

TURKEY-EU ECONOMIC RELATIONS: PROBLEMS AND PROSPECTS

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As the political aspects of Turkey-EU relations are rather well known, we are going to speak about deeper reasons for postponing Turkey's full membership to the Union; the economic relations of the two sides. First we would like to analyze the problem from the point of view of the European Union. What are the expectations of the EU in case of Turkey's full membership? Do they still important and considerable as the Custom Union between Turkey and the EU had been in force since 1996? What are the objections for Turkey's full membership? What are the negative consequences of the postponement of Turkey's full membership? The answer to these questions will give us an opportunity to make a reasonable forecast for the future EU policy towards Turkey.

Second group of questions relates to what Turkey has obtained from the Customs Union, how the EU policy can be appreciated by Turkey and how can we, in analysing Turkish experience, appreciate the political principles of the European Union.

The Turkey-EU Customs Union is already realized for industrial goods. It means that the welfare effect for the industrial goods is identical for the EU, regardless of whether Turkey becomes a member. Thus, Custom exemptions before Turkey's full

membership allowed the EU to take advantage of free trade without accepting Turkey for membership.

However, the article concerning the lifting of customs duties does not include the trade of agricultural products. Agricultural products will be free of custom duties only after Turkey's full membership. Turkey's full membership can create a welfare-increasing effect in trade of some agricultural products in the European Union. Even though Turkey's total balance of foreign trade with the EU is negative, the balance of agricultural products has a surplus.¹ The fact that Turkey exports more than imports from the EU despite protective measures that still exists, indicates that Turkey could take greater part in European trade under conditions of full membership. Turkey is one of the countries that can meet its own agricultural needs with its own resources. With Turkey's membership, the EU can become fully or nearly self-sufficient in the production of such foods leading in Turkish export as seeds, corn, citric fruits. Self-sufficiency principle is one of the basic principles of the Common Agricultural Policy of the EU.

In addition to these, after its membership to the EU, Turkey could be a market for surplus products of the EU that are produced inefficiently or in small amounts in Turkey, such as the dairy products. Some Turkish analysts suppose that in case of Turkey's full membership it will have to stop producing cream butter which is much more expensive in comparison with the EU countries while the EU has rather big stock of the product.² So we can say the Turkey's full membership would bring the EU a welfare increase in the trade of the agricultural products. But we also should take in consideration that the share of agricultural products in bilateral trade is only about 17% in Turkish export and about 5% in import.³

Import from non-EU countries is the subject to custom duties according to the common custom tariffs. Income from custom duties is an important part of the EU budget with a 24%

¹Calculated in accordance with *Dış Ticaret İstatistikleri 1995*, Ankara, 1997, pp. 191-220.

²G. Kazgan, *100 Soruda Ortak Pazar ve Türkiye*, İstanbul, 1970, pp. 211-212.

³Calculated in accordance with *Dış Ticaret İstatistikleri 1995*, pp. 191-220.

share.⁴ As it was calculated for Turkey's foreign trade in 1989 it would have transferred to the EC budget from its import an amount which is equal to just 1,2 % of the total revenues of the EC and 5 % of the Community's tariff revenue.⁵

There is another important question; the prospects for direct investment from the EU in case of Turkey's full membership. Following Turkey's membership to the EU, position of the EU investors will improve compared to the status quo where Turkey supports foreign investors, but doesn't give any special privileges to the EU. Moreover, Turkey's full membership would guarantee the continuity of Turkey's open economy policy. So, from this point of view Turkey's full membership is desirable, but again doesn't seem very important since it is already rather favorable for foreign capital investment. The net volume of foreign direct investment was just about 370 million in 1997 and about 375 million dollars during the first nine month of 1998.⁶

The most popular economic objections to Turkey's full membership except labor force's free movement are following:

1) In case of its full membership to the EU, Turkey will receive a significant part of the EC structural funds and will impose an additional burden on countries that are major contributors to the Community budget;

2) The Turkish economy is not mature enough for the single market, and the Turkish industry is not competitive with that of the EU.

3) There is also a problem of free movement of the labor force in case of Turkey's full membership. Although the need of additional migration is accepted by the EU countries, accomplishment of this can not be exactly pre-determined without further arguments. It is expected in the medium and long terms that migration pressure from Turkey will continue and will lead to a too big influx of Turkish immigrants into the EU countries, particularly in Germany.

⁴*Turkey and the European Community*, Opladen, 1993, p. 39.

⁵*Ibid.*, p. 57.

⁶*Başlıca Ekonomik Göstergeler, Ocak-Şubat 1999*, Ankara, 1999.

And what is going to be in case the EU continues to postpone Turkey's full membership. Before the decision to postpone was really taken in 1997, the analysts anticipated following possible scenarios:

1) Turkey takes protective measures against the imports from the EU. But the possibility of an active discriminatory policy against the EU is small, because the EU is the most important buyer of Turkish products on the international market (in 1996 50% of the Turkish export was absorbed by the EU countries⁷) and Turkey would have to take into account the danger of introducing by the EU some measures in response;

2) Turkey preserves the *status quo* with the EU, but at the same time introduces trade liberalization incentives to the other countries. Applying a liberal policy towards other countries can lead to a worsening in the relative but not absolute position of the EU. The USA and Japan appeared to be important candidates for a re-orientation of the Turkish trade policy, and potential economic competitor of the EU. The new Turkic republics and other countries of the Black Sea Economic Cooperation Zone under certain conditions also could present a new market for Turkey. The same could be said about the non-European developing countries.⁸

In December 1997, the EU proclaimed the list of new candidates for the membership. The list included 11 (eleven) European countries but not Turkey. Instead, in July a reflection paper was produced for Turkey. The reflection paper suggested that future relations with Turkey would be focused around a Custom's Union plus formula. This formula included agricultural trade, the most attractive additional point of Turkish contribution to the bilateral relations, into the Custom Union. Then the European Council decided to include Turkey into enlargement process without formally recognizing the status of a candidate country.

It should be noted that it was exactly the summer of 1997, when the new government under the leadership of the pro-Islamic

⁷*Foreign Trade of Turkey, 1996*, Ankara, 1998, p. 49.

⁸*Turkey and the European Community*, pp. 32-35.

Welfare Party came to the power in Turkey. So the danger of the rejection of the full membership did not create of disappointment and result in a return to traditional values including Islam did not seem very possible.

As to the danger of Turkey's trade discriminatory policy towards the EU countries, the above mentioned forecast proved to be right. Turkish government announced its intention to prepare a special, unofficial list of European companies not favorable in Turkey. But, still the government rejected any version of embargo towards the EU countries and only the possibility of non-tariff regulation was discussed. Moreover, everybody realized that the implementation of discriminatory trade policy toward the EU countries could be effective only in a limited share of governmental trade, especially in military trade agreements.

Thinking about limited possibilities of the Turkish side to influence the situation, the EU stayed silent, and there were no comments dealing with Ankara's threat.

Very soon, the situation turned from the first scenario to the second. That is scenario of preservation *status quo* towards the EU and searching for alternative trade partners. The Turkish officials call it the simultaneity strategy.⁹ There are additional reasons besides the attempt to use the EU's position in Turkey's foreign trade for the implementation of the strategy. Let us examine the results of the first three years of the EU-Turkey Custom Union (see Table).

TURKEY-EU FOREIGN TRADE (mln.ı)

	1995	1996	1997	1998
EXPORT	11078	11549	12248	13440
IMPORT	16861	23138	24870	24077
BALANCE	-5783	-11589	-12622	-10637

Source: 1998 Yıllık Dış Ticaret Bülteni, Ankara 1999, pp. 46, 49.

⁹Dış Ticarete Eşzaman Stratejisi', *AB BUSINESS*, Vol. 4, 1998, p. 15.

As we can see from the Table, Turkey's export to the EU countries had increased rather modestly in comparison with 1995 while its import had grown significantly. As a result, Turkey has got much wider trade deficit with the EU countries. The only possibility for Turkey to balance its foreign trade was to find new export markets. So the implementation of the simultaneity strategy is what Turkey badly needs to compensate the Custom Union with the EU countries. To send trade delegations to promising markets and to invite trade delegations from the countries which are likely to import from Turkey is considered to be the most effective way to get new markets. Russia, Ukraine, Israel occur to be the most important new export markets for Turkey. For the future, the Turkish officials are thinking about the USA, China and other countries with whom Turkey will have a free-trade agreements as a result of the Turkey-EU Custom Union.

The participation in the system of free-trade agreements signed by the EU is maybe the only positive result of the Custom Union for Turkey.

Analyzing the results of the first years of the Turkey-EU Custom Union, one may think that indeed the Turkish industry is not competitive with that of the EU. Maybe that is true. A special research was held in Turkey in 1995. There were submitted three levels of competitive ability for Turkish industrial enterprises: high, equal to EU enterprises and low. The low level meant full absence of competitive force. In the group of large enterprises those with high and equal competitive ability constituted 57 %. In the group of medium enterprises 47 % and in the group of small enterprises only 35 %.¹⁰ It may be true that the Turkish economy is not yet developed enough to join the EU single market and it is hardly able to withstand competition from the European market. But if the EU postpones Turkish membership for an indefinite period because it is concerned about protecting Turkish industry than it should have not realized the Customs Union as it had put the Turkish industry in almost the same situation of sharp competition.¹¹ It should be stressed that as a result of the Custom

¹⁰TMMOB, *95 Sanayi Kongresi, Bildiriler Kitabı 1-2*, Ankara, 1996, pp. 57-59.

¹¹Transaction periods were submitted for some industrial goods, and some rates of protection stay in force for these periods.

Union, this competition was achieved without undertaking any financial obligations by the EU as far as Turkey can not use the EU structural funds. As a country with a comparatively weak economy, Turkey expected to get some financial support when the Customs Union brought into force. But, 350 million ECU from the EU budget and 750 million ECU as a credit from the European Investment Bank were not realized because of Greek veto.¹² As the situation is described in Turkey the EU has turned the country into its new market without any financial losses.¹³

So, we have to admit that as a result of the Customs Union, the EU has got practically all the short-term advantages from the economic relations with Turkey without paying for them. All the other advantages which can be reached in case of Turkey's full membership, do not seem very obvious at the moment. At the same time, their financial cost promise to be significant. When we analyze the economic aspect of the EU-Turkey relations, the prospects of Turkey's full membership look different. The root of the problem is that the present situation is near optimum for the EU. That is really why the prospects for Turkey's full membership are so deem while the political situation in Turkey can be used as a long lasting pretext for postponing Turkish membership. In November 1999, Turkey at last was admitted to become the 12th candidate for the membership but again with the conditions upon her adherence to human rights, democracy and her ability to establish good relations with her neighbors. All this gives us the opportunity to appreciate the general attitude of the EU towards Turkey. In spite of the fact that principles of freedom, democracy and justice are proclaimed, in fact the policy of the Union looked rather pragmatic. As far as the EU is the leading economic force in Europe, the principle of mutually beneficial relations can be transformed into a principle of more the EU's benefit principle.

¹²Gümrük Birliği Kararı ve İlk Uygulama Dönemine İlişkin Genel Değerlendirme, Ankara, 1997, p. 60.

¹³Yeni Dünya Düzeninin Mimarı Olabiliriz', *AB BUSINESS*, Vol. 4, 1998, p. 19.