

THE EVALUATION OF TRADE AGREEMENT PROCESS BETWEEN THE EU AND THE USA IN TERMS OF TURKEY

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ABSTRACT

The Customs Union (CU) led to the barriers removal and free trade between Turkey and the European Union (EU) which increased trade transactions volume with the EU as Turkey's largest trade partner. On the other hand, the EU has been continuing to work intensively for bilateral trade negotiations. The bilateral trade negotiations have become a priority for the EU that deepened its relationship especially with The United State of America (USA). As the EU began negotiations with the USA, the economy with high trade volume, it has brought about some concerns in Turkey as for the Customs Union between two of them. Particularly because of the fact that the USA products will be able to enter Turkey duty-free via EU, while the USA will continue applications such as tariffs to Turkish export products, which are the basic factors for the this concern. This situation is expected to disrupt the current trade balance of Turkey. Taking the above into consideration, Granger causality and impulse-response function have been calculated. According to the result of the analysis, it has been determined that there is a causal relationship between the EU-USA trade and Turkey-USA trade. When the EU-USA impulse-response function random shock occurs, according to the findings, it adversely affects the trade between Turkey and the USA.

Keywords: European Union, Customs Union, The United States of America, Transatlantic Trade and Investment Partnership, TTIP

Jel Classification: F2, F15

AB VE ABD ARASINDAKİ SERBEST TİCARET ANLAŞMASI SÜRECİNİN TÜRKİYE AÇISINDAN DEĞERLENDİRİLMESİ

ÖZ

Gümrük Birliği (GB) ile Türkiye-Avrupa Birliği (AB) arasında serbest ticaretin önündeki engellerin kaldırılması sonucu, Türkiye'nin en büyük ticaret ortağı olan AB ile ticari işlemlerin hacminde artışlar kaydedilmiştir. Diğer taraftan, AB ikili ticaret müzakereleri için de yoğun şekilde çalışmaya devam etmektedir. İkili ticari görüşmelerinde özellikle Amerika Birleşik Devleti (ABD) ile olan ilişkilerini derinleştirmek AB için öncelikli hale gelmiştir. AB'nin ABD gibi ticaret hacmi yüksek bir ekonomi ile müzakerelere başlayacak olması aramızdaki Gümrük Birliği nedeniyle Türkiye'de bazı

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kaygıları da beraberinde getirmektedir. Özellikle ABD ürünlerinin AB üzerinden Türkiye'ye gümrüksüz girebilecek olması, buna karşın Türk ihraç ürünlerine karşı ABD'nin tarife vb. uygulamalara devam edecek olması kaygının temelini oluşturan başlıca unsurdur. Bu durumun mevcut ticaret dengesini Türkiye'nin aleyhine daha da bozacağı düşünülmektedir. Bu düşünceden hareketle, çalışmada Granger nedensellik ve etki tepki fonksiyonu hesaplanmıştır. Analiz sonuçlarına göre AB-ABD ticareti ile Türkiye-ABD ticareti arasında nedensel bir ilişki olduğu belirlenmiştir. Etki tepki fonksiyonu ile AB ve ABD'den kaynaklı bir rassal şok meydana geldiğinde, rassal şokun Türkiye ve ABD ticaretini olumsuz yönde etkileyeceği bulunmuştur.

Anahtar Kelimeler: *Avrupa Birliği, Gümrük Birliği, Amerika Birleşik Devletleri, Transatlantik Ticaret ve Yatırım Ortaklığı, TTYO*

Jel Kodları: *F2, F15*

1.INTRODUCTION

Turkey, during the Republican period, has clearly begun to reveal its preferences in its international relations in the world competition, in the reconstruction of Europe and in taking part in the Western European system. Thus, it has felt obliged to make significant changes in its political and economic system, and by intensifying its efforts in this direction, has participated in almost all major developments towards the goal of the integration into Europe.

Turkey's relation with the European Union (EU) has reached an important point with application of the Customs Union (CU), which was signed in 1995, and came into force in 1996. CU agreement has been the third and the last stage of economic integration process, which was prescribed in 1963 partnership agreement. As a result of the barriers removal in case of the free trade with the CU agreement between Turkey-EU, the increase has been recorded in the volume of trade transactions with EU as Turkey's largest trading partner. The economic benefits of the increased trade volume for Turkey have mainly been related with bargaining power, linked to the technology transfer and the presence of advanced broad market where there are no restrictions on trade.

On the other hand, the work for the EU negotiations bilateral has been intensively continued. Indeed, The European Commission, taking into account the changing balance of the global economy, has made recommendations to deepen its relations with its strategic partners such as the USA and Japan and BRIC countries (Brazil, Russia, India, China).

The EU has more than 200 Free Trade Agreements worldwide and these agreements cover more than 35% of global trade (<http://avrupa.info.tr/tr> 10.12.2014). In its bilateral trade negotiations, it has become a priority for the EU to deepen its relations in particular with the USA. A free trade agreement on which two major markets like the EU and the USA have agreed lead to some problems, according to our estimation, in the process when Turkey does not participate in the negotiations thus, can not influence the decisions but has to comply with them.

Starting with this idea in mind, the main objective of the study is to reveal the effects of the process of the Free Trade Agreement (FTA) between the EU and the USA in terms of Turkey and to develop solutions related with the potential problems. The study consists of five parts. Firstly, the CU process between Turkey and the EU will be briefly expressed. Secondly, the FTA process that The EU will implement with the USA will be referred to. Thirdly, in the section of literature review, the studies towards estimating the effects of this FTA on the parties signed the agreement and on the third party countries will be placed. And fourthly, whether or not the possible FTA between the EU and the USA has got any causal relationship with trade between Turkey-EU and Turkey-USA will be examined with Granger Causality and Impulse-Response function. The investigation is thought to present importance in terms of evaluations of the effects of the FTA to be implemented between the EU and the USA on Turkey. The study will be concluded with the section of results and recommendations in which the mentioned FTA will be evaluated.

2.THE PROCESS OF THE CUSTOMS UNION BETWEEN TURKEY AND THE EU

During the republican period, as a result of Turkey's revealing its open preference of participating in the reconstruction of Europe and in the Western European System, Turkey-EU partnership relationship has been established by the Ankara Agreement which came into force on the December 1, 1964. The Ankara Agreement has established a partnership relationship which will be completed in three stages so called as preparation between Turkey and the Union, transition and final stage. According to this, a gradual CU will be established between Turkey and The EU and in the final stage full membership will follow.

The general framework of the CU applications between Turkey and EU that came into force on January 1,1996, has been determined by the Partnership Council Decision N. 1/95 adopted on March 6, 1995. Within the scope of the stated applications, the customs duty applied on industrial goods, equivalent effect taxes, and quantitative restrictions have been removed, besides, a system in which EU Common Customs Tariff is being applied on the import made from the third party countries remaining outside of the Union, has been adopted.

There are also opposite points of view towards this system. Some of these opinions put forth that opening to the foreign competition will stimulate the lethargic industry and, even standing alone, the free trade will increase the economic prosperity. The economic benefits of the Customs Unions are related to the possibility for the establishment of a large market with the combination of small markets and the increasing bargaining power against the third party countries. The initial advantages observed within this framework concerning the consumers, have been price decrease, quality increase and product diversity as the result of increasing competition. And the advantages provided for the producers are the presents of a larger and customized market opportunities which are brought up by global scale economics and easy investment possibilities (Çınar, 2004: 5).

Due to this economic benefit of the CU, after Turkey's CU application with the EU, in Turkey, a number of adjustments and changes have of course happened in the commercial structure of the domestic economy which has been previously protected against the EU. Despite developments regarding that Turkey's foreign trade structure has been shifted towards the qualified labor-intensive goods group, it can be expressed that it still has comparative advantage in labor-intensive and capital and labor-intensive (mixed) trade, and in trade structure these goods are dominant (Çınar, 2004: 133).

Other opinions for the EU treaty claim that CU agreement was not negotiated properly, that it will create negative consequences for the country's economy because of being completed in a period when the Turkey's industry is yet to be lower than its competitors' and that this agreement brings about restrictions on the foreign trade of Turkey with other countries. Indeed, due to the rapid increase in import since the realization of CU, a large scale of foreign trade deficit has occurred in Turkey's trade with EU. Despite observing a decreasing trend in the deficit, due to the global economic crisis in the years of 1998-1999 and the recession in the domestic market, the import from EU being high and the trade deficit with the EU is noteworthy (Seki, 2005: 15).

As a result, it would not be wrong to say that the EU established in 1996 and the CU has significant neagative effects on the Turkish manufacturing industry except some disciplinary positive effects of opening outward. However, in addition to gradually increasing trade deficits with the EU, the CU agreement, by bringing restrictions on Turkey's foreign trade with other countries, has eliminated Turkey's, without EU approval, signing a free trade agreement with a third country that has no preferential trade arrangements with the EU. While in the discussions related with the course and the nature of Turkey-EU relations, the CU has always been the issue on the agenda, today it has still been a comprehensive free trade agreement negotiated between the EU and the USA triggering these discussions.

That fact that EU will begin negotiations with a high volume economy as well as the USA, brings about some concerns in Turkey due to the CU between them. Particularly because of the fact that The USA products will be able to enter Turkey duty-free via the EU, while the USA will continue applications such as tariffs for Turkish export products which are the basic factors underlying the this concern. It is expected that this case will further disrupt the current trade balance. Moreover, the fact that the Turkish export goods will not be able to catch the competitive advantage on equal conditions against the EU and the USA originated goods, it will cause Turkey to face an unfair competition against the EU. In the case of the EU and the USA taking action againts common norms, this relation will situmulate the rules and the standards that will be very determinative for the rest of the world and will lead these two large economies to become global norm setters.

3.THE FREE TRADE AGREEMENT BETWEEN THE EU AND THE USA

Despite the rapid changes in the international trade, as a reflection of the world Trade Organization(WTO) Doha Tour negotiations came to a deadlock, it has been observed that many countries apart from Turkey are trying to increase their international trade volumes by means of the FTAs. Because the FTAs are creating trade advantages for the partner countries by removing the tariff and non-tariff barriers affecting the trade between the member countries. In addition, those kinds of agreements have brought about new arrangements trying to take the trade rules between the partner countries one step further. That is, the FTAs which number is gradually increasing among the countries, have signed for the purpose of not only opening the markets to trade but, at same time, of bringing about the regulations reflecting the changing structure of global production processes and trade relations.

In this context, further reduction of tariff barriers on agricultural and industrial products, veterinary and phytosanitary measures, technical standards, trade protection measures, state aids, investments, government procurements, trade in services and intellectual property rights related with trade are the prominent issues. Such "new generation free trade agreements" are becoming an essential element of the world trade. In particular, with the impact of the global and regional economic crisis of the period after 2008, the large and the enlarging economies of the world are keeping to perform strategic moves and gaining benefits from this in order to create attraction field, provide market opening and establish demographic balance.

The EU and the USA have also had a partnership containing strategic dimensions in various fields for many years. The idea towards strengthening the economic ties of this partnership began in 1990s, the strategic dimensions of such an agreement was started at the summit between EU-USA held in April 2007. The transition of this idea began in the 1990s to a political will has been in the near period. On behalf of the USA President Barack Obama and on behalf of the EU the Commission President Jose Manuel Barosso with Herman Van Rompuy who presided the EU Summit, making a joint statement on February 13, 2013, announced that they decided to start the negotiations in order to establish a "Transatlantic Trade and Investment Partnership" (TTIP) would enable an extensive trade and investment partnership between the EU and the USA.

Undoubtedly the most important factor in making this decision has been the inability of the global economy to normalize after the crises experienced in 2008-2009 and especially the worsening growth and job creation problems in the EU. The opinion that the liberalization of international trade between the EU and the USA will offer positive contribution to both growth and also employment has led the parties to accelerate the negotiations.

Another important reason is that the competitive power of the EU and the USA gradually diminished against the developing and emerging economies especially China and India. Although it is stated that the negotiations between the EU and the USA are not against any other country or group of countries, it seems that the move of the weight center in the global economies from the developed

economies to the developing and emerging economies has played a role in these two partners making a decision to deepen their economic and commercial relations.

Although in the recent years the weight in the global economy and the contribution of the developing and emerging economies to growth has increased, the EU and the USA are still the most important actors of the global economy. In 2012, according to the Purchasing Power Parity the share of these two economies in the global GNP was 46.7%. Yet, the EU and the USA continue to be important players in the global trade. When the intra-EU trade is excluded, in 2012 the share of both economies in the global goods trade was 28%, and the share in the global services trade was 38%. 30 dollars of each 100-dollar goods and services trade in the global economy has been carried out by these two economies. Moreover, the size of the trade partnership between the EU and the USA is also quite large. Daily goods trade between the sides of the Atlantic is around \$ 2 billion. While the share that the USA gets in the total trade of the EU is 14.3% regarding the year of 2012, the share that EU gets in the total trade of the USA is 16.1% (Öztrak and Duvar, 2014: 1).

In this respect the stated development carries two great importances. First, when considered that the EU and the USA possess nearly the half (46.7%) of the world's GDP and of nearly the three-thirds (30.4%) of the world's trade and the total value of the mutual investments is 3.7 trillion dollars, the TTIP has been the most ambitious initiative so far for the issue of establishing free trade areas. A strong TTIP that will be established after long and difficult negotiations will open ways for the EU and the USA while both of them will increase their market share in the global trade negotiations and relatively lose power on the level of competitiveness especially against the emerging countries like primarily China, South Korea, ASEAN, Brazil - due to the economic crisis they went through- to have the power to redefine the "rules of the game" in the world trade system (Akman, 2013: 60-62).

The second important issue is that the parties by such an agreement can achieve the capacity and the power to set the global rules by making "advanced arrangements" in many areas where they could not reach a consensus or make sufficient progress before. In this context, it is expected that the negotiations should be put on a comprehensive ground where the issues called as "beyond-the-border" will be discussed beyond the tariffs that bring restrictions and "borderline" regulations to trade and to set a precedent for the new rules that the global trade will be subject to. And the impact that the new rules create on both two sides and the third countries (including Turkey) and on the world economy leads to attract attention in this direction (Akman, 2013: 60-61). On the other hand, Turkey has not yet even started the negotiations with not only the TTIP but with many other countries (Mexico, The Republic of South Africa, Jordan, Lebanon, Algeria) with those the EU made FTA. That is, despite all efforts, Turkey has remained behind the EU in FTA harmonization.

4.LITERATURE REVIEW

Considering the size of the trade between the EU and the USA and their share in the world economy, it is the well known fact that the FTA will be established to create a spreading effect

throughout the world. The analysis of the trade-increasing, deflecting, welfare generating or reducing effects of the agreement closely concerns all countries particularly the counterparts of this agreement. Therefore, the estimations about the reflections of the stated initiative especially on the economies of the EU, the USA and the economies of the developing countries besides the economies of the EU and the USA are of great importance.

In this context, the empirical studies examining the economic results of the TTIP are carried out in order to estimate its effects on the GDP and the foreign trade of the participating countries and the third countries. Detailed studies have been made on the subject by the EU Commission, attention has been drawn that to the agreement which will be of great economic consequences in case of removing the non-tariff barriers or reducing these barriers in a meaningful way. In the study, it has been concluded that in case of 50% reduction of the non-tariff barriers it will contribute 0.7% (158 billion dollars annually) to growth of the EU economies; and 0.3% (53 billion dollars annually) to the growth of the USA until the year of 2018.

In another study done by the EU, it has also been examined to what extent the reduction that decreases the non-tariff barriers will create product prices or will increase the welfare of the households. According to the results, it has been determined that removing the non-tariff barriers will increase income of the EU households additional 0.8% per year (additional \$ 15.990 over the working life): and in the USA additional 0.3% per year (additional \$ 8.300 over the working life). The increase in workers' wages and in the productivity has been determined as additional 0.4% per year in the USA and 0.8% in the EU (Berden et al, 2009).

In the studies carried out to assess the impacts on GDP of the countries participating in the agreement besides of the non-party third countries, it is seen that Global Trade Analysis Project (GTAP) data network is widely used. With this data network, Kinnman and Hagberg have calculated that the stated partnership will generate an increase ranging from 0.01% to 0.18% in the Swedish national income, 0.02% to 0.22% in the EU national income, 0.02 to 0.51% in the USA national income (Kinnman and Hagberg, 2012: 17). And Francois and Pindyuk (2013) have proposed that a possible STA between the EU-USA will create an increase of 5,5 billion dollars in the Austrian national income. Francois et al. (2013), in their study, the effects of FTA have been calculated by applying different scenarios and, in terms of GDP, they have predicted increases ranging from 0.10% to 0.40% in the EU, and from 0.04% to 0.39% in the USA (Francois et al., 2013: 14).

In another study that analyzes the effects of TTIP with the GTAP model, while Felbermayr and Larch (2013) predicted an increase in welfare ranging from 2,6% to 9.7% in the EU countries, they estimated a 13.4% increase in welfare for the USA. It is possible to say that these figures obtained quite high level when compared with the analysis that EU Commission made. In addition, Felbermayr and Larch (2013) have examined the effects of the stated partnership on the third countries remaining outside of the FTA and calculated a loss of welfare of 3,75% for Switzerland, 9,48% for Canada, 7,24% for Mexico and 2.5% for Turkey (Felbermayr and Larch, 2013: 55).

A study that German Ministry of Economics and Technology had "the IFO institute" has tried to demonstrate the income earnings/losses that a TTIP to be signed between the USA and the EU under 17 different scenarios would be applied in various countries. Turkey is also included among the countries examined in this study. The mentioned study has determined that if there is a comprehensive trade liberalization including the convergence of non-tariff barriers, it would result in an average of 3.3% increase in global welfare (real income). However, in the findings of the study it is understood that the major losers of a narrow comprehensive trade agreement would be the economies that already have free trade agreement with the USA or the EU. Within this context, it has been stated that primarily Mexico, Canada, Chile will be adversely affected by such an agreement, and Turkey that has CU with the EU will suffer a loss of 2.5% welfare (real income) (IFO Institute, 2013).

Güneş et al. (2013) have investigated the possible effects of the trade and investment partnership that the EU and the USA decided to set up on the economy of Turkey by using the GTAP database and overall balance model. This study examining the effects of various scenarios on the national income indicated that in case that Turkey fails to participate in this partnership between EU-USA, the GDP will suffer a loss up to 4 billion dollars; if participates in the agreement will achieve an increase of approximately 31 billion dollars. Also in the study, it has been determined that the case in which Turkey is party to the agreement or has signed a separate FTA with the USA generates results not only in favor of Turkey, but at the same time, the EU and the USA GDP growth rates are higher compared with an EU-USA FTA in which Turkey is not included (Güneş et al., 2013: 3)

Another study investigating the possible effects of the trade and investment partnership that the EU and the USA decided to establish to improve the level of welfare, on the economy of Turkey has been made by Kirişçi (2013). In this study, the impacts of various scenarios on the national income have been worked out within four regional consolidation framework composed of EU, USA Turkey and other countries by using the GTAP database and overall balance model. The results obtained indicated that in case that Turkey fails to participate in this partnership between EU-USA, the GDP will suffer a loss up to 4 billion dollars; if participates in the agreement it will achieve an increase of approximately 31 billion dollars. In addition it has been expressed that the case in which Turkey is party to the agreement or has signed a separate FTA with the USA, it generates results not only in favor of Turkey, but at the same time, the EU and the USA GDP growth rates are higher compared with an EU-USA FTA in which Turkey is not included (Kirişçi, 2013: 9-11).

Consequently, while there is consensus on the issue that this initiative will provide serious contribution to growth and employment issues by removing the barriers between two sides, Turkey's having special case like the customs union with the EU, it enhances the importance of the TTIP to be signed between the EU and the USA for Turkey. The discussions that Turkey will be the country to be affected the most by this development continue. In a period that potential growth rate gradually falls, global financing conditions begin to deteriorate, it is thought that the compensation of the negative shock that the free trade agreement to be signed between the EU and the USA creates growth and

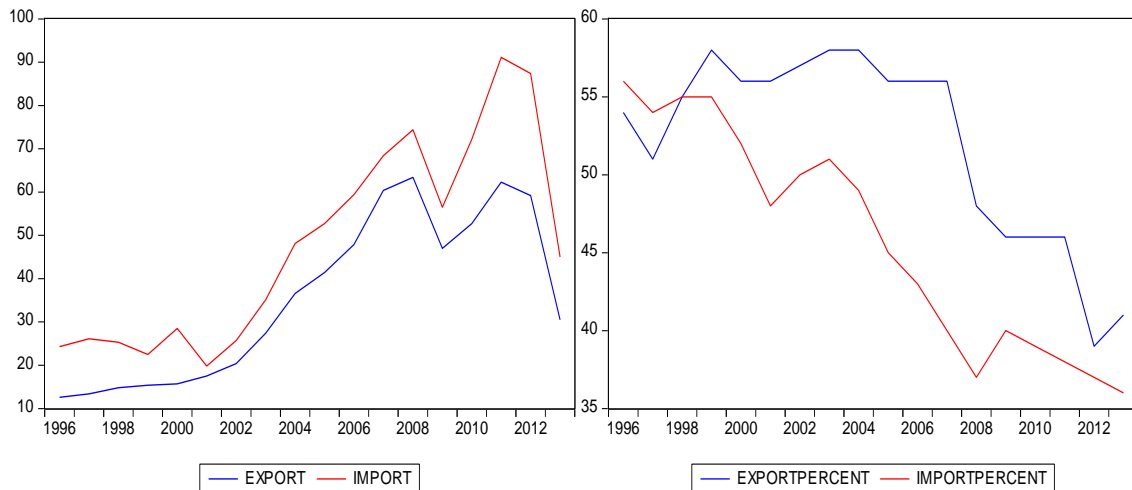
income level that will be much complicated for Turkey. Therefore, the opinions that Turkey has to take immediate actions and make necessary initiatives for negotiations prevail. In this context, diverse interpretations related with CU agreement implemented with the EU also draw attention.

5.TURKEY’S TRADE WITH THE USA DURING THE TTIP PROCESS

Today, there is almost no country where at least one of the EU or the USA is among the priority countries in the export market. The share of these two economies in the total trade of Turkey is as important as to show how big will the effects of TTIP be.

In the trade realized between Turkey and the EU, existing historical closeness with the EU and as a result of this the CU agreement is of an important role. With the CU agreement the trade with the EU has rapidly increased but the trade balance has developed in favor of the EU. As seen in Figure 1, from 1996 up to the first half of 2013, in trade carried out with the EU the foreign trade deficit reached 224 billion dollars. Although the trade between Turkey and the EU has developed in favor of the EU, the import made to the EU has started to decrease. In this development, it could be said that, following the CU, some of the producers from the EU managing production in Turkey and the Asianization in the foreign trade have been effective. And what accelerates the Asianization is that the companies from the EU and USA moving their factories to the Asian economies especially to China because of cheap labor force. As a result of this, it is already known that many products previously imported from the EU have to be important for the Asian economies.

Figure 1. The Foreign Trade Between Turkey and the EU (Billion \$) and Share (%)



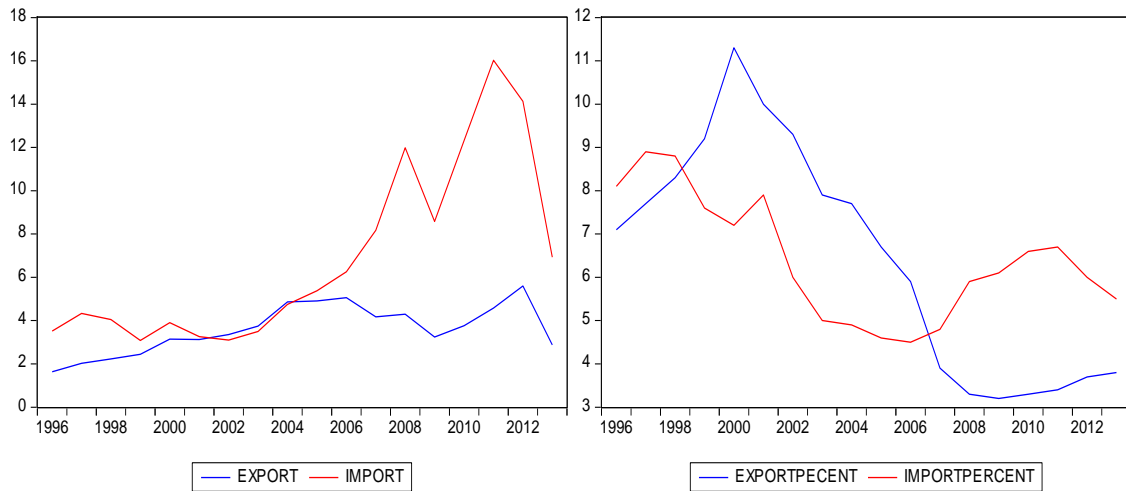
Source: Turkey Statistical Institute (Tuik)

On the other hand, the export made to the EU has also begun to get affected along with the global crisis. The economies mostly affected by the crisis being located in the EU geographically have directed our exporters to alternative markets. The most remarkable ones are the Middleeastern and the North African countries. While the the share of the Near and Middleeast and the North Africa is 24%

in our total export in 2008, it has gone up to 34% in 2012 (TIM Economy and Foreign Trade Report, 2014: 72-73).

It is not possible to say that Turkey that has intensive economic ties with the EU has ties of the same intensity with the USA. Despite the fact that the total trade of Turkey with the USA is rather low compared with the EU trade, the trade balance of Turkey still remains in favor of the USA in an increasing manner especially in the recent years. Turkey giving surplus in the trade with the USA until 2004 has fallen into a situation of importing 3-dollar product in return to almost every 1-dollar product sold.

Figure 2. The Foreign Trade Between Turkey and the USA (Billion \$) and Share (%)



Source: Turkey Statistical Institute (Tuik)

As a result, it is seen that the intensive economic relations and partnership between Turkey and the EU don't exist with the same intensity like with the USA. Doubtlessly there is the role of historical ties and the Customs Union agreement between Turkey and the EU in this. Due to assuming the EU's common trade policy after the CU, Turkey has an obligation to apply the Union's common customs tariffs to the third countries and thus against the USA. In this regard, while the USA continues to protect the existing customs tariffs against the products to be exported from Turkey to the USA, a possibility of entering of the products from the USA to Turkey with zero duty will arise. On the other hand, while the Turkish exporters are continuing to deal with the non-tariff barriers, our rivals from the EU will not deal with these barriers and the competitive power of our exporters will definitely wear out against our European rivals. Increase of demand in Turkey and widening of the deficit in the countries where we have foreign trade deficit seems quite possible. Therefore, it is thought that the stated agreement will have negative "trade diverting effects" in terms of Turkey.

6. DATA AND EMPIRICAL RESULTS

The main objective of the study is to determine the effects of the FTA process between the EU and the USA in terms of Turkey. For this purpose, three basic variables covering the period of the years 1990-2013 have been used. These are; (i) the foreign trade balance carried out with Turkey and the EU, (ii) the foreign trade balance carried out with Turkey and the USA, (iii) the foreign trade balance carried out with the USA and the EU. The data used in the study have been taken from the websites of Turkish Statistical Institute (TSI) and the US Undersecretary of Foreign Trade. The variables used in this study have been used after taking the logarithm and the difference.

Before discussing the relationships between the variables, the stability of the each one is required to be investigated. Table 1 shows the results of the applied unit root tests.

Table 1. The results of Unit Root Tests

Variables	ADF	PP
Turkey-USA Foreign Trade	-3.5565*	-3.6319*
USA-EU Foreign Trade	-3.0113*	-3.0066*
Turkey-EU Foreign Trade	-7.2566*	-7.7928*

Note: * Meaningful at the level of %1. By using the sequential process approach for each of the three variables, it has been determined that constant and non-trend model structures are appropriate.

As clearly seen on the Table 1, each of the three variables are, as expected, stable in terms of the levels. The Granger Test (1969) has been used in order to determine the causal relationship between the variables and the results have been shown in Table 2. When the Table 2 is examined, it has been observed that the null hypothesis of only one of the calculated F-statistics according to 1% significance level is rejected.

Table 2. The Results of Granger Causality Tests

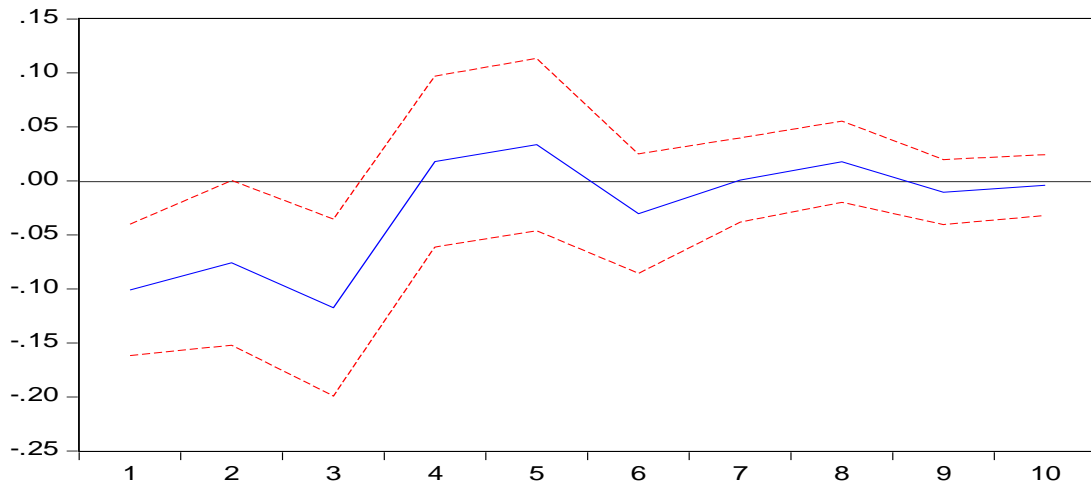
Model 1: VAR (2)	F-statistics	Prob.
USA-EU Trade is not the Granger Cause of Turkey-USA Trade	10.2643*	0.0012
Turkey-USA Trade is not the Granger Cause of USA-EU Trade	0.38783	0.6844
Model 2: VAR (6)		
Turkey-EU Trade is not the Granger Cause of USA-EU Trade	0.88866	0.5629
USA-EU Trade is not the Granger Cause of Turkey-EU Trade	1.73911	0.2801
Model 3: VAR (7)		
Turkey-EU Trade is not the Granger Cause of Turkey-USA Trade	0.22608	0.9427
Turkey-USA Trade is not the Granger Cause of Turkey-EU Trade	0.73871	0.6816

Note: * Meaningful at the level of %1

At the end of Granger causality analysis, it has been determined that there is a causal relationship with the trade between Turkey and the USA and trade between the EU and the USA. That

is, a trade development that will happen between the EU and the USA will affect the trade between Turkey and the USA. The impulse response function which is used to determine the direction of this effect is presented in Figure 3.

Figure 3. The Effect of Turkey-USA Trade to USA-EU Trade



In the Figure 3, when a random shock originating from the EU and the USA occurs, it has been found that this random shock will affect the Turkey-USA trade in a negative way. The shock described here could be taken as the Free Trade Agreement which is expected to be signed between the EU and the USA. In this case, the Free Trade Agreement expected to be signed between the EU and the USA, will result in shifting the USA trade to the EU by causing trade diversion. In contrast to this, it has been concluded that the trade between Turkey and the EU has not affected the trade between Turkey and the USA. Likewise, the trade relation between Turkey and the USA does not have an effect on the EU¹.

7.CONCLUSION AND RECOMMENDATIONS

The EU, being the most comprehensive economic integration movement, continues to work intensively for bilateral trade negotiations. In its bilateral trade negotiations, deepening the relations especially with the USA has become a priority for the EU. The EU will begin negotiations with a high trade volume economy, it brings about some concerns in Turkey due to the CU between two of them. The USA products will be able to enter Turkey through the EU duty-free, on the other hand, the USA will continue to apply tariffs etc. to Turkish export goods, these are the main factors underlying the concern. It is thought that this situation will disrupt the current trade balance against Turkey. Starting from this idea, Granger causality and impulse response function were calculated in the study.

¹Since the the Granger causality test calculated for the second and the third models is not statistically significant , the impulse response function results are not included here. But, It would be useful to explain that there is an increase in the trade volume between the two countries as a result of shifting the trade deviation between Turkey and the USA to the USA and EU. Results can be issued upon request.

According to the results, it has been determined that there is a causal relationship between the EU-USA trade and the Turkey-USA trade. As the impulse response function, when a random shock originating from the EU and the USA occurs, it has been found that this random shock will affect the Turkey-USA trade in a negative way.

However, the TTIP may also offer possible indirect "trade creating" and "welfare enhancing" positive impacts in terms of Turkey. When considered that the expected revenue growth for the EU and the USA, as a secondary effect, will increase the demand of the EU and the USA for the goods and services produced in the rest of the world, it is possible that Turkey will be affected positively from this external demand by increasing clear export channel. In addition, it should not be ignored that the regulation and the standards convergence between the two economies may also have positive impacts. The Turkish exporters who are to ensure standards and regulation requirements separately for the export made especially to the EU and the USA, after this agreement, may have to consider only one standard and regulation requirement. And such a situation may affect our trade positively by reducing the costs. As a result, even though it is unfavourable regarding our foreign trade balance, the increase of the diversity of products to be imported from the USA and decrease in the prices of these products are another channels that will create welfare enhancing effect for the Turkish consumers.

But what ever its size is, that Turkey will take place in the losers club in the TTIP to be signed between EU and the USA and it is not good news for Turkey which claims to be in the top 10 economies in 2023. Moreover, in a period that potential growth rate gradually decreases and the global financing conditions begin to deteriorate, it will be more difficult for Turkey to compensate the negative shock to be created on the growth and income by the free trade agreement to be signed between the EU and the USA. For that reason, it is necessary to make efforts to take urgent actions and to the simultaneous negotiations. Turkey must be prepared for comprehensive negotiation process in order to be able to sign a "free trade agreement" with the USA. Among the possible issues that will come out in the foreground of a possible FTA negotiations with the USA, pharmaceutical industry, textile, and trade for apparel products could be considered besides agriculture, services trade, intellectual property rights, protection of investments, state aids and public procurements. When the FTAs that the USA completed before taking into account, the trade policy measures such as tariffs reductions for industrial products, anti-dumping, and protection provisions, taking further steps in the customs legislation and practices in order to facilitate trade and the state subsidizing are supposed to take place in a possible agreement.

The success of the negotiations, sustaining the EU and the CU depends only on the operating the customs union properly, and re-establishing the mutual benefits and the equality principles. For this purpose, additional provisions should be added to the partnership Council Decision No. 1/95 and some of the existing provisions should be revised. The provisions that are considered to be added should make possible Turkey's direct participation in the EU's free trade agreement negotiations with the third countries and have free trade agreement negotiations simultaneously with these countries.

Otherwise, Turkey has been left in such a situation as a country being within the Customs Union but conducting the FTA negotiations separately and not having the opportunity to put into force simultaneously. This situation complicates the functioning of the CU between Turkey and the EU.

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