AN APPLICATION ON THE EFFICIENCY OF CUSTOMS UNION: TURKEY-EU CUSTOMS UNION

ILHAN Güllü[1]

NevşehirHacıBektaşVeli University

*Abstract*Today, countries are seeking to improve the conditions of free trade in their regions in order to get a greater share from international trade, and resort to economic integration. The application of customs union is one of the stages of the economic integration process, and the best example of this is the European Union (EU). Customs Union Agreement being applied between Turkey and the EU has led Turkey to the world's most secure market, however at the same time, has moved Turkey into a discussion area which has lasted since Turkey's candidacy to EU but which has expanded even more. The fact that all requirements of a customs union have not been met in the example of EU-Turkey decreases the efficiency of the said application and causes drawbacks on Turkish foreign trade. Therefore, the issue of applying the Customs Union Agreement signed in 1995 should be discussed again in line with the interests of the participants.*

Keywords*: CostomsUnion, EU, Integrations.*

JEL classification: *M30*

1. Introduction

Globalization and territorialisation process has accelerated the liberalisation of international trade attempts. The idea of liberalizing the world trade takes shape during the territorialisation process in various forms such as free trade area or customs union. Customs union is a format of integration

―――――――――
[1]*Asst. Prof. Doc., NevşehirHacıBektaşVeli University, FEAS, Department of International Relations, Nevşehir., igullu@nevsehir.edu.tr*

encouraging countries to do free trade in a particular region. Today, the most advanced example of the customs union, first examples of which were seen in 19th century, is the European Customs Union.

Turkey is a part of EU's enlargement process and has applied the EU's common customs tariff since 1996 as a requirement of the Ankara Agreement. During the process of applying the customs union, Turkey's foreign trade improved and realized as 403 billion dollars in 2013. Some sectors have suffered structural changes through trading with EU; however, the export capacity of Turkey's economy has remained weak and dependent on imports from the EU. On the other hand, free trade areas between the EU and China (Transpasific), and between the EU and the United States and Canada (Transatlantic, in the process of negotiations at present) have added a new dimension to the process of customs union between Turkey and the EU.

The aim of this article is to reveal the efficiency of EU-Turkey Customs Union Agreement being applied since 1996 and to interpret this in terms of the development of Turkish foreign trade.

2. Economic Union within the Frame of Liberalization of International Trade

Despite the slowdown in the growth rate of the world's industrialized countries, the increase in the rate of developing countries has decreased the distance in the economic development process (OMC, 2014 :57). As remarked by United Nations in 2013, "the living conditions and future outlook of such a big population has never been so sharp and fast in any period of the history". During the first half of the twenty-first century, developing countries' more participation in international trade and integration with world markets by increasing free trade agreements in particular played an important role in the increase in the welfare levels of the developing countries. Foreign trade ensures countries make progress in the process of economic development. According to Monteskö, « The natural consequence of trade is that it brings peace. Two nations engaged in trading are

mutually interdependent: While one of these purchases, the other one gains while selling. All relationships are based on mutual needs » (Montesquieu, 1979 :510).[2] There are so many analyses based on Adam Smith's «Theory of Absolute Advantage», David Ricardo's «Comparative Advantage Theory» and Hecks-Ohlin-Samuelson's «Production Factor Theory» which were about international trade.[3] Before Adam Smith, neither mercantilists nor physiocrats touched on the fundamental issues of international trade (Kibritçioğlu, 1994 :55).

2.1.Economic Integration Concept and Patterns

The concept of integration can be defined in terms of economics as well as many sub-disciplines of social sciences. Generally, definitions of economic integration are centered on issues such as «trade barriers, areas of specialization, movement of production factors». Economic integration is the cooperation between countries in order to create a common and homogeneous economic area» (Armağan, 1972 :134). Balassa discussed economic integration in two senses. He defined economic integration as «the overall elimination of distinctions between economic units of different nation-states» in terms of process and as «the lack of discrimination between nation-states» in terms of states (Balassa, 1961). As is known, integration process begins with the establishment of a free trade area and ends with the provision of political integration.[4] According to Balassa,

---

[2] In addition to this, Victor Hugo talked about European Union States in Paris Peace Conference on August 21, 1849: "A day will come when we will display cannon in museums just as we display instruments of torture today, and are amazed that such things could ever have been possible! A day will come when two gigantic groups, including the United States and United States of Europe, replaced by one in front of the other will trade in commodities by shaking hands, their industries....will be seen".

[3] Law of Reciprocal Demand set forth by Mill was developed by F.Y.Edgeworth and Alfred Marshall through reviewing

[4] Balassa, B.,TheTheory of Economic Integration, (London: George Allen&Unwin Ltd,1961).

integration patterns are consisted of stages, in which the previous one is considered as the preparation period for the next one, expressed as free trade area, customs union, common market, economic and monetary union and political unity (Petit, 2005 :76).[5] Although political integration is not included in economic integration patterns, it is seen as the final stage of economic integration movements due to its examples emerged. Although political integration is not included in economic integration patterns, it is seen as the final stage of economic integration movements due to its examples emerged.

2.2. Customs Union

Although customs union was previously perceived as an ordinary form of trade, its main development as a model of economic integration occurred after 1950s. Customs union is "an economic integration process in the form of mutual elimination of taxes and quantitative restrictions on goods and services subject to foreign trade among the member states and of applying common customs tariff towards third countries" (Robson, 1993:13). Having published his study titled as "The Theory of Customs Union" in 1950, Viner became the pioneer of the customs union theory. Along with their studies on the regulation of international trade, Maurice Byé, Herbert Giersch and Jacob Viner made significant contributions in the formation of a customs union theory.

Viner stated that the customs union should provide the certain conditions. According to Viner, tariffs between member countries should be eliminated, common customs tariff on imports from third countries should be applied and revenues collected from customs duty should be distributed among the

---

[5] "This schema can be presented as a good example for the EU's integration process until the 1980s. However, in later periods, Balassa's this scheme lost its efficiency in expressing the integration process for reasons such as the inclusion of new members to the Union, reduction or disappearance of the restrictions to capital movements in 1960-1970s" (Petit, 2005 : 76).

member countries by a method agreed upon (Viner, 1950:5). Viner, in his production model he developed, focused on the "trade creation" and "trade diversion» results of the customs union.[6] Then, the gaps in Viner's analysis were filled by other economists including J.E.Meade, F.Gehrels, R.G.Lipsey, H.G.Johnson, C.A.Cooper and M.Michaely.

3. Customs Union Agreement in the Process of Turkey's Membership to EU

The process of Turkey's membership to EU is a part of the modernization efforts ongoing since the Ottoman Empire. In order to reach the level of contemporary civilizations described as «Western», Turkey followed the political, economic and social lines defined by Kemal Ataturk, the founder of Turkey.[7]

Also today, Turkey's trade relations with EU constitute one of the cornerstones of Turkish foreign policy and determine the general character of foreign trade. The most obvious example of this is the fact that EU countries are ranked as the second following the OECD countries in Turkish foreign trade.

---

[6] Customs unions cause static and dynamic effects. Static effects are the effects of customs union under certain assumptions on production (trade creation and trade diversion effects) and on consumption and welfare (reducing the demand against relatively expensive goods produced inside, and increasing against cheap goods from outside). Dynamic effects arise both on countries forming the customs union and on third countries. Such as economies of scale, externalities, competitive power growth, the acceleration of technological change, the reduction of risk uncertainty (Seyidoğlu, 2013:239).

[7]"*We want to modernize our country. All our efforts are for establishing a civilized and modern, in other words, Western country. Is there any country that wants to reach civilisation but does not turn towards West*? Atatürk's speeches and statements, V.III, October 29, 1923, p.68. Pour les points de vueet les programmes surl'UE des cabinets de la République de Turquievoir: S. RıdvanKarluk, The European Union and Turkey, 8. Edition, Beta Basım A.Ş., İstanbul, 2005, pp.847-858.

3.1.Customs Union Agreement within the frame of Turkey-EU Relations

Within the frame of membership, Turkey-EU relations began after signing the Association Agreement, which is also known as the Ankara Agreement, with European Economic Community (EEC) in 1963.[8] This agreement applied as from 1964 envisaged membership process to take place in three stages including preparation period, transition period and the last period. The agreement contained the customs union at the end of the transition period. The conditions of the transition period and the obligations imposed to the parties were mentioned in the additional protocol which was signed in 1970 and put into effect in 1973. Following the end of the transitional period, Customs Union Agreement was signed in 1995 and put into effect in the next year. Turkey gained the status of candidate country in 1999 Helsinki Summit, and the accession negotiations began in 2005 by the council's decision taken in 2004 Brussels Summit. During the full membership process, 13 topics were negotiated.[9]

---

[8] T.C. Ministry of Foreign Affairs: http://www.mfa.gov.tr/les-relations-turquie-ue.fr.mfa

[9]Intheprocess of Turkey'sfullmembership, partiesstartednegotiations on thefollowing 13 titles: « 4- Free movement of capital», « 6- Company law», « 7- Intellectual Property Law», « 10- Information society and media», « 12- Food safety, veterinary and phytosanitary policy», « 16- Taxation », « 18- Statistics», « 20- Companies and industry policy», « 21- Transportation networks going through Europe», « 25- Science and research», « 27- Environment », « 28- Consumer and health protection», « 32- Financial control»). One of these (25-Science and research) was closed temporarily. For more information, refer to EU Development Report of 2013., http://www.abgs.gov.tr/index.php?p=111&l=1 Cyprus and France blocked the opening of 13 titles to negotiations: eight of them by Cyprus, five of them by France. A title previously blocked by France (23-regional development) was opened by President Cumhurbaşkanı F.. (Christophe Lucet. "La prioritéturque", entretien avec HakkıAkıl, l'ambassadeurturc en France, Sud-Ouest (France) Jeudi 10 juillet 2014, p. 4

According to paragraph 10 of Council Decision No. 1/95, Turkey undertook to realign the foreign trade regime to the EU Common Tariff and to apply to third countries. Therefore, signed free trade agreements with the European Free Trade Area (EFTA) and with some third countries such as Israel, Macedonia, Montenegro, Bosnia and Herzegovina, Palestine, Tunisia, Syria, Egypt, Morocco, Albania, Georgia, Serbia, Chile, Jordan and Lebanon.

In the process of full membership, the negotiations of which started in 2005, the progresses expected in 2010 and 2013 could not be achieved, and 14 of total 35 topic titles were opened to discussion, and only one of them could be closed temporarily (Opening and closing of topics are carried out by the members' unanimity).

Three consecutive periods envisages Turkey's full membership to the EU; preparation period, transition period and the last period.

Preparation period during 1962-1974 containing the support of the European Union aimed at preparing Turkey to adapt to the obligations to be applied in later periods. On the other hand, the favorable conditions of Turkey's economy led to the completion of the preparation stage in less than expected, and the preparation period ended by the additional protocol which was signed in 1970 and came into force in 1973.

The transition process envisaged the gradual application of customs union between Turkey and EU. This period between1973-1995 brought some obligations in terms of Turkey's economy. The content of the additional protocol was as follows (*JO, 1972)[10]* :

    I.   Free movement of goods:
- Customs union (Elimination of tariffs between Turkey and the European Economic Community, application of Common Customs Tariff by Turkey)
- Elimination of non-tariff barriers by the parties,

---

[10] http://eur-lex.europa.eu/legalcontent/FR/TXT/?uri=CELEX:21970A1123(01)

- Application of common agricultural policy
II.   Free movement of persons and services:
- Workers
- The right of establishment and transportation
III.   The convergence of economic policies
- The convergence of competition, taxation and legislation
- Economic policies

The transition process as required by the additional protocol should include the free movement of employees, goods and capital. However, the main features of the customs union being applied between Turkey and the EU are as follows:

- Basically, customs union serves for the free movement of industrial goods.

- Agricultural products were not included in the customs union regime.[11]

- Services were not included in free movement (JOCE, 2000).

When looking in terms of general economy rules, the said condition gives an asymmetric feature to the customs union. Turkey should bring its municipal law into conformity with that of the EU including the competition rules and public assistance. Turkey should fulfill the exclusive obligations that will ensure effective protection for the intellectual industrial and commercial property rights in its lands.[12]

3.2. The Role of Customs Union Agreement in the Development of Turkish Foreign Trade

Turkey's foreign trade with EU has developed significantly since the last thirty years. The foreign trade, which was in the volume of 3 660 million dollars in 1980, increased to

---

[11]According to the Article 25 decision No. 1/95, pasta, fruit yogurt, tea, ice cream, etc. End agricultural products are acceptable. Customs duties for these products are calculated according to the share of industry and agriculture (ATO, 2007).
[12]Article 31 of Decision No. 1/95.

155 496 million dollars in 2013. Also, the application of customs union had an important role in this development.

Actually, the development of Turkey's foreign trade since the 1980 should be examined in order to reveal the role of the customs union. After the date of January 24, 1980, outward-oriented export-enhancing model including many policies such as export incentives took the place of enclosed import-substitution model. Although the fact that the export volume approached to the import volume in 1983 showed that these policies began to produce results in the early years, Turkey's trade with the EU during the period 1980-2013 had a deficit. The results of the new policies applied since 1980 became more obvious in the 1990s. Turkey's economy exceeded the threshold of 10 billion in import in 1992 and in export in 1995. The development of foreign trade showed that the period of 1980-1995 was more stable compared to the period of 1996-2013. While the foreign trade deficit was 46% in 1980, it decreased to 25% in 1995. In the same period, the deficit was regressed from 29% to 20% when it comes to the foreign trade with the EU.

Table 1. The Development Of the Foreign Trade That Turkey Carried Out with the EU (1980-2013)

Year	PIB (Mds$)	Export. (000 $)	Import. (000 $)	Year	PIB (Mds$)	Export. (000 $)	Import. (000 $)
1980	68 789	1 300	2 360	**1997**	189 835	13 434	26 118
1981	71 040	1 564	2 633	**1998**	269 287	14 809	25 282
1982	64 546	1 802	2 566	**1999**	249 751	15 424	22 529
1983	61 678	2 066	2 775	**2000**	266 440	15 664	28 526
1984	59 989	2 781	3 314	**2001**	195 550	17 545	19 823
1985	67 234	3 204	3 895	**2002**	232 280	20 415	25 688
1986	75 728	3 263	4 565	**2003**	303 260	27 393	35 140
1987	87 172	4 868	5 666	**2004**	392 210	36 580	48 102
1988	90 852	5 098	5 895	**2005**	482 690	41 364	52 695

1989	107 143	5 408	6 055	2006	529 190	47 934	59 400
1990	202 380	6 906	9 328	2007	649 130	60 398	68 611
1991	151 041	7 042	9 221	2008	730 320	63 390	74 802
1992	159 095	7 602	10 050	2009	614 470	47 013	56 587
1993	180 422	7 376	13 874	2010	735 828	52 685	72 243
1994	130 690	8 634	10 915	2011	774 190	62 347	91 128
1995	169 486	11 078	16 860	2012	786 300	59 204	87 448
1996	181 476	12 563	24 320	2013	821 800	63 040	92 458

Source: (TUIK, DPT, Ministry of Development, 2013)[13].

Trade between the EU and Turkey gained speed by the mutual abolition of tariff barriers. The foreign trade volume, which was 36 888 million dollars in 1996, increased to 155 498 million dollars in 2013. Turkey's foreign trade deficit with the EU is 29 418 million dollars (substitution ratio of exports for import is 68%).

Such a development of the foreign trade is a result of changes in the economic sectors which started in the 1980s and accelerated in the 1990s. Sectors supporting the export have provided significant progresses since the application of customs union. Sectors such as automotive, tourism and electronics became the locomotive of export in the 2000s. However, textile and agricultural sectors lost their significance. « Since the application of customs union, the share of the agriculture sector in export decreased by 70% to 10%. The decline in the textile sector

---

[13]TÜIK   (Turkish   Statistics   Institute), http://www.tuik.gov.tr/VeriBilgi.do?tb_id=12&ust_id=4   (accessed January 12 2013).

GSYH, denominated in dollars at currentprices: DPT (State Planning Organization),

http://www.dpt.gov.tr/PortalDesign/PortalControls/WebIcerikGosterim. aspx?Enc=83D5A6FF03C7B4FCF1DD1250003E4CDE938CA63D149 4853DB07220A247F4F3B5 (accessedFebruary 25 2013).

T. C. Ministry of Development, 2013 Economic Program 2013, p.7.

was from 32% to 25%. However, the share of electrical and electronic products increased from 1% to 18%(İTO, 2007 :41) ». We can state some features of Turkey's foreign trade with the EU as follows:

- Before 1996, Turkish foreign trade did not increase very rapidly, however, it was stable.

- Its volume has increased rapidly since 1995, however, it has lost its stability.

The development of Turkish foreign trade has been affected by many factors since 1980: Preventive policies before 1996 brought stability to the development of trade. Nonetheless, some obligations in the framework of the Customs Union became determinant in the development of trade since 1995.

4. An Econometric Analysis On Turkey - Eu Customs Union

It is seen that the Customs Union Agreement being applied between the EU and Turkey since 1996 has an important role in increase of Turkish foreign trade volume. However, it is a fact that the expansion in trade volume was mainly resulted from the increase of import capacity. It is possible to reveal whether the said application of customs union led breakage in the foreign trade of Turkey with EU by an econometric analysis which is about the period before and after 1996 in which Customs Union Agreement was applied.

4.1. Econometric Analysis

Time series analysis was used in order to reveal whether there was a structural breakage in the development of Turkey's foreign trade with the EU. Time series is an area of statistics making progress for thirty years, and today it is used in many scientific areas. While the analysis in question can be used in taking sales decisions of a business organization in the short-term in the future, it can also be used in deciding whether an

investment will be efficient in the long term.[14] This method can also be to reveal whether there is a structural breakage in the development of foreign trade in the long term. In this study, Chow test was used in order to reveal whether there was a significant breakage on a certain date between the two periods within the frame of time-series.[15] Chow test demonstrates whether there is a structural change on regression models that define the normally distributed variables. This test is generally used to reveal the structural changes on any of the factors affecting an economy during the periods of crisis. In other words, chow test shows whether the coefficient of a variable is different for two separate data groups (Leblond and Belley-Ferris, 2004). With this method in our study, the fact that whether the observations before and after the breakage date are different will be revealed.

Today, executives can easily apply time series analysis in order to determine the policies of any business or institution for the future by using statistics and econometrics. We used the Eviews program in our analysis.

4.2. Method, Variables and Results

While the policies being applied can cause structural breakages on the economy, they can also lead to different results in a particular sector. And this causes structural breakages in the development of an economy" (Sevüktekin and Nargeleçekenler, 2010). In this sense, it is possible that there might be a structural breakage on the export-import coverage ratio in Turkey's foreign

---

[14] For more information about time series, see.Yves Aragon (2011) Sériestemporellesavec R, Méthodes et cas, Springer-Verlag France 2011. , pp. 1-19. Forthedevelopment of time series, see. Gourieroux C. Monfort A. (1990). *Sériestemporelles et modèlesdynamiques*, Economica, Paris. Lükepohl H. (1993). *IntroductiontoMultiple Time Series Analysis*, Springer-Verlag, Berlin, (2e éd.). Hamilton J. (1994). *Time Series Analysis*, Princeton UniversityPress, Princeton. Bourbonnais R. et Terraza M. (2004). *Analysedessériestemporelles*, Dunod, Paris.

[15] Chow test is based on the Fisher Law.

trade with the EU after 1996[16]. The results of our study confirm this view. In the time series analysis, the dimension of the breakage shows the degree of deterioration of the customs union on Turkey's foreign trade with EU.

Besides, political and economic events emerging in the regional and global extent should not be ignored while analyzing the effects of customs union on Turkish foreign trade.

We can confirm the effects of the customs union on Turkish foreign trade by using data from 1980 to 2013. The time series analysis in our study seeks answers to the following two questions:

- Is 1996, in which the customs union was applied between Turkey and the EU, the year in which a structural breakage occurred in Turkey's trade with the EU?

- What is the degree of it if there was a structural breakage?

In order to find answers to these questions, firstly the period of 1980-2013 was defined as the main period, and then, it was divided into two sub-periods to be analyzed. Thus, 1996 was determined as the year in which the structural breakage was experienced, and three periods were revealed:

- The first sub-period   : 1980-1995,
- The second sub-period   : 1996-2013,
- The main period   : 1980-2013.

The assumptions created to apply Chow test:

Dependent variable is Gross Domestic Product (PIB) represented by C. GDP figures in question were calculated based upon 1987 fixed prices and cleared of inflation effect.

Independent variable is the rate of exports meeting imports represented by X.

1996 : It is the breakage year in foreign trade.

The results of the analysis carried out with Eviews program, for two periods : 1980-2013 results:

The main period   : 1980 – 2013

---

[16] About the breakage in the time series, see. (Nelson, C. R. &Plosser, C. I., 1982:139-162) et (Duck, N. W., 1992:426-439.).

Number of Observations   :34
Chow Breakpoint Test :1996
Null Hypothesis   :No breaks at specified breakpoints
Varying regressors   :All equation variables
Equation Sample   :1980-2013
F-statistic   :74.27045

F-statistic : 74.27045	Prob.F(2,30) 0.0000
Log likelihood ratio : 60.64309	Prob. Chi-Square(2)0.0000
Wald Statistique : 148.5409	Prob. Chi-Square(2)0.0000

Probability is 0,405 for the period of 1980-1995, and it is 0,034 for the period of 1996-2013. Observation is different before and after the breakage. In other words, the two periods analyzed are different from each other.

According to Chow test, the year of 1996 is the breaking point among the examined periods. It means that there has been a structural change in Turkey's foreign trade with the EU since 1996.

This is also a fact that the macro-economic developments, apart from the customs union, such as the political and economic crises in regional or global dimension with the EU, EU's enlargement process and China's emergence as a huge power in world trade led to adverse effects on Turkish foreign trade. The periods of 1994, 1999 and 2001 analyzed shows that export increased in Turkey's foreign trade and these years indicate the crises in Turkey's economy. The crisis environment in the country forced companies to export.[17] Likewise the financial crises emerged in Russia and in the Far East in 1998 and in the United States in 2008 adversely affected the European economy. The export of consumer goods for the EU were adversely affected by

---

[17]Following the devaluation, conditions that required pricing policies came into question. Products lost their competitiveness in terms of price, and this caused several years of decline in exports after 1996.

the change in the incomes and prices due to the crises, and resulted in the increase of Turkey's foreign trade deficit.

5. Conclusions

Turkey's foreign trade with the EU has increased in terms of volume and product diversity since the last thirty years. Today, the textile sector, which was ranked as the first in Turkey's exports in eighties, has given its place to automotive sector. Car investors such as Hyundai, Toyota and Honda have been existing in Turkey market since 1990. In the preferences of the said investors, it is certain that the Customs Union Agreement signed with the EU in 1995 was effective as well as Turkey's proximity to Europe. The effect of the application of customs union is seen more specifically in the development of Turkish foreign trade. While the foreign trade volume of Turkey with the EU was 37 billion dollars in 1996, it was 155 billion dollars in 2013.

Besides, the Customs Union Agreement produces negative consequences in Turkey's trade with the EU and the third countries. Today, the idea that the application of Customs Union would accelerate the EU membership process of Turkey has remained as marginal. Also, this situation shows that the application of Customs Union is devoid of efficiency for some reasons.

From an optimistic outlook, EU-Turkey Customs Union Agreement is one of its kinds in the sense that it was made with a non-EU member country. Turkey ensures the international expansion of economy without being traumatized.[18] European Union ensured the emergence of a strong competitive environment as well as the legal and economic arrangements in Turkey. In this way, Turkey gets closer to Europe, and finds an

---

[18] Since 1 January 2001, Turkey has applied the same tariff with the EU towards third countries; this application shows the privileged direction of the customs union agreement in question. Turkey is apply the rules but not included in decision mechanism. Customs union agreement contains goods excluding agricultural products but it does not cover services.

opportunity of acquiring the rhythm of growth of the European economy. When viewed from this aspect the application of customs union can be understood as if it were a transitional period in Turkey's integration with the EU economy.

However, the said customs union that has been applied for nearly thirty years has not shortened the process of Turkey's membership to EU as foreseen during the 1990s. In this case, restructuring the Customs Union Agreement by filling in missing fields mentioned below is unavoidable to ensure the expected efficiency of the customs union. In fact, a customs union with complete EU conditions will provide an opportunity for Turkey to carry out structural, institutional and economic reforms. In this way, Turkey's integration with the world economy will also be easier.

The application of customs union causes Turkish foreign trade to have a deficit in the current conditions. The export-import coverage ratio in 1996 sharply decreased from 65% to 49%. Despite growth in the economy in subsequent years, direction of trade did not change much. Nevertheless, the increase in the export-import coverage ratio in the 2000s can be explained by the effects of growing global financial crises. The application of customs union not only leads Turkish foreign trade to have a deficit but also increases its dependency in favor of the EU. While Turkey's imports from the EU are consisted of intermediate goods and the equipments, its export is mainly consisted of consumer goods. When it comes to Turkey's automotive sector, it is seen that its export capacity is dependent on imports from EU. The current position of Turkey with the EU will lead to significant problems in case of having to reposition its place in foreign trade in the future.

Most of the criticisms about the application of customs union are based on EU's trade with third countries. Free trade agreements that the EU signed with third countries cause Turkey to have deficit in trading with these countries. In this case, Turkey remains under the influence of two factors: On the one hand, Turkey becomes devoid of customs duty revenues because of making reduction tariffs for non-EU countries; on the other hand,

Turkey is obliged to apply the same tariffs with the EU to third countries' textile products within the frame of arrangements for the least developed countries' favor of World Trade Organization.[19] For this reason, Turkish foreign trade has a deficit when these countries that the EU's made free trade agreements are concerned. Moreover, the goods of the third countries such as China, South Korea and Taiwan ensure price superiority against their own products. According to the Turkish Statistics Institute, while China exported for 4 476 million dollars to Turkey in 2004, this figure increased to 24 685 million dollars in 2013.[20]

Briefly, the application of customs union does not constitute any problem for the EU, today. For this reason, to be able to better manage its foreign trade, Turkey has the following options:

- When EU signs a free trade agreement with any of the third country, Turkey may make a free trade agreement with that country in order to reduce potential risks.

- Turkey may request from the EU to rearrange the terms of the Customs Union Agreement to the extent of its needs.

- Turkey may become one of the member states by accelerating the EU membership process.[21]

---

[19] The main objective of the agreement on textile and products (ATV) is to remove the restrictions to imports of textiles and products laid down by some developed countries. The agreement defines the processes needed to include the trading of textile and products into the GATT system. Accordingly, countries will remove trade restrictions in ten years and in four stages until January 1, 2005.

[20] However, while China's import from Turkey was 391 million dollars in 2004, it increased to 3 600 million dollars in 2013. http://www.tuik.gov.tr/UstMenu.do?metod=temelist (Access December 22, 2014). See the report of Ankara Chamber of Commerce (ATO) titled "Open Market Turkey".

[21]GüvenSak. "What does TTIP mean for Turkish Business World? Possible Benefits and Risks", *Tepav*, 04.06.2014, http://www.tepav.org.tr/tr/haberler/s/3688

However, the realization of the said objectives is not easy. First of all, there is not any mechanism that forces third countries, with which the EU made free trade agreements, to make agreement also with Turkey in the same conditions. In this case, Turkey must disclaim some of its rights in trading to be able convince the third country with which it wants to make an agreement. For the revision of Customs Union Agreement with the EU and for the rearrangement of the necessary sections, EU suggests the introduction of certain reforms as a precondition. Therefore, the revision of the Customs Union Agreement is not easy. Besides, EU's acceptance of this issue does not seem within the bounds of possibility. When it comes to Turkey's full membership to EU, the process is not likely to be completed in a short time.

In summary, the Customs Union Agreement being applied with the EU brings a Western view to Turkish foreign trade and makes it possible for critical approaches on Turkey's membership to EU to be strengthened.

6. References

- Akagül D. (2006).*Lesdéfisd'uneadhésion de la Turquie à l'UnionEuropéenne*, Bruxelles, Bruylant.
- Ankara Ticaret Odasi (2007).*Gümrük Birliği'nin Getirdikleri ve Götürdükleri* ATO Yayınları.
- Aragon, Y. (2011).*Sériestemporellesavec R, Méthodes et cas*, Springer-Verlag France 2011.
- Armağan İ. (1972). "Note sur l'intégrationéconomiquerégionaleentrelespays en voie de développement, *TheTurkish Yearbook,* 12, 130-159.
- Bourbonnaıs R. et Terraza M. (2004). *Analysedessériestemporelles*, Dunod, Paris.
- Balassa B. (1961).*The Theory of Economic Integration*, Greenwood Press.
- Cooper C.A. etMassell, M.F. (1965).*A New Look at Customs Union Theory*, Ed. Rand Corporation.
- Duck N.W. (1992). "UK Evidence on Breaking Trend Functions in Macroeconomic Variables", In: *Oxford Economic Papers*, 44.

- Gourieroux, C. et Monfort, A. (1990). *SériesTemporelles et ModèlesDynamiques*, Economica, Paris.
- Hamilton J. (1994). *Time Series Analysis*, Princeton University Press, Princeton.
- Istanbul TicaretOdasi (2007).*GümrükBirliği'ninGetirdikleriGötürdükleri*, İTO.
- JournalOfficielDesCommunautesEuropeennes(JOCE). (2000) L 138, 9 juin 2000.
- Journal Officiel Des CommunautesEuropeennes(JOCE). (2002) L 352, 30 décembre 2002.
- Journal Officiel (JO). (1972). L 293, 29 décembre 1972.
- Johnston J. etDinardo J. (1997).*Econometric Methods,* International Editions.
- Johnson H.G. (1962).*The Economic Theory of Customs Union,*In :H.G.Johnson, *Money Trade an Economic Growth*, Chapter III, Allen and Unwin, London.
- Kalkınma Bakanlığı (2013).*ProgrammeÉconomicde L'Année2013*, Ankara.
- KarlukR. (2005).*AvrupaBirliğiveTürkiye*, 8. Baskı, Beta Basım A.Ş., İstanbul.
- Kibritçioğlu A. (1994)."Adam Smith'in 'UluslararasıİktisatKuramınaKatkılarıHakkında", *EkonomikYaklaşımDergisi,* 5(12), 55-62.
- Leblond S. et Belley F.I. (2004).*Guide d'économétrieAppliquée à l'intentiondesÉtudiantsduCours,* ECN 3950, Université de Montréal.
- Lipsey R.G. and Lancaster K.(1956). "The General Theory of Second Best" *Review of Economic Studies,* 24, 11-32.
- Lipsey R.G. (1957). "The Theory of Customs Unions: Trade Diversion and Welfare"Economica, 24, 44-46.
- Lipsey R.G.(1960). "The Theory of Customs Unions: A General Survey" *The Economic Journal,* 70, 497-513.
- Meade J.E. (1955).*The Theory of Customs Union*, North Holland, Publishing Company, Amsterdam.
- Montesquieu (1979).*De l'éspritdesLois, Livre XX,*GarnierFlammarion, Paris.
- Nelson C.R. etPlosser C.I. (1982). Trends and Random Walks in Macroeconomic Time Series, *Journal of Monetary Economics*, 10 (1982), 139-162.

- OMC (2014). Rapport sur le Commerce Mondial.
- Petit, Pascal (2005). "Mondialisation et Régionalisation: UneAnalyseComparative de la Construction desRapportsInternationaux en Europe et en Asie de l'Est" Région et Développement,Numéro 22.
- Robson P.(1993).*The Economics of International Integration* 2rd edition. Routledge, London.
- Sak, G. (2014). "TTIP Türk İş Dünyası İçin Ne Anlama Geliyor? Olası Faydalar ve Riskler", *Tepav*, 04.06.2014, http://www.tepav.org.tr/tr/haberler/s/3688
- Sevüktekin M. et Nargeleçekenler M. (2010).*Ekonometrik Zaman Serileri Analizi,* 3. Baskı Nobel YayınDağıtım, Ankara.
- Seyidoğlu, H.(2013) *UluslararasıİktisatGüzemcanYayıncılık, İstanbul.*
- Türkiye Istatistik Kurumu (TÜIK).http://www.tuik.gov.tr/VeriBilgi.do?tb_id=12&ust_id=4
- Viner J. (1953).*International Trade and Economic Developpement*, Oxford University Presse, Londres.
- Viner J. (1950).*The Customs Union Issue,*Carnegie Endowment for International Peace, New York, 1950.