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

# Turkey-EU Customs Union

In force since 1996

**Liberalisation** of Trade in Industrial Products

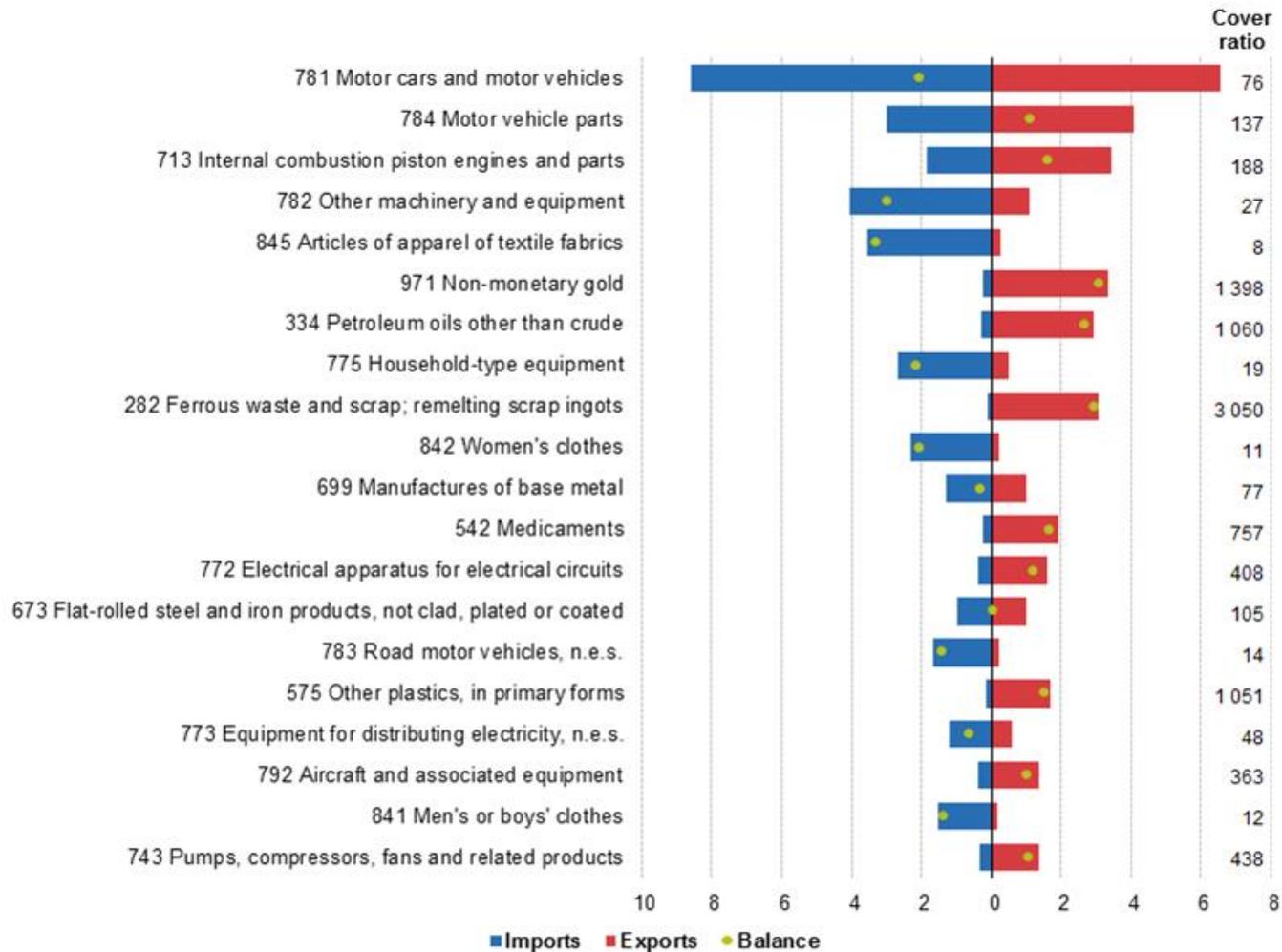
Turkey's **Alignment** to the CCT and CCP

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

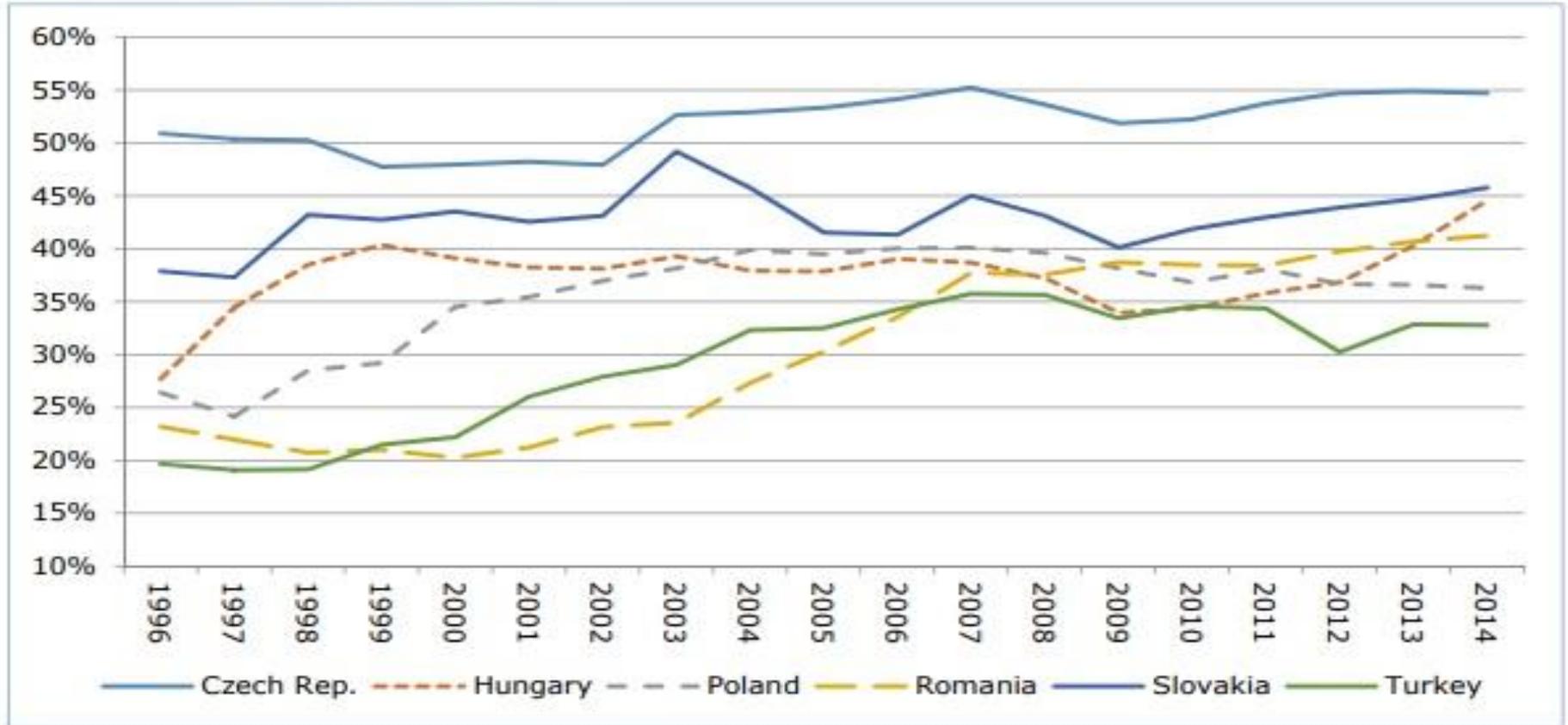


# Turkey-EU Customs Union

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



52 ★ yıl

# Obstacles to Progress

## Cyprus Question

Tying the opening of negotiations to political  
conditions

Protectionist tendencies

Resistance from affected sectors and firms



52 ★ yıl

# 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



İKTİSADİ KALKINMA VAKFI

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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://ec.europa.eu/eurostat/statistics-explained/index.php?title=Turkey-EU_international_trade_in_goods_statistics#Manufactured_goods_dominated_trade_with_Turkey)
- [https://www.yased.org.tr/ReportFiles/2018/2017 Y%C4%B1lsonu Raporu final.pdf](https://www.yased.org.tr/ReportFiles/2018/2017_Y%C4%B1lsonu_Raporu_final.pdf)



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