OPPORTUNITIES AND CHALLENGES OF TURKEY-EU CUSTOMS UNION

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Turkey-EU Trade

EU is Turkey's No. 1 Trading Partner
Turkey is the EU's 4th Export and 5th Import Partner

50 % of Turkish exports went to the EU in 2018 (83,956 million $)
36.2% of imports from the EU (80,813 million $)

3,143 million $ trade surplus for Turkey for the first time since 1996

TOP 10 COUNTRIES IN TURKEY'S EXPORTS AND IMPORTS 2018 (Million $)

Country	Exports	Country	Imports
1-GERMANY	**16144**	1-RUSSIA	21990
2-UK	**11113**	2-CHINA	20719
3-ITALY	**9566**	**3-GERMANY**	**20407**
4-IRAQ	8351	4-USA	12378
5-USA	8306	**5-ITALY**	**10154**
6-SPAIN	**7710**	6-INDIA	7536
7-FRANCE	**7289**	**7-UK**	**7446**
8-NETHERLANDS	**4778**	**8-FRANCE**	**7413**
9-BELGIUM	**3953**	9-IRAN	6931
10-ISRAEL	3900	10-SOUTH KOREA	6343
17 - BULGARIA	**2670**		

Turkey-EU Customs Union

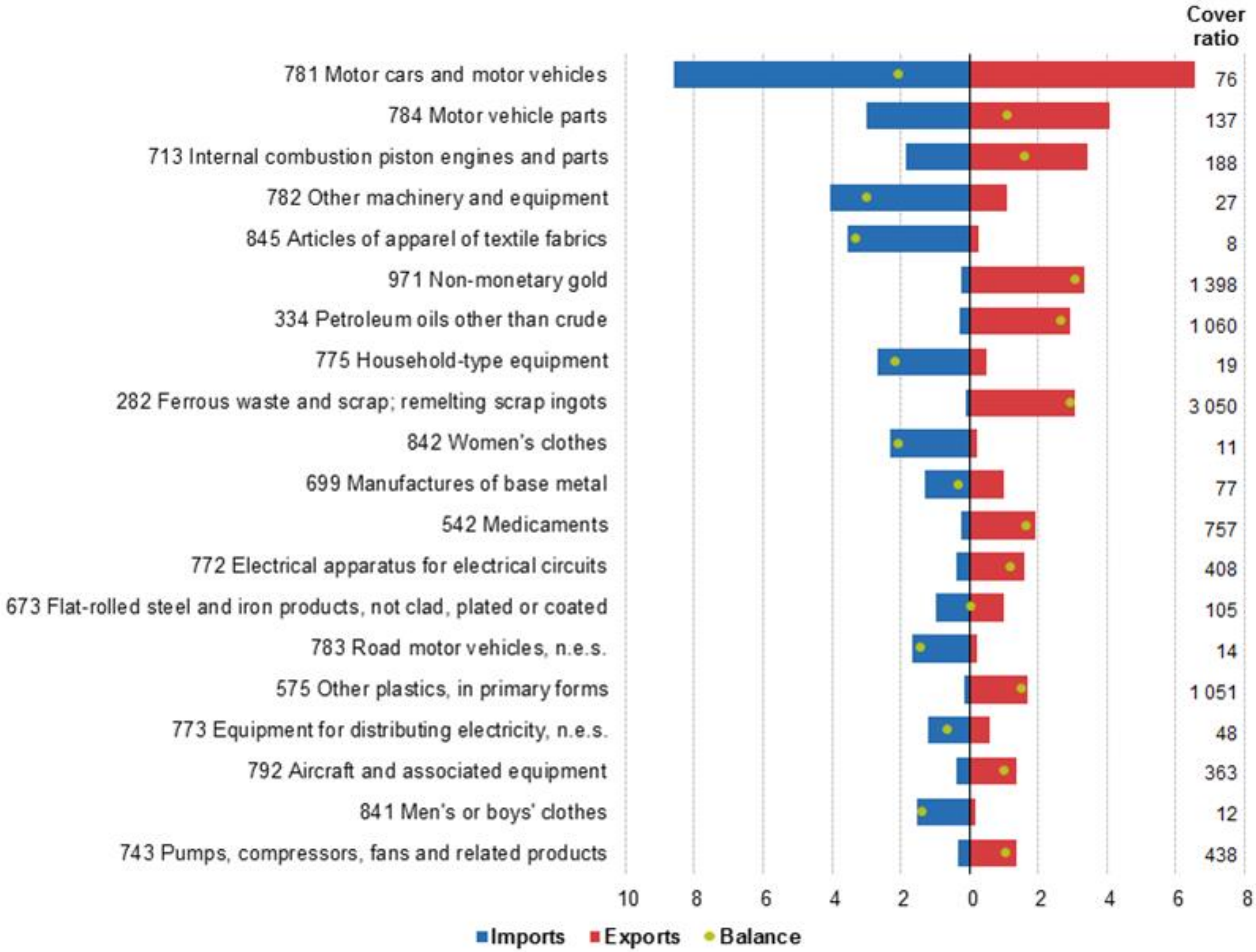
In force since 1996

Liberalisation of Trade in Industrial Products

Turkey’s Alignment to the CCT and CCP

Legislative Harmonization

Most traded goods with Turkey, top 20 of SITC level 3 products, 2017
(EUR billion)



Note: While the trade balance provides information on the absolute value of trading positions, the cover ratio provides a relative measure that is based on the ratio (expressed in percentage terms) between the value of exports and the value of imports; if exports are higher than imports then the cover ratio will be above 100.

Source: Eurostat (online data code: DS-018995)

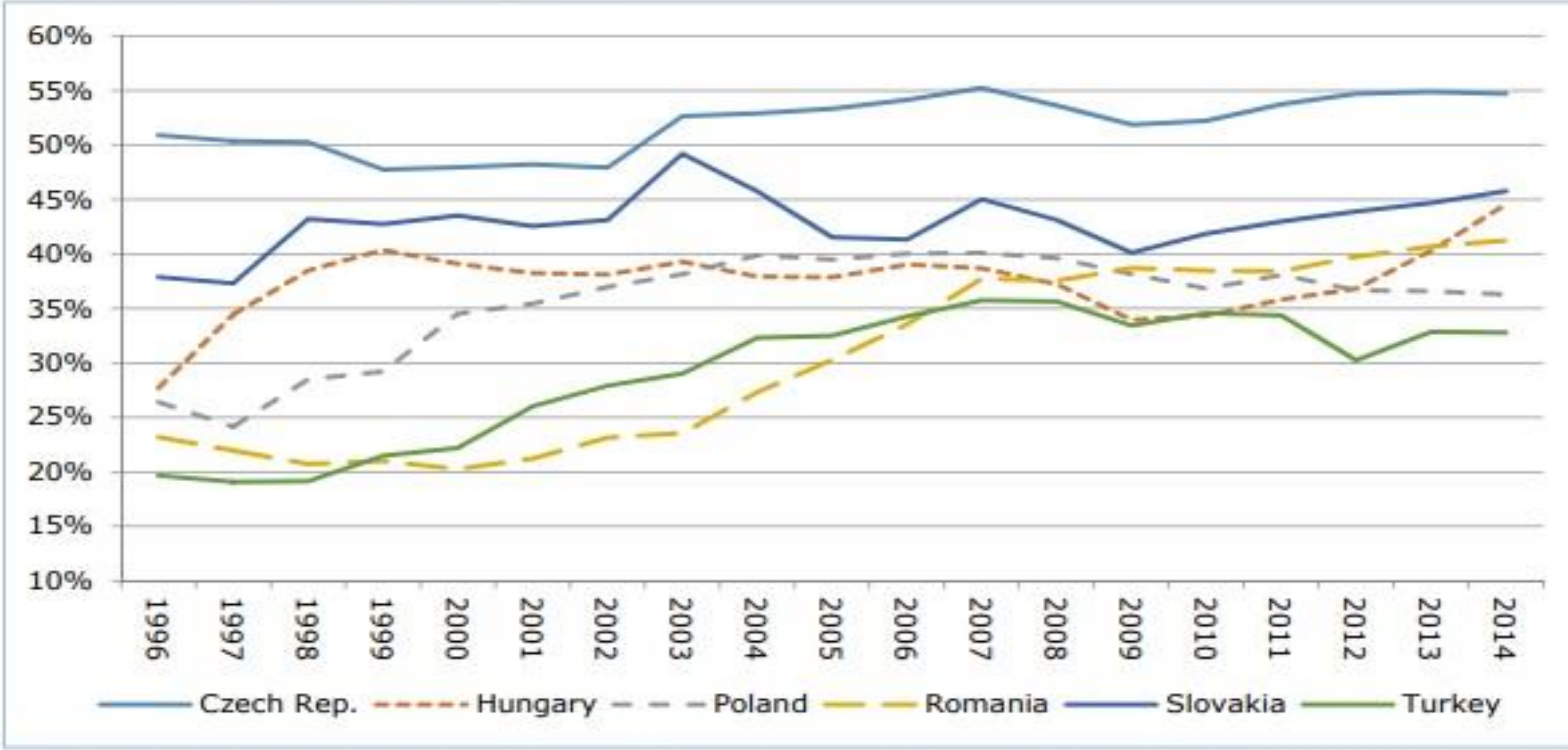
Short Overview

- 1963 ANKARA AGREEMENT
  - ESTABLISHES AN ASSOCIATION BASED ON CUSTOMS UNION
  - ENVISAGED FURTHER LIBERALISATION
- 1970 ADDITIONAL PROTOCOL
  - STARTED PROCESS TOWARDS CUSTOMS UNION
- 1/95 DECISION OF THE ASSOCIATION COUNCIL
  - CREATED THE CUSTOMS UNION WHICH STARTED TO FUNCTION IN 1996

Turkey-EU Customs Union

- BOOSTED ECONOMIC RELATIONS
- TURKISH MANUFACTURERS ANCHORED TO EU VALUE CHAINS
- ADOPTION OF EU NORMS AND REGULATIONS
- TOGETHER WITH MEMBERSHIP PERSPECTIVE AFTER HELSINKI SUMMIT→
- INCREASE IN FDI FLOWS TO TURKEY

Figure 2.8: Medium-Technology Exports as % of Total Exports: Turkey and Comparator EU Member States



Source: UN Comtrade (2014: S2); Technological classification is based on Lall (2000).

Turkey not a party to the EU's FTAs

Creates trade diversion

Erodes Turkey's advantage in the EU Market

What Do We Expect with Regards to the FTA Problem?

Turkey Starts to Negotiate FTAs with Third Countries and concludes them in tandem with the EU

Dispute Settlement in the Customs Union

Depends on Unanimity in the Association Council

What Do We Expect?

Effective Dispute Settlement Mechanism

Decision-making and Consultation

Turkey's Adaptation to the EU's Commercial Policy towards Third Countries

What Do We Expect?

Participation into Policy-Making Structures
Consultation prior to Adoption of Legislation

Transport Quotas

Quotas and transit fees applied by EU Member States to Turkish trucks

What Do We Expect?

Elimination of such barriers and discrimnatory practises

Expansion of the Bilateral Trade Relationship

Services
Agriculture
Public Procurement

What we expect?

Deepening the trade framework
ensuring further integration into the EU Single Market

Boost to reforms and progress in Turkish economy

Revitalization of Turkey-EU relations by way of greater legislative harmonization, economic cooperation and engagement

Estimated Effects of a Modernized Customs Union

Impact Analysis Studies (optimum scenario)

1.44 to 1.90 % increase in GDP

12.5 billion euros increase in welfare

25% increase in exports to the EU (15% to the Rest of the World)

24% increase in imports from the EU (13% from the rest of the World)

5 billion euros increase in exports

Impact Analysis

- Estimated inrease in exports of industrial goods :
  - Clothing and leather (17,63%)
  - Textile (11,23%),
  - Motor vehicles (13,61%)
  - Electronics (10,01%)

- Estimated inrease in imports of industrial goods:
  - Motor vehicles (4,4%)
  - Textile (-4,2 %)

Services

- The strength of Turkey’s services exports is concentrated in tourism, transport, and insurance.
- Turkey ranked 8th globally in tourism exports with 2.4% of the global market; 9th in insurance services; and 11th in transportation services exports.
- Turkey also has considerable strength in international construction, although this does not generate cross-border sales: Turkey had 18 of the top 250 international construction contractors in Engineering News 2015 rankings.
- But not business services
- In services problem of regulation of professional qualifications etc
- Visa also may constitute a barrier. In 2017 the total cost of visa for Turkish citizes amounted 58.3 million€.

Agriculture

Employment losses:

cereals (-13.8%)
dairy products (-7.7%)
meat products (-3.5%)
beef and lamb (-2.4%)
sugar (-2.4%)

Obstacles to Progress

Cyprus Question

Tying the opening of negotiations to political conditions

Protectionist tendencies

Resistance from affected sectors and firms

Important problem

- De facto freeze of accession
- Only prospect of momentum in relations is via the modernization of the CU
- Risk of further erosion of the CU
- With new FTAs of the EU such as Canada and Japan, Turkey may feel the need to diverge from alignment with the CCT of the EU
- Need to move to keep the status quo otherwise fall back

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Thank you for your attention…

Sources: Eurostat, YASED

- https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Turkey-EU_-_international_trade_in_goods_statistics#Manufactured_goods_dominate_trade_with_Turkey
- https://www.yased.org.tr/ReportFiles/2018/2017_Y%C4%B1lsonu_Raporu_final.pdf