Turkey, Turkey and the European Union have a comprehensive trade partnership. At the same time, the customs union is an appropriate embodiment to the World Trade Organization’s rules in foreign trade. Namely, Turkey’s attempts for the customs union are appropriate to the rules of World Trade Organization.

The Customs Union increased the quality production in national and international level. In national and international level, the customs union triggered increase in production quality and competition capacity positively. Turkey’s domestic market becomes coherent with international norms. In this context, Turkey could enter the European market as having better quality goods.

Turkey also increased its competitive ability by being party to the Customs Union. The Turkish industrialists' work increased because of the intense competition. The quality of production and consumer satisfaction increased. There has been a expectation about Turkish producers' competitive power, but Turkish producers can compete with the EU's producers.

Also, reducing bureaucracy such as the increased use of internet to facilitate the procedures is one of the positive effects of the Customs Union. Turkey has to implement the protection of the intellectual property rights as well. It is one of the positive effects of the Customs Union.

The most specific results of the customs union appeared in the foreign trade of Turkey. Turkey has to integrate with the European Union's technical legislation. By increasing the integration with EU, Turkey benefits more from the customs union. Also, Turkey has to integrate with common commercial policy of EU. Although there are benefits of common commercial policy, Turkey loses its decision power on third countries, as applying the common commercial policy. The relations with third countries become a negative result because of Turkey's foreign trade deficit and customs tariff revenues. There was also a foreign trade deficit before the customs union. After the customs union this situation has continued.

Another important point in the customs union process is the financial assistance issue. Compared to other candidate countries of the Union, Turkey took the least amount of financial aids from the EU. The European Union did not fulfill its financial benefit obligations to Turkey. The European Union's assistance to Turkey has importance for Turkey. In the customs union process, the sufficient amount of assistance, which comes from the European Union and the financial assistance, is necessary for Turkey to provide the necessities of EU legislation and making institutional changes.

As a result of the Customs Union, Turkey-EU Customs Union did not fulfill the expectations about attracting foreign investment. Turkey also needs to develop the technology which it already has to a certain extent. It also should import and produce new technologies, but the high technology export of Turkey is still so low.

Importantly, in terms of the sectors, the textile sector experienced losses in market while the third countries have become the first in the textile sector.

Turkey did not have full-membership status in the EU; So it could not prevent the agreements which were made with some labor-intensive countries like China.

The major negative sides of the Customs Union are the foreign trade deficits, the high rate of import growth, the structure which does not include Turkey in decision-making mechanism, the losses of the right to form an independent trade policy, the absence of EU's financial support. On the basis of these problems, there is a lack of researches about the CU.

After the realization of the Customs Union, some negative and positive consequences appeared, but the cause of all the observed negative effects in Turkey's economy are not totally related to the Customs Union. The structural problems of Turkey's economy also exists. The unemployment, taxation and current account deficit problems have negative effects on Turkey's economy and society. Turkey should make more studies about the possible effects of the custom union and should cooperate with the EU about the problems of the customs union. Although there are positive results of the Customs Union in the field of know-how ability, institutionalization and the approximation of legislation with the EU, the agreements which were done with third countries and foreign trade deficits, the lack of R&D and negativity of the privatization (in stead of creating production capacity with FDI) have brought negative results. The negotiations which are done with the EU on may 2015 predicts that Turkey will be part of any possible decision-making authority; The third countries which make trade agreements with the EU are going to make trade agreements with Turkey too. The improvements which have appeared as of May 2015 may repair the economic losses of Turkey. However, if there is a need to make an assessment, although there are positive results of the CU, the European Union- Turkey Customs Union is not a good example to the theory of Customs Union, because of Turkey's losses in the foreign trade deficits, customs tariff and the lack of R&D and FDI.

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