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**A STUDY ON THE EFFICIENCY OF FOREIGN TRADE BETWEEN TURKEY and
EU CUSTOMS UNION: BEFORE and AFTER**

Joint Master's Programme European Studies Master Thesis

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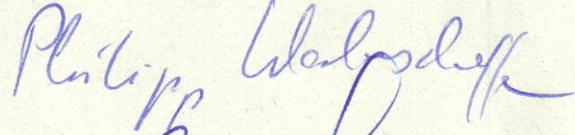
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TABLE OF CONTENTS

LIST OF TABLES.....	iii
LIST OF FIGURES.....	iv
ABBREVIATIONS.....	v
ÖZET	vi
SUMMARY	vii
INTRODUCTION	1

CHAPTER 1

INTERNATIONAL ECONOMIC UNIFICATIONS THEORIES, CUSTOMS UNION THEORIES, THE ANALYZE OF FOREIGN TRADE BETWEEN TURKEY and EU

1.1	International Economic Unifications Theory.....	3
1.2	Types of Economic Integration.....	4
1.3	Customs Union Theory	6
1.3.1	Contributions Before Viner	6
1.3.2	Contributions During Viner.....	7
1.3.3	Contributions After Viner.....	7
1.4	The Economic Relations Between Turkey and the European Union: Before and After the Customs Union.....	11
1.4.1	The Current Situation of Turkish Foreign Trade.....	13
1.4.2	The Effects of Customs Union on Foreign Trade.....	15

CHAPTER 2

INDUSTRIAL RELATIONS and AUTOMOTIVE SECTOR IN TURKEY

2.1	Automotive Sector in Import Substitution for Industrialization	30
2.2	Assembly Industry Directive and the Effects on Automotive Industry	31
2.3	The Foundation of Tofas and Oyak-Renault Manufacturing Plants	31
2.4	The Case of Automotive Sector after Customs Union	32
2.5	Strengths and Weaknesses of the Sector.....	35
2.6	Opportunities and Threats of the Sector	35
2.7	The Results of Customs Union on Automotive Sector.....	36

CONCLUSION	37
BIBLIOGRAPHY.....	41
CURRICULUM VITAE	45
DECLARATION OF AUTHORSHIP.....	46

LIST OF TABLES

Table 1.1 Foreign Trade of Turkey Between 1967-1995 (million USD).....	16
Table 1.2 Foreign Trade of Turkey Between 1995-2006 (million USD).....	17
Table 1.3 Sectoral Breakdown of Turkey-EU Trade (million USD)	19
Table 1.4 EU-Turkey Trade (Commodity Groups) (million USD).....	23
Table 1.5 Turkey's Trade by Country Groups	26
Table 2.1 Automobile Production/Export	33
Table 2.2 The Production Capacities of the Companies and the Shares	34
Table 2.3 Automotive Sector Sales in Years	34
Table 2.4 Strengths and Weaknesses of the Sector	35
Table 2.5 Opportunities and Threats of the Sector	35

LIST OF FIGURES

Figure 1.1 Volume of Foreign Trade in Turkey	14
Figure 1.2 Import and Export Volume in Turkey.....	14
Figure 2.1 Automobile Production/Export (1996/2006)	33

ABBREVIATIONS

	Turkish	English
DIE	Devlet İstatistik Enstitüsü	State Institute of Statistics
DTM	Dis Ticaret Müstesarlığı	Under secretariat of the Prime Ministry for Foreign Trade
ECSC	Avrupa Kömür ve Çelik Topluluğu	European Coal and Steel Community
EFTA	Avrupa Serbest Ticaret Birliği	European Free Trade Association
EU	Avrupa Birliği	European Union
MFA	Dış İşleri Bakanlığı	Ministry of foreign affairs
IKV	İktisadi Kalkınma Vakfı	Economic Development Foundation
TÜSIAD	Türk Sanayicileri ve İşadamları Derneği	Turkish Industrialists' and Businessmen's Association
OECD	Ekonomik İşbirliği ve Kalkınma Teşkilatı	Organization for Economic Cooperation and Development
OSD	Otomotiv Sanayi Derneği	Automotive Manufacturers Association
ÖTV	Özel Tüketim Vergisi	Private consumption tax

ÖZET

Otomotiv sanayi, diğer sanayi dalları ve ekonominin diğer sektörleri ile olan ilişkilerinden dolayı ekonominin lokomotifini kabul görmekte ve aynı zamanda istihdam yaratma gücü, üretim potansiyeli ile dünya ekonomisinde önemli bir yer tutmaktadır. Sektör, demir-çelik, Petro-kimya, lastik gibi temel sanayi dallarında ve başka birçok dallarda başlıca alıcı ve bu sektörlerdeki teknolojik gelişmenin de sürükleyicisidir. Sektör, gerçek ve güvenilir vergi geliri sağlayan sektörlerin başında gelmektedir.

Son 50 yıllık süreçte Türkiye'nin en önemli ulusal hedeflerinden birisi Avrupa Birliği tam üyelik sürecini başarı ile tamamlamaktır. Türkiye ve AB arasındaki bu süreç 1963 yılında Ankara Antlaşması ile başlamıştır. Gümrük Birliği ile ilgili sürecin temelleri 1970 yılında imzalanan ve 1973 yılında yürürlüğe giren katma protokol ile atılmıştır.

AB ile Türkiye arasındaki Gümrük Birliği Antlaşması 1995 yılında imzalanmıştır. Gümrük Birliği üyeliği birçok uzman tarafından tam üyelik sürecinde önemli bir aşama olarak görülmektedir. Burada dikkat edilmesi gerek konu, Türkiye üyelik sürecini tamamlamadan Gümrük Birliği'ne üye olan tek ülkedir.

Bu çalışmanın amacı Gümrük Birliği'nin Türkiye'nin dış ticareti üzerinde etkilerini Türk otomotiv sektörünü temel alarak incelemektir.

Anahtar Kelimeler: Gümrük Birliği, Avrupa Birliği, Dış Ticaret, İthalat, İhracat, Otomotiv.

SUMMARY

A STUDY ON THE EFFICIENCY OF FOREIGN TRADE BETWEEN TURKEY and EU CUSTOMS UNION: BEFORE and AFTER

In the last 50 years Turkey's one of the main aim is to reach a full membership in the European Union. The relations between Turkey and European Economic Community (later on European Community (EC) and European Union (EU)) have begun in 1963 with Ankara Agreement. The origins of the custom union were established with Added Protocol, which was signed in 1970 and enacted in 1973.

The Customs Union Agreement between Turkey and EU was signed in 6 March 1995. The membership in Customs Union is realized as an important step for Turkey on the membership to European Union. The key importance about the customs union between Turkey and EU is, Turkey is the first country to be a member of the Customs Union without a membership to the EU.

The aim of this study is to test the effects of Customs Union on general and sectoral (automotive) foreign trade between Turkey and EU member states.

From the results the effectiveness and necessity of the Turkish membership within the Customs Union are examined. Further on we may have the opportunity to answer if the membership of Turkey within the Customs Union was approval before the accession of the country.

Keywords: Customs Union, European Union, Foreign Trade, Import, Export, Automotive

INTRODUCTION

Today, with the increasing world trade volume and stronger competition, the companies are aimed to improve their share in the market. To survive in this competition, companies should be successful in international area. From these situations developed and developing countries started to give more attention to their economic securities. Under globalization process, in international market, the barriers like product and quantity restrictions are reduced and regional integrations become stronger.

In the origin of economic unifications, the aim is to reduce the diversification levels between national economies and supply wider markets to benefit from more opportunities of big production and scale economy.

In the last 50 years Turkey's one of the main aim is to reach a full membership in the European Union. The relations between Turkey and European Economic Community (later on European Community (EC) and European Union (EU)) have begun in 1963 with Ankara Agreement. The origins of the Customs Union were established with Added Protocol, which was signed in 1970 and enacted in 1973.

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EU-Turkey relations have been officially continuing for 46 years. It all started with Turkey's application for membership to newly founded European Economic Community (EEC). The most important outcome of this relationship, putting aside the decision to start negotiations, was the completion of customs union. It took 32 years from 1963 to 1995 for EU and Turkey to construct the infrastructure. The customs union between EU and Turkey is a unique one among the similes because of two reasons. It is structurally different from a customs union in the classical sense that it is not only elimination of customs duties, quotas and application of common customs levels against third countries but also it includes the harmonization of all the measures that can affect trade directly or indirectly. The second distinction is, Turkey although has to fulfill necessary obligations, does not have the right to

take part in decision-making mechanisms because she is not a full member. The customs union is the last phase of the three-stage integration model foreseen on the Ankara Agreement, which constitutes the legal basis of the partnership between EU and Turkey.

The purpose of this thesis is to study the effects of EU-Turkey Customs Union on Turkish Foreign Trade in terms of selected parameters and to make a general evaluation on whether it is effective for Turkey or not. In the thesis, first, regional integrations and customs union theories are briefly examined, then the development of relations between EU-Turkey is detailed and finally the effects of customs union is discussed, with an additional part covering the effects of customs union on automobile sector.

From these results the effectiveness and necessity of the Turkish membership within the Customs Union are examined. Further on we may have the opportunity to answer if the membership of Turkey within the Customs Union was approval before the accession of the country.

CHAPTER 1

INTERNATIONAL ECONOMIC UNIFICATIONS THEORIES, CUSTOMS UNION THEORIES, THE ANALYZE OF FOREIGN TRADE BETWEEN TURKEY and EU

1.1 International Economic Unifications Theory

Today, with the increasing world trade volume and stronger competition, the companies are aimed to improve their share in the market. To survive in this competition, companies should be successful in international area. From these situations, developed and developing countries started to give more attention to their economic securities. Under globalisation process, in international market, the barriers like product and quantity restrictions are reduced and regional integrations become stronger.

To avoid negative effects of globalization like improved trade volume and international competition, we may see more regional integrations. These unifications can be like World Trade Organization (WTO) on global scale or like European Union, which is a regional formation.

Instead of the basics of economics the publishing of Adam Smith's "Wealth of Nations" (1776) forms the basis of international trade theory. Smith (1776 – 1937), expresses the free trade and international specialization with the theory of absolute advantage and in basic two country model he clarifies that each country should be specialized with the products that they produce at low cost and should import other products.

Ricardo insists on the differences of production costs of countries so he thinks that to depend on the absolute advantage for international trade will restricts the frame and instead of this approach he refers comparable advantages. To this idea, even a country is strong on all products, with comparison the country can import the products that it produces with more advantages the country may have more welfare. Later on neoclassic economists, without changing the basics of Ricardo model, they revised the model with adding factors like labour costs, which creates a new concept called "alternative cost"

In the beginning of 20th century, the theory of comparative advantages was the common approach in foreign trade theory. But the theory does not insist on the differences occurred in labour productivity and it does not answer the reasons for domestic price differences. That was a subject for Hackscher and Ojlin to give important additions for foreign trade theory. To

Heckscher – Ohlin theory the countries will have this comparative advantage on the products that are used intensively and produced with rich production factor.

In the middle of 20th century Leontief made the cross-industrial economy analyse using 1947 USA's input-output tables and tested Factor Endowment Theory. At the end of his works, instead of his expectations, a rich capital country USA analysed as a country that imports capital intensive products whereas it exports labour intensive products. This situation was also named as "Leontief Paradox" which caused many theories to be created. At the end of 90's, economists like Krugman¹ (1980), Helpman and Grossman improved the traditional trade theory and improved it with insisting on scale economies and decreasing costs which was named "International Trade Theory". According to this new theory technological development, qualified labour force and R&D are important assets.

In the origin of economic unifications, the aim is to reduce the diversification levels between national economies and supply wider markets to benefit from more opportunities of big production and scale economy (Uyar², 2000). Karluk defines the economic unifications as "To provide free movement of service and products between the countries that go for economic unification and to make a common market with abolishing all barriers that bind products and trade.

1.2 Types of Economic Integration

Preferential Tariff Agreement

The rates of tariffs on trade among participating countries are lower compared to Rate of tariffs on trade charged with third countries.

Free Trade Areas

It is an agreement among countries about the elimination of all tariff and quantitative restrictions on mutual trade. Every participating country retains its own tariff and other regulation of trade with third countries. The basis of this agreement is the rules of origin. These rules prevent trade deflection, which is import of goods from third countries into the area by a country that has a relatively lower external tariff than the partner country, in order to re-export the good to partner country. European Free Trade Area (EFTA) constitutes a good example of free trade areas.

¹ Krugman, P.; 1980. "Scale Economies, Product Differentiation, and the Pattern of Trade", American Economic Review, 70, 950-959

² Uyar S., 2000. "Economical Unifications and Customs Union Theory.", Foreign Trade Magazine 19, 103-130

Customs Union

Trade agreement by which a group of countries charges a common set of tariffs to the rest of the world while allowing free trade among them. It is a partial form of economic integration, intermediate between free-trade zones, which allow mutual free trade but lack a common tariff system, and common markets, which both utilize common tariffs and allow free movement of resources including capital and labor between members. Well-known customs unions include the Zollverein, a 19th-century organization formed by several German states under Prussian leadership, and the European Union, which passed through a customs-union stage on the path to fuller economic integration.

Common Market

The idea of a common market grows from the possibilities presented by the adoption of a common external tariff. As trade flows increase and factor inputs imported into the integrating economies begin to circulate freely, production chains crossing the intra-regional national boundaries begin to form. Apart from customs union, free mobility of factors of production exists. Common regulations and/or restrictions on the movement of factors with the third countries are introduced. That is common market consists of an internal market and common external regulation for both products and production factors. The European Community (EC) was an example for common market.

Monetary Union

The currencies of the participating countries are linked through irrevocably fixed exchange rates and are convertible or one common currency circulates in all participating countries. Capital movements within the area are free. The EU is a typical example for monetary union.

Economic Union

An agreement between two or more countries that allows the free movement of capital, labor, and all goods and services, and involves the harmonization and unification of social, fiscal, and monetary policies.

Total Economic Union

It is a partial form of economic integration that offers an intermediate step between free-trade zones (which allow mutual free trade but lack a common tariff system) and common markets (which, in addition to the common tariffs, also allow free movement of resources such as capital and labor between member countries). It combines the characteristics of the

economic and the monetary union. There is a single economic policy and supranational government with great economic authority. (Molle³, 1998).

1.3 Customs Union Theory

In the literature of economic integration Jacob Viner is accepted as a milestone. Also instead of the contributions for customs union literature after Viner, we may see previous contributions before Viner. While presenting the Customs Union literature the subject will be divided regarding to Viner.

1.3.1 Contributions Before Viner

In customs union literature the contributions before Viner are seldom mentioned. However like the intellectuals, Smith (1776), Ricardo (1817), McCulloch (1832) and List (1885) were interested in customs unions, they could never reach Viner's contributions. These classical economists were generally interested in the effects of preferential trade agreements. About the economic integrations, Smith (1776), Ricardo (1817) and McCulloch (1832) insisted on only in Methuen Agreement signed in 1703 about the effects of trade deflection. On the other hand List (1885) suggested that customs unions are tools that protect infant industries.

De Beers (1941) systematically discussed the customs union before Viner. He suggested that federal unions and customs unions look familiar in the matter of international and national trade. According to De Beers, almost all federations, federal unions and similar unions have two objects as economic and political. The economic objects of federal unions also involve the customs union (De Beers⁴, 1941:49-50).

During the studies of De Beers, it was suggested that customs union would evolve all around the world and at the end the world would be one customs union. To another statement, there was a common idea that customs union was an important step for the trade liberalization around the world. Regarding to that ideology, the increase of customs unions should bring the worldwide trade liberalization (Robson⁵, 1993).

De Beers (1941) reached some results that were not appropriate for that period's overruling idea. According to De Beers, while the customs unions are removing the tariffs and

3 Molle, William; 1998 "The Economics of European Integration". p. 8-12

4 De Beers, John ; 1941 "Tariff Aspects of a Federal Union," p. 49-50

5 Robson, P.;1993, "The Economics of International Integration"

barriers; if the restrictions that are applied to the third countries are more than existing ones, the barriers against the world trade will be more instead of expected results (De Beers⁶, 1941)

Another intellectual before the Viner period was Frank William Taussig. He rather made studies about the tariffs and he mentioned the customs union temporary. Taussig mentioned that in 1800's, to protect the production, European Countries developed a customs union against their competitors like America and other countries (Taussig⁷ 1903).

Torrens (1844) suggested that multilateral tariff negotiations have negative effects on tariffs so that bilateral tariff negotiations should be preferred instead of multilateral tariff negotiations (Dura and Atik⁸, 2003).

Also Adam Smith mentioned the benefits of economic integration. According to Smith; if a country binds itself with an agreement that allows the import of a nation's products from another country or dispense a country from a tax which is applicable to other countries, may benefit from this agreement or at least that country's favored traders or producers will benefit from it (Smith 1776).

1.3.2 Contributions During Viner

The period before Viner, the overruling idea about customs union was that, it was accepted as a movement towards to the free trade. The idea that free trade would maximize the world's prosperity causes a result that supports the customs unions. In this connection GATT (former WTO) exempted the free trade areas and customs union from 24. Article and showed its support to this concept. Viner (1950) and Bye (1950) introduced that customs union is never equal to free trade. Before their studies, it was accepted that free trade areas and customs unions would occur free trade. The studies of Viner and Bye were on the same period but we see that the literature was based on Viner⁹ (1950).

1.3.3 Contributions After Viner

After Viner, the articles about the critiques and contributions about customs union theory are reasonably wide. Under these circumstances the intellectuals that have more important contributions for this topic were examined.

6 De Beers, John ; 1941 "Tariff Aspects of a Federal Union," p. 91-92

7 Taussig, William Frank; 1903, "The End of Sugar Boundries" The Quarterly Journal of Economics, p.103, 133-134.

8 Dura, Cihan and Atik; 2003, "European Union Customs Union and Turkey"

9 Viner Jacob; 1950 "The Customs Union Issue" p.44

The first critiques towards to Viner's studies are that this analyse only insisted on the effects of customs union on production and the no information was given about the effects on consumption. Meade (1955), Gehrels (1956-1957), Lipsey (1957) and (1960), Jonson (1965) and (1974), Cooper and Massel (1965) and by some others this missing part was specified and required contributions were made.

Meade (1955), explained that in Viner's model the products subjected to trade were intensified on domestic substitute –production effect- and he mentioned that the substitution of products –consumption effect- were not included in the analyse, so that he added the consumption effect to the analyse (Kreinin and Plummer¹⁰, 2002). Also, Meade suggested that like standard foreign models, it can't be always spoken for constant costs on production (Dura and Atik¹¹, 2003:).

However, Lipsey (1960) and Michaely (1965) mentioned that under variable and constant costs customs union may improve the prosperity within the customs union.

Gehrels¹² (1956-1957) and Lipsy¹³ (1957) figured out that even if the trade deficit is higher than the merchandising, customs union may increase the public prosperity. This different approach which is totally contradiction to Viner's (1950) studies, because of that Viner did not add the consumption effects to his analyse.

One of the most important contradictions after Viner, which is generalised from Meade's (1955) "second best theory", belongs to Lancaster and Lipsey (1956). Regarding to this theory, perfect competition and free trade is the "first best policy" to take the world's prosperity to the highest level. However, in real world, like custom tariffs, there are barriers against the free trade. To balance these barriers, other barriers as precaution should be applied for the prosperity of the country. This one is named as "second best policy". The best second theory introduces the ground for the foundation of the customs union.

10 Kreinin, Mordechai and Plummer; 2002, "Economic Integration and Development"

11 ibid

12 Gehrels, F.; 1957 "Customs Union from Single-Country View-Point" p.61-64

13 ibid

Another subject that is discussed in the literature was that the countries should be competitive or complementary to benefit from the customs union more. Viner (1950) explained that complementary between the members within the customs union probably will cause loss and the competitiveness will cause profit. Makeower and Morton (1953) defined the relation of complementary or competition due to the similarity of demand or costs. The countries that have similar costs are defined as competitive countries, with different costs as complementary countries. Makeower and Morton (1953) based on that definitions and objected the Viner's explanation. They mentioned, it is so clear that the income will be more if the countries are complementary. In literature, there is no common idea for which union can be more beneficial.

In literature another topic discussed, was the comparison of unilateral tariff discount with customs union. Cooper and Massel¹⁴ (1965) compared unilateral tariff discount with customs union and they claimed that at least for a country, unilateral tariff discount is better than customs union. This study caused the discussion whether customs union or unilateral tariff discount would conduce efficient distributions of resources.

Wonnacott and Wonnacott¹⁵ (1981), with the 3-country general equilibrium analysis, reached a conclusion which is totally controversial to Cooper and Massel¹⁶ (1965). Regarding to their conclusion customs union is more advantageous than unilateral tariff discount. Wonnacott and Wonnacott¹⁷ (1981) criticized the previous studies from two perspectives; exaggeration of cost reduction effect caused from the tariff discounts and improvement of the advantages of external markets as less important than it is.

Wonnacott and Wonnacott (1981) criticized that unilateral tariff discounts may sometimes seem above the customs union but sometimes seem weaker. According to Wonnacott and Wonnacott, under the conjuncture where the trade capacities are constant with the rest of the world, unilateral tariff discounts are above than the customs unions.

Conway, Appleyard and Field (1989) emphasized that with the unilateral tariff discount situation, while the price distortions are removed there is a disclaiming from the income and in case of any trade agreements, common external tariff is protected.

14 Cooper C. And Massel B.; 1965 "A New Look at Customs Union Theory" p.741-747

15 Wonnacott Paul and Ronald; 1981 "Is Unilateral Tariff Reduction Preferable to a Customs Union? The Curious Case of the Missing Foreign Tariffs" p.704-714

16 ibid

17 ibid

However El-Agraa (1999) and (2002), El-Agraa and Jones (2000a) and (2000b), Kreinin and Plummer emphasized that there are no common custom tariff in Wonnacott and Wonnacott (1981)'s customs union models. They evaluate this study as insufficient. In this study it can't be spoken about the tariffs from the third countries to the customs union and also there are information about the transformation costs.

Another important contribution to the customs unions literature is about the effects of customs union on trade rates. Mundell (1964), Arndt (1968), Vanek (1965) and Wonnacott and Wonnacott¹⁸ (1981) analyzed the effects of customs union on trade rates by using offer curve. Petith (1977) analyzed the trade rates between the EU and rest of the world. He came to a point that the improvement on trade rates are one of the vital economic effect for the European Integration. With this approach Petith (1977) claimed that the effects of integration on the trade rates could be a reason for economic integration - based politics.

Brown (1987) analysed the literature on the composition of empirical works related to the effects of integration models between the developed and developing countries. In that literature, despite the bad results of trade rates, final results occurred trade creation effects. According to Brown this effect is insufficient regarding limited product diversity. In addition to this, the studies involved in literature have not enough evidence, to confirm the final results of integrations as a support to infant industries.

According to El-Agraa (1999), in the beginning the developing countries should produce the products, from which they have competition advantage and which have supplementary role in the customs union. This will improve the trade between the developing countries. However most of these countries could not meet the conditions and the results of their integration caused the effect of trade deflection. As a result, the studies about the economic integration of developing countries showed us the economic integration in developed world and the economic integration in developing world are different matters. The reasons like insufficient market size and different economic structures in developing countries cause to handle economic integration under these conditions.(El-Agraa¹⁹, 1999).

¹⁸ ibid

¹⁹ El-Agraa, Ali M.; 1999, "Regional Integration Experience, Theory and Measurement",

Viner approach decays the idea which supports the regional integrations as a tool for world wealth improvement, since the trade between member and the third countries is effected from the trade deficit negatively. Kemp and Wan (1976) and Ohyama (1972), pictured that while the third countries are standing at the beginning of the wealth member states can always gain the improvement of wealth with the customs union form Bhagwati and Panagariya²⁰. But this result is only valid if the trade rate does not change after unification.

Instead of trade creation and trade deficit effects of customs union, Corden²¹ (1972) reached results like cost reduction and trade suppress effects. They have supplemental characteristics for trade creation and trade deficit effects. Corden emphasized that the first effect has more importance and he defined the cost reduction effect that causes increase on demands and price decrease in scale economies to supply the increased demand.

1.4 The Economic Relations Between Turkey and the European Union: Before and After the Customs Union

In the 20th century, countries involved in various economic variations in order to avoid competition brought by globalisation. Turkey joined the Council of Europe after the Second World War and applied EEC for association in 31st July 1959. Following period by the approval of the Council of Ministers, the EU – Turkey Association relations started with Ankara agreement signed in 12th September 1963 (enacted in 1st December 1964). The final objective of association agreement is full membership of Turkey within the European Union. The agreement was composed of three periods as preparation, transition and final period. The Customs Union was planned to be established till end of the transition period. After the preparation period as provided in the agreement, the Added Protocol was signed in 13th November 1970 (enacted in 1973) in order to define the provisions and liabilities of the parties.

During the 70's, the EU – Turkey relations passed difficult durations regarding to political instability. Turkey couldn't cope with its provisions from the Ankara Agreement. The relations were stopped due to military coup in 12 September 1980. This situation continued till the second term of 80's. Later on, under the support of economic and politic developments Turkey applied for the membership in 14th April 1987. Meanwhile the postponed tax convergence and reduction plan was put in process.

²⁰ Ibid

²¹ Ibid

EU Commission confirmed Turkey's membership proposal and recommended to keep the relations under the Association Agreement till the completion of the union's deepening process and for the next enlargement. During this period the Commission also recommended to accomplish the customs union process with Turkey. This recommendation was also evaluated positively by the Turkish Government and required preparations were started in order to comply the conditions of customs union, which was anticipated in Added Protocol, till 1995. After 2 years of negotiations regarding to the Association Councils Decision on 5th March 1995, the Customs Union between Turkey and the European Union was put in force on 1st January 1996.

As far as the free movement of manufactured goods is concerned, applying the internal market rules constitutes comparatively little change. Due to the existing customs union between Turkey and the EU, trade in manufactured goods is already liberalised to a large extent. Certainly, through the adoption of EU norms and standards by Turkey and the abolishing of still existing impediments to trade, especially in services, the conditions for growing exports and imports between Turkey and the EU will be further improved. But this effect will presumably be small. Moreover, the adoption of EU norms and standards will cause costs for Turkish enterprises, thus hampering their competitiveness at least in the short run. As far as the free movement of capital is concerned, no general rule has impeded flows across the borders between Turkey and EU in recent years. Nevertheless, the potential for foreign direct investment from EU countries seemed to be underused. Thus, through the extension of the internal market to Turkey more legal certainty for investors from EU countries will be created. This will also improve the conditions for an intensified division of labour between the EU and Turkey with positive effects on welfare and income within the integrating area. One very important change caused by the extension of the internal market to Turkey will be the free movement of people. Until now migration between the member states and Turkey is strictly regulated. Abolishing all impediments to cross-border movements of people will mean a substantial change for both Turkey and the member states. However, it is not very probable that the free movement of people will be granted to Turkey at the moment of its accession. In the case of the East European states which joined the EU in 2004, the old member states have been allowed to restrict immigration from these countries for up to seven years. It seems very probable that EU membership of Turkey would include similar regulations for a certain period. If the free movement of people between Turkey and the

incumbent states were generally excluded, a constitutional principle of the internal market would be violated. In this case Turkey probably would not be granted full membership

Before analyzing this relation we have to decide the current position of Turkey in world order. With the records of International Monetary Fund Turkey is considered to be realized as a developing country, which is not welcomed by politicians in the country. Regarding to Jeffrey Garten, who was the undersecretary of commerce under Clinton government. In 1997 in his book "The Big Ten: The Big Emerging Markets and How They Will Change Our Lives" he considered Turkey as one of these countries. On the other hand Turkey is a candidate country which totally changed its status on the relationship with the EU. We have to look at this relation under customs union. However we should remind that regarding to IMF, Turkey is still a developing country, which may slow down the convergence on Automobile Sector.

Relations between Turkey and the European Community are thus considered in a relatively static manner. Above all, they are the product of and shaped by the international context. Certain analyses factor in the domestic variable, but only capture it from the point of view of an independent variable or structural datum influencing the definition of foreign policy.

1.4.1 The Current Situation of Turkish Foreign Trade

Regarding to the financial results, we may say that customs union was a milestone for Turkish foreign trade. While evaluating the economic indicators, the economic structure of the country and the economic developments in the world should also be added to the interpretation. Otherwise to relate all the changes with the customs union will give unreliable results.

With the 24th January 1980 Decisions Turkey forwarded to export based policy instead of import-substitute policy. With the time exchange of money policy was liberalised and in 1989 with the convertibility financial liberalisation was completed. This process improved the variety and volume of the capital and supported to finance the big increase in importing which caused decays in foreign trade rates. While 1991 Gulf Crisis, 1997-1998 Asia Crisis have affected all world economy, the domestic crisis in Turkey in 1994 and 2001 affected the economy seriously.

Regarding to the followed policies the structure and value of import has been changed. Agricultural products and raw materials were given their place to industrial products with high added value. Since 1990's, it is seen that the export level to the EU countries is getting higher than the export level to the non EU countries.

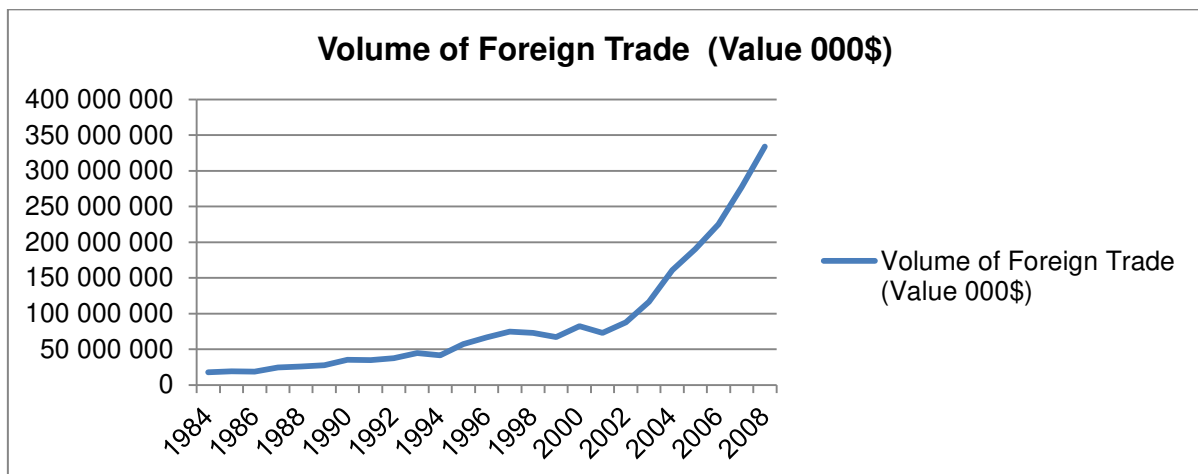


Figure 1.1 Volume of Foreign Trade in Turkey²²

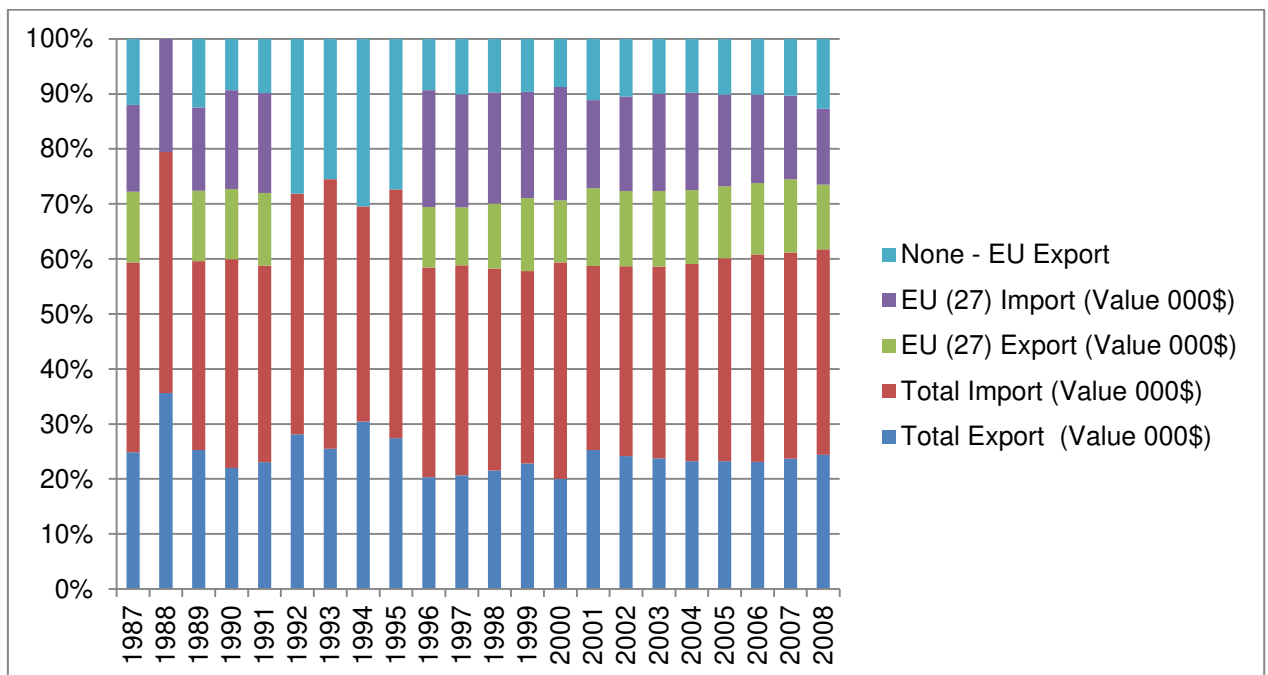


Figure 1.2 Import and Export Volume in Turkey²³

As seen on Figure 1.1 and Figure 1.2 it is proved that customs union cannot overrule the conditions of Turkish Foreign Trade. Before 1996, the import value from EU countries seemed to continue with lower rates than the import from the third countries. But soon as expected after following years of the customs union the opposite situation has been seen, however in final years the old trade affinity has come back.

²²Source: Retrieved September 10.2009 on the World Wide Web. URL:<http://www.turkstat.gov.tr>

²³Source: Retrieved September 10.2009 on the World Wide Web. URL:<http://www.turkstat.gov.tr>

1.4.2 The Effects of Customs Union on Foreign Trade

Customs Union integrated Turkish economy to one of the important trade blocks in the world. This integration led Turkey to access the EU market with more favourable conditions compared to other countries. On the other hand Turkey opened her market to the EU's and other countries' competition. It has been nearly 15 years that the Customs Union Decision was taken and more than 14 years since it has been entered into force. Within this period some positive and negative effects of customs union have been observed. This part of the paper aims to examine relatively observable and/or measurable results of the customs union from an objective aspect. The EU is the most third crowded land after China and India with 459 million population. The EU is also one of the biggest economies in the world. Its GDP in 2003 was €10.000 billion. The total intra trade volume in 2003 was €1.800 billion.(EC, 2004) The EU had 20% in total world trade in 2002 sharing the first place with the US.(EC, 2004). The most important trade partner for Turkey is the EU, around 40-50% of share in total trade volume. This is not something new; the EU has been Turkey's most important trade partner not only after 1995, but more than 40 years. Table 1.1, shows the detailed trade figures of Turkey, between 1967 and 1995. It shows a persistence increase in both exports and imports between the EU-Turkey. From 1967 to 1995 Turkey's volume of exports increased by 4.045%, whereas in the same period Turkey's exports to the EU increased by 4.634%. The situation for imports is 5.113% and 4.948% respectively. The average share of the EU in Turkey's exports and imports, and total volume of trade during the same period is 47%, 42% and 44% respectively.

Table 1.1 Foreign Trade of Turkey Between 1967-1995 (million USD)²⁴

Years	Exports			Imports		
	Total	EU	EU Share %	Total	EU	EU Share %
1967	522	234	44,8	685	334	48,7
1968	496	226	45,4	764	393	51,4
1969	537	267	49,7	801	393	49,1
1970	588	294	50	948	427	45,1
1971	676	329	48,7	1.171	582	49,7
1972	885	428	48,4	1.563	851	54,5
1973	1.317	652	49,5	2.086	1.161	55,6
1974	1.532	761	49,7	3.778	1.748	46,3
1975	1.401	645	46	4.739	2.378	50,2
1976	1.960	1.017	51,9	5.129	2.412	47
1977	1.753	897	51,1	5.796	2.559	44,1
1978	2.288	1.127	49,3	4.599	1.931	42
1979	2.261	1.132	50	5.069	1.940	38,3
1980	2.910	1.300	44,7	7.909	2.360	29,8
1981	4.703	1.564	33,3	8.933	2.633	29,5
1982	5.746	1.802	31,4	8.843	2.566	29
1983	5.728	2.066	36,1	9.235	2.775	30,1
1984	7.134	2.781	39	10.757	3.314	30,8
1985	7.958	3.204	40,3	11.343	3.895	34,3
1986	7.457	3.263	43,8	11.105	4.565	41,1
1987	10.190	4.868	47,8	14.158	5.666	40
1988	11.662	5.098	43,7	14.335	5.895	41,1
1989	11.624	5.408	46,5	15.792	6.055	38,3
1990	12.959	6.906	53,3	22.302	9.328	41,8
1991	13.593	7.042	51,8	21.047	9.221	43,8
1992	14.719	7.602	51,6	22.871	10.050	43,9
1993	15.348	7.376	48,1	29.429	13.874	47,1
1994	18.105	8.634	47,7	23.270	10.915	46,9
1995	21.636	11.078	51,2	35.707	16.860	47,2

There are some important subjects that must be taken into account seriously before going into details of the effects of the customs union on the foreign trade of Turkey. First, we cannot ignore the changes in Turkish and world economy. The 1994 crisis and the problems created by devaluation, Asia and Russia crises in world economy in 1997, the stagnation in Turkish

²⁴Source:DTM, EU and Turkey, Ankara:2002, P:444

economy in 1998, the earthquake in 1999, the crises on November 2000 and February 2001, the positive effects of decrease in inflation and interest rates on costs. All of these directly affect the performance of foreign trade. Second, the harmonization of technical procedure. The precondition of trading with the EU is to apply EU's rules, which covers standards, technical requirements, environment conditions etc. If related legislation is not applied then there is no reason to expect positive progress on trade relation with the EU. Third, it should not be forgotten that Turkey started enjoying tariff free trade, except for some products, in 1971, however the EU started it in 1996 onwards. The amount of exports to the EU increased by 45,6% from 1970 to 1972 and by 158,8% from 1970 to 1974. Keeping in mind these will enable more accurate and objective analysis.

Table 1.2 Foreign Trade of Turkey Between 1995-2006 (million USD)²⁵

Year	Total					EU's Share		
	Exports	Chg %	Imports	Chg %	X/M %	Exports	Imports	Total
1995	23224	7,3	43626	22,2	53,2	49,7	53	51,9
1996	26261	13,1	48559	11,3	54,1	46,6	51,2	49,6
1997	26974	2,7	45921	-5,4	58,7	50	52,4	51,5
1998	26587	-1,4	40671	-11,4	65,4	54	52,6	53,2
1999	27775	4,5	54503	34	51	52,2	48,8	50
2000	31334	12,8	41399	-24	75,7	51,4	44,2	47,3
2001	36059	15,1	51354	24	70,2	51,2	45,4	47,8
2002	47253	31	69340	35	68,1	51,8	45,7	48,2
2003	62774	32,8	97161	40,1	64,6	54,7	46,7	49,8
2004	73476	17	116774	20,2	62,9	56,3	71,7	49,4
2005	85534	16,4	139576	19,5	61,3	56	42,6	47,7
	EU							
	Exports	Chg%	Imports	Chg%	X/M %			
1995	11549	4,3	23138	38,7	49,9			
1996	12248	6,1	24870	7,5	49,2			
1997	13498	10,2	24075	-3,2	56,1			
1998	14348	6,3	21401	-11,1	67			
1999	14510	1,1	26610	24,3	54,5			
2000	16118	11	18280	-31,3	88,2			
2001	18459	14,5	23321	27,6	79,2			
2002	24484	32,6	31696	35,9	77,2			
2003	34310	40,1	45373	43,2	75,6			
2004	41364	20,6	52695	16,1	78,5			
2005	47934	15,9	59400	12,7	80,7			
2006								

²⁵Source: Retrieved April 17, 2010 on the World Wide Web. URL:<http://www.die.gov.tr>

Table 1.2 shows the development of trade relations between the EU-Turkey after the customs union. From 1995 to 2006 Turkey's volume of exports increased by 395%, whereas in the same period Turkey's exports to the EU increased by 432%. Imports of Turkey and Turkey's imports from the EU increased by 390% and 356%. The average share of the EU in Turkey's exports and imports, and total volume of trade during the same period is 52%, 50% and 49% respectively. Total trade volume between the EU-Turkey increased from \$27.758 million in 1995 to \$107.334 million in 2006 with a 286% change. In 1996, the first year of customs union, the trade deficit between the EU-Turkey was \$11.589 million in favor of EU. In 2006, the deficit is \$12.006 million in favor of EU. Therefore, it is not correct to claim that customs union created trade deficit over the time. However, the overall foreign trade balance of Turkey without counting the trade with EU, the deficit increased from \$8.469 million in 1996 to \$42.576 in 2006 with 402% change. Exports of Turkey increased 295% between 1995-2006 from \$21.636 million to \$85.534 million, the highest amount of export of all times. Particularly from 2001 to 2004, Turkey increased the amount of exports by double. The increase in exports to EU is 210%, from \$11.078 million to \$47.934 million during between 1995 and 2006. The increase in exports to EU is 112,8% between 2001-2006. Like the general pattern in overall exports of Turkey, exports to the EU increase constantly. The imports on the other hand do not have a regular pattern. There are harsh up and downs, imports decreased in 2001 by 24%, following year increased by 24%. The level of imports is very sensitive to economic situation. All of these are also true for the level of imports from the EU. The amount of imports during 1995-2006 increased to \$139.576 million from \$35.707 million, with a 293% change. Imports from the EU increased from \$16.680 million to \$59.400 million. The X/M ratio in 2006 is 61,3% for total trade and 80,7% for trade with EU. The average X/M ratio for the period 1995-2006 is 62,2% and 68,5% respectively. Therefore, customs union did not create extra trade deficit so far; in fact, it improved the trade balance of Turkey. The EU's imports from third countries decreased by 19% between 1995-2000. However, Turkey's share of 1.7% did not change. In 2003 Turkey was the seventh biggest exporter to the EU with a 2.7% share. In case of exports, Turkey was the sixth biggest market that EU exported with a 3.3% share (EC, 2004)

These figures show Turkey's exports to the EU increases constantly and rapidly than the general export trend of Turkey. Imports, on the other hand, are linked to the general economic conditions. There is no stable trend, it fluctuates with the economy. From EU's aspect, Turkey's role in overall EU trade seems to be settled. Import figures from Turkey, shows independent movement from the general economic conditions.

Customs union revealed competition conditions and market entry benefits. This led to a change in production scales and production composition. Finally, these changed the composition of exports of Turkey. Table 1.3 shows the sectorial distribution of exports of Turkey to the EU and imports from the EU between 1996 and 2006.

Table 1.3 Sectoral Breakdown of Turkey-EU Trade (million USD) ²⁶

Exports to the EU						
Year	Agriculture (chapters 1-24)			Textile&Clothing (chapters 50-63)		
	Value	Shr. (%)	Cha. (%)	Value	Shr. (%)	Cha. (%)
1996	1935	16,8	-	5.665	49,1	-
1997	2093	17,1	8,2	5.933	48,4	4,7
1998	1978	14,7	-5,5	6.469	47,9	9
1999	1944	13,5	-1,7	6.378	44,5	-1,4
2000	1578	10,9	-18,8	6.492	44,7	1,8
2001	1724	10,7	9,3	6.724	41,7	3,6
2002	1729	9,4	0,3	7.656	41,5	13,9
2003	2160	8,8	24,9	9.634	39,3	25,8
2004	2928	8,5	35,6	11.428	33,2	18,6
2005	3870	10,1	32,2	12.279	32,1	7,4
2006	3531	8	-8,8	12.917	29,4	5,2
Year	Iron&Steel (chapters 72-73)			Machines (chapter 84)		
	Value	Shr. (%)	Cha. (%)	Value	Shr. (%)	Cha. (%)
1996	420	3,6	-	447	3,9	-
1997	622	5,1	48,1	195	1,6	-56,4
1998	703	5,2	13	624	4,6	220
1999	818	5,7	16,4	743	5,2	19,1
2000	907	6,3	10,9	769	5,3	3,5
2001	997	6,2	9,9	998	6,2	29,8
2002	937	5,1	-6	1.244	6,7	24,6
2003	1.434	5,9	53	1.794	7,3	44,2
2004	2.613	7,6	82,2	2.380	6,9	32,7
2005	2.306	6	-11,7	2.958	7,7	24,3
2006	3.190	7,3	38,3	3.602	8,2	21,8

²⁶Source: Retrieved April 17. 2010 on the World Wide Web. [URL:http://www.dtm.gov.tr](http://www.dtm.gov.tr)

Exports to the EU						
Year	Electronic Products (chapter 85)			Automobiles (chapter 87)		
	Value	Shr. (%)	Cha. (%)	Value	Shr. (%)	Cha. (%)
1996	777	6,7	-	397	3,4	-
1997	911	7,4	17,2	263	2,1	-33,8
1998	1.325	9,8	45,4	298	2,2	13,3
1999	1.170	8,2	-11,7	948	6,6	218,1
2000	1.346	9,3	15	988	6,8	4,2
2001	1.433	8,9	6,5	1.692	10,5	71,3
2002	2.017	10,9	40,8	2.259	12,2	33,5
2003	2.572	10,5	27,5	3.708	15,1	64,1
2004	3.529	10,2	37,2	6.314	18,3	70,3
2005	3.950	10,3	11,9	7.075	18,4	12,1
2006	4.341	9,9	9,9	9.018	20,5	27,5

Imports from the EU						
Year	Agriculture (chapters 1-24)			Textile&Clothing (chapters 50-63)		
	Value	Shr. (%)	Cha. (%)	Value	Shr. (%)	Cha. (%)
1996	758	3,3	-	1.391	6	-
1997	566	2,3	-25,3	1.616	6,5	16,2
1998	535	2,2	-5,5	1.474	6,1	-8,8
1999	533	2,5	-0,4	1.375	6,4	-6,7
2000	526	2	-1,3	1.458	5,5	6
2001	340	1,9	-35,4	1.323	7,2	-9,3
2002	490	2,1	44,1	1.658	7,1	25,3
2003	661	2,1	34,9	1.884	5,9	13,6
2004	801	1,8	21,2	2.230	4,9	18,4
2005	938	1,9	17,1	2.230	4,5	0
2006	1.005	1,9	7,1	2.366	4,4	6,1
Year	Iron&Steel (chapters 72-73)			Machines (chapter 84)		
	Value	Shr. (%)	Cha. (%)	Value	Shr. (%)	Cha. (%)
1996	2.081	9	-	6.224	26,9	-
1997	1.872	7,5	-10	6.344	25,5	1,9
1998	1.466	6,1	-21,7	6.107	25,4	-3,7
1999	942	4,4	-35,7	4.320	20,2	-29,3
2000	1.332	5	41,4	5.071	19,1	17,4
2001	1.003	5,5	-24,7	4.003	21,9	-21,1
2002	1.496	6,4	49,2	5.610	24,1	40,1
2003	2.407	7,6	60,9	6.992	22,1	24,6
2004	3.034	6,7	26	8.868	19,5	26,8
2005	3.750	7,6	23,6	10.470	21,3	18,1
2006	4.158	7,7	10,9	11.850	21,5	13,2

Imports from the EU						
Year	Electronic Products (chapter 85)			Automobiles (chapter 87)		
	Value	Shr. (%)	Cha. (%)	Value	Shr. (%)	Cha. (%)
1996	2.167	9,4	-	2.092	9	-
1997	2.770	11,1	27,8	3.017	12,1	44,2
1998	3.263	13,6	17,8	2.738	11,4	-9,2
1999	4.011	18,7	22,9	2.433	11,4	-11,1
2000	4.648	17,5	15,9	4.585	17,2	88,5
2001	2.749	15	-40,9	1.532	8,4	-66,6
2002	3.143	13,5	14,3	2.013	8,6	31,4
2003	3.654	11,5	16,3	4.646	14,7	130,8
2004	4.915	10,8	34,5	8.501	18,7	83
2005	5.095	10,4	3,7	8.463	17,2	-0,4
2006	5.450	9,9	7	8.957	16,3	5,8

Year	Other Industrial Products			Total
	Value	Shr. (%)	Cha. (%)	Value
1996	8.607	37,2	-	23.138
1997	8.925	35,9	3,7	24.870
1998	8.778	36,5	-1,6	24.075
1999	7.998	37,4	-8,9	21.401
2000	9.459	35,5	18,3	26.610
2001	7.751	42,4	-18,1	18.280
2002	9.662	41,4	24,7	23.321
2003	12.603	39,8	30,4	31.695
2004	17.224	37,9	36,7	45.434
2005	18.469	37,5	7,2	49.220
2006	20.690	38,3	12	55.068

The share of agriculture in exports is constantly decreasing. In 1996, the share of agriculture in Turkey's exports to the EU was 16,8% whereas the share was 8,0% in 2006. Although the share of agriculture is decreasing, the nominal gain from exports is around the same levels, \$1.935 million in 1996, and \$3.531 million in 2006. Agriculture is also a decreasing component in the composition of imports from the EU. The share decreased from 3,3% to 1,9% during 1996-2006. On the other hand the value of imports increased, from \$758 million to \$1005 million in the same period. Textile and clothing was biggest supporter of the customs union. Their expectation was that with the removal of quotas exports would accelerate. However, the sector disappointed. The share of textile and clothing went down dramatically from 49,1% to 29,4 % between 1996-2006, although the value of exports increased from \$5.665 million to \$12.917 million. The increase in the exports of textile and

clothing was a way below the level of increase in overall exports to the EU. The increase in exports of textile and clothing was 128% during 1996-2006, however the increase was 281% for overall exports to the EU. The level of imports in this sector is constant 4-7%, between 1996 and 2006, but the value is steadily increasing from \$1.391 million in 1995 to \$2.366 million in 2006.

Iron and steel sector's share in exports to the EU grew to 7,3% from 3,6%. This increase in the share also affected the value, which increased from \$420 million to \$3.190 million between 1996 and 2006. The Free Trade Agreement on products that are within the jurisdiction of ECSC entered into force in 1996. From 1996 to 2003 the exports of iron and steel to the EU increased by 659%. The share of iron and steel in imports is more moving. The level of share decreased from 9,0% to 4,4% in 1999 and then started to rise, and in 2006, it was 7,7%. The value of iron and steel imports from the EU had a parallel move. It decreased to \$942 million from \$2.081 million between 1996 and 1999 and become \$4.158 million in 2006.

The exports automobile industry products increased by 2171%, a lot higher than the overall 281,2% increase. The share of exports proportionally increased from 3,4% in 1996 to 20,5% in 2006. The value increased to \$9.018 million from \$397 million. The share of imports also increased. The level of share of automobile industry products was 16,1% in 2006, which was 9% in 1996. The value increased from \$2.092 million to \$8.957 million during the same period.

The changes in the share of industrial products in the composition of both exports and imports are minor. The share of exports of industrial products was 17,5% in 1996 and 19,3% in 2006. However, the value of exports, with constant growth, increased by 321%, from \$2.016 million to \$8.491 million. The value of imports of industrial products from the EU was \$8.607 million in 1996, which increased to \$20.690 million in 2006.

The sectorial composition of Turkey's exports to the EU changed in favor of chapter 84-85-87, iron and steel and partly industrial products. The consequences are not favorable for agriculture and textile and clothing so far. This shows Turkey's exports" shift from labor intensive, less technological structure to capital intensive, high tech goods, which is favorable. This structural shift is the result of R&D activities parallel to technical harmonization and improvement in quality via the investments on electronics and automobile by foreign firms. Textiles and clothing is labor intensive, which means it is cost oriented. In addition, textile importers are very sensitive to pricing. These two factors make difficult for Turkish textile

and clothing firms to achieve desired export level. Because of China and Asian countries, Turkish firms become uncompetitive and lose markets, which in turn decrease the level of potential exports. The revaluation of YTL is also often indicated as one of the reasons that blocks textile and clothing sector. Competitiveness figures support the structural change in Turkey's trade. Turkey's competitiveness improved after the Customs Union especially in easily imitable research-oriented goods and difficult imitable research-oriented goods on the other hand worsened in labor-intensive goods and raw material intensive goods, between 1996-2000 (Yilmaz and Ergun²⁷, 2008). Table 1.4 shows the distribution of commodity groups in EU-Turkey trade. According to this table, the only group that made a major change in exports is the investment products.

Table 1.4 EU-Turkey Trade (Commodity Groups) (million USD)²⁸

Year	Exports					
	Investment Goods			Intermediate Goods		
	Value	Shr. (%)	Cha. (%)	Value	Shr. (%)	Cha. (%)
1996	318	2,9	-	3.528	31,8	-
1997	396	3,4	24,5	3.727	32,3	5,6
1998	423	3,5	6,8	4.105	33,5	10,1
1999	489	3,6	15,6	4.612	34,2	12,4
2000	631	4,4	29	4.981	34,7	8
2001	666	4,6	5,5	5.203	35,9	4,5
2002	960	6	44,1	5.751	35,7	10,5
2003	1.274	6,9	32,7	5.834	31,6	1,4
2004	2.077	8,5	63	7.431	30,4	27,4
2005	3.776	11	81,8	10.772	31,3	45
2006	4.561	11,9	20,8	11.748	30,6	9,1

Year	Exports			
	Consumer Goods			Total
	Value	Shr. (%)	Cha. (%)	Value
1996	7.232	65,3	-	11.078
1997	7.425	64,3	2,7	11.549
1998	7.721	63	4	12.248
1999	8.397	62,2	8,8	13.498
2000	8.737	60,9	4	14.348
2001	8.631	59,5	-1,2	14.510
2002	9.359	58,1	8,4	16.118
2003	11.330	61,4	21,1	18.459
2004	14.929	61	31,8	24.484
2005	19.759	57,4	32,4	34.451
2006	21.883	57	10,7	38.394

²⁷ Yilmaz Bahri and Ergun Selim; 2003 "The Foreign Trade Pattern and Foreign Trade Specialization of Candidates of the European Union" p.8-13

²⁸Source: Retrieved May 1. 2010 on the World Wide Web. URL:<http://www.dtm.gov.tr>

Imports						
Year	Investment Goods			Intermediate Goods		
	Value	Shr. (%)	Cha. (%)	Value	Shr. (%)	Cha. (%)
1996	4.831	28,7	-	10.539	62,5	-
1997	7.388	31,9	52,9	12.880	55,7	22,2
1998	7327	29,5	-0,8	14.009	56,3	8,8
1999	7.182	29,8	-2	13.270	55,1	-5,3
2000	6.069	28,4	-15,5	11.823	55,2	-10,9
2001	7.254	27,3	19,5	14.116	53	19,4
2002	4.317	23,6	-40,5	11.168	61,1	-20,9
2003	5.361	23	24,2	14.417	61,8	29,1
2004	6.999	22,1	30,6	19.233	60,7	33,4
2005	10.672	23	52,5	26.819	59	39,4
2006	11.587	24	8,6	29.008	58,9	8,2

Imports				
Year	Consumer Goods			Total
	Value	Shr. (%)	Cha. (%)	Value
1996	1.491	8,8	-	16.861
1997	2.870	12,4	92,5	23.138
1998	3.535	14,2	23,2	24.870
1999	3.622	15	2,5	24.075
2000	3.525	16,5	-2,7	21.401
2001	5.114	19,2	45,1	26.610
2002	2.595	14,2	-49,3	18.280
2003	3.196	13,7	23,2	23.321
2004	5.147	16,2	61	31.695
2005	7.613	16,8	47,9	45.434
2006	8.044	16,3	5,7	49.220

The share of investment products in Turkey's exports to the EU increased from 2,9% in 1995 to 11,5% in 2006, in terms of value from \$318 million to \$5.081 million, a 1.497% increase. Intermediate products on the other hand had a 31,8% share in 1995, which increased to 35,23% in 2006. The value gained from intermediate products' exports raised from \$3.528 million to \$15.492 million. The share of consumption products was 57,4% in 2004, which was 65,3% in 1995. However, value of exports raised \$7.232 million to \$23.250 million during the same period. The increase in exports of investment products shows that Turkish firms gained a constant share in the market of high value added products.(TÜSIAD, 2006). In case of imports, the distribution of commodity groups shows a change in favor of consumption products. Investment products share in imports from the EU decreased to 22% in 2006 from 28,7% in 1995, the value increased from \$4.831 million to \$12.186 million. Import of intermediate products' share also decreased. It was 62,5% in 1995, which decreased to 59,1% in 2006, the value of imports raised from \$10.539 million to \$32.567. The share of consumption products increased to 15,9% in 2006 from 8,8% in 1995. The value of imports

increased by 488% between 1995 and 2006. It rose from \$1.491 million to \$8.776 million. The average share of commodity groups in Turkey's imports from the EU between 1995-2006 is 26,1% for investment products, 59,1% for intermediate products, 15,9% for consumption products. The import of investment and intermediate products provides input to the economy. These products create contribution to the economy. The sum of investment and intermediate products is 84,3%, which is very positive. The average share of consumption products is 15,9%. The increase in import of consumption products is mainly due to low interest consumption loans and high internal demand caused by revalued TL. The consumption products imported from the EU, makes Turkish people conscious of quality, standards and consumer rights. As Turkish people gain conscious, they demand same standards from the domestic producers. As domestic producers provide same level, of quality and standards, they can supply it to Turkish people or they can export it to the EU. One other thing is the negative effects of import of consumption products may be balanced with the high taxes levied on luxurious products. (IKV, 2004) Table 1.5 shows the distribution of Turkey's trade by selected country groups for selected years. In terms of exports, only New Independent States has an important loss as 3,3% The Russian economic crisis was one of the main reasons of decrease in the share of New Independent States". Organization of Islamic Conference's share is stable and EFTA countries" share has not shown a vital change. It can be derived that Turkey's exports after customs union, with the help of global crisis, shifted to the EU. The increase in the level of exports to the EU despite global crisis, like Russia and Asian, proves that Turkey gained a level of stability in terms of exports.

Table 1.5 Turkey's Trade by Country Groups²⁹

Year/country	Exports				Imports			
	1996	2000	2002	2006	1996	2000	2002	2006
EU	54,1	56,4	56,6	56	55,7	52,3	49,8	42,6
OECD Countries	64,2	70,5	67,9	63,7	73,2	67,6	66,3	55,7
Org. of Blacksea E.Co.	12,6	8,9	10	13,5	8,9	12,4	12,8	19,4
New Independent St.	11,5	5,9	6,3	8,2	78,9	10,4	10,8	16,7
Org. of Islamic Conf.	17,8	12,9	13,1	17,5	12,8	11,6	11,8	13,7
EFTA Countries	1,4	1,2	1,1	1,4	2,5	2,1	4,9	3,2

²⁹Source: Retrieved May 1. 2010 on the World Wide Web. [URL:http://www.dic.gov.tr](http://www.dic.gov.tr)

Distribution of imports favored Organization of Black Sea Economic Cooperation and New Independent States by major degrees, from 8,9% and 7,0% share in 1996 to 19,4% and 13,7% in 2006 respectively. The share of Organization of Islamic Conference increased by 1,9% in 2006 respectively. The EFTA countries increased their share to 3,2% in 2006 from 2,5% in 1996. There are also decreases in shares of the EU and the OECD countries. The EU" s share decreased from 55,0% in 1996 to 42,6% in 2006 and the OECD" s share decreased to 55,7% in 2006 from 73,2% in 1996.

CHAPTER 2

INDUSTRIAL RELATIONS and AUTOMOTIVE SECTOR IN TURKEY

In Turkey industrialization started later than Western countries. During the republic the labor relations has been influenced by social and legal environment. The constitution of 1961 provided important rights to employees especially to establish them organizations, and provided strike and lockout rights. On the other hand, Turkey experienced turbulence due to the threat of communism during cold war. For this reason, when military regime came to power in 1980, they initially minimized employees' rights. Strike and collective bargaining rights have been restrained. After democratization, some of these rights have been resituated.

On 12 September 1980 General Kenan Evren, the Chief of general Staff, installed himself and his five-man National Security Council as a temporary government. The military coup suspended the activities of first and foremost DISK, as well as the other confederations excluding Turk-Is, and the majority of independent unions. These unions were put under trusteeship and their assets were confiscated. The National Security Council established by the perpetrators of the coup invalidated the constitution of 1961 and the laws that were enacted according to the stipulations of this constitution and regulated labor relations. Until the promulgation of new laws, the Supreme Council of Arbitration was designed as the authority that had the last word in collective negotiations.

The new labor laws were enacted in July 1983. Act Number 2821 on Trade Unions and Act Number 2822 on Collective Bargaining, Strikes and Lockouts signified a serious backslide in the right of workers and trade unions. These laws exterminated the cultural and educational role of the unions, and trade unions were redefined solely as organizations with economic and social functions. The constitution of 1982, which is currently in operation, regulated the system of industrial relations in a more detailed and restrictive manner. Today, also fundamental rights – such as to organize, to bargain collectively, to strike and to lock-out –are governed by acts numbered 2821 and 2822 in the same manner as the constitution. With the new constitution in 1982 there were several changes made in industrial relations. Article 2821 regarding to Trade Unions there are several legislations that limit trade unions. The most important matter is about organizational model. Related to this article unions can be founded only in appropriate branch of business and they cannot be organized upon to the basis of job or workplace. For higher organizational structures only confederations are allowed. With these limitations a stronger unionism would be created instead of a divided structure. It bans

the workers to choose more than one union membership and these memberships or dismissal of a membership has to be confirmed by notary.

The Article 2882 regulates that, the collective agreements can be only made with a minimum 10% of workers from the same branch of business and more than 50% of the workers within the company. Also this article recognizes beneficial strike as official. It suggests solving collective conflicts with intermediation and with the failure of an intermediation several legislations were made on strike and lockout. The conflicts on kinds of works where strikes and lockout are forbidden, the sides have to apply the Higher Board of Arbitration.

In 1995, an addition to article 53 of the constitution has been made and government employees gained rights to be organized and bargain collectively. The legislation regarding to the implementation of this addition was made in 2001. So on the basis of work of branch the governmental employees have rights to establish unions that can facilitate in all country and every 15th August they have right for collective bargaining.³⁰ With an possible agreement reconciliation paper is signed by both parties and forwarded to council of ministers for required changes. With an disagreement, in following days conciliation committee is called and this committee reports the disagreement points to the council of ministers. That means every decision has to be made by the council of ministers; these conflicts cannot be solved with strikes.

In this term the important change was 4857 number the law of work enacted in 2003. This law lightens the hard structure of Turkish labor system and opens an important perspective on the way of EU and ILO norms. This law secures the work for employee and affords the flexibility demands of employers.

Turkey has been experiencing great changes since 1980. After 1980 military coup, economic, social and politic structure changed in Turkey. These changes also affected labor relations in the country. Recently, we may observe important problems and challenges in individual or collective labor relations in Turkey.

³⁰ The law (4668) regarding to unions of governmental employees

2.1 Automotive Sector in Import Substitution for Industrialization

Since the world economic world crisis in 1929 and the Second World War, protective and import substitution policies were put in practice. In this term the intervention of the government to the economy which was developed under international Keynes plan was acknowledged by the developed countries with import substitution model. In this frame, the productive capital emanated from the United States has also affected the industrialization of the countries around. From 1950 till 1954, under the Democratic Party's Government (Demokrat Parti), closed and protective economic policies were abandoned and free foreign trade regime was adopted in principle which caused a development related to external markets. However the increase in importing made external deficits chronic that caused the economy based on external aids and foreign investments. The way to finance the external deficits caused a vital part to create the conditions for foreign assets dependence. Although the country started to give external deficits every year, the external aids stopped to have lack of foreign assets. During this term Turkish economy depended on foreign assets completely.

After 1954 the obstructions in foreign trade and was well as in agriculture sector forced the government to leave the industrialization policy based on agriculture and foreign trade. Instead of his policy the policies based on protection and import substitutions were chosen. After this term Turkey started to continue the industrialization as internal market oriented, which brings out and supports the production of consumer goods for import substitution. (Eroglu, 2003:4-5).

The development of Turkish Automotive Industry was started at the end of 1960's and the beginning of 1970's by reaching the enough capacity and national share in the assembly plants. The developments on transporting infrastructure, establishing highway-based transport system and the improvements in urbanization caused an increase in demands for automotive products. These demands were generally supplied by foreign products in the first years.

In 1954 the manufacture of automotive industry products were started with Türk Willy Overland which manufactured jeeps and pickup trucks for the army. This investment was followed by Turkish Automotive Industry (Türk Otomotiv Endüstrisi) in 1955 with truck manufacture plant and Otosan and Farmers in 1953 (Otosan ve Ciftciler A.S.) also with second and third truck manufacturing plants. Bus production was started in 1963 by Istanbul Bus Body (Istanbul Otobüs Karseri) with the production of Magirüs Busses.

The first Turkish car was manufactured in 1961 by Eskisehir State Railways. This model was named as Devrim which means Revolution. The production of Devrim was limited with 4

models. The production could not be continued regarding to insufficient demands which was really below than the economic scale.(Less than 5000).

In 1960's, Turkish Automotive Industry which was founded for the import substitution continued its development by manufacturing tractors and commercial transporting vehicles for the demands of internal market. Small scaled investments were started for Automotive manufacturing in 1970's. But due to insufficient demands big companies could not be founded.

2.2 Assembly Industry Directive and the Effects on Automotive Industry

This directive took place in the first Five-Year Development Plan, was prepared under the principle of using automotive industry as a push force for the development. This directive was enacted in 14 April 1963 and referred to reduce the dependency to import products. The facts of the directive were protective and interventional. In the directive the domestic ratio was calculated with foreign exchange saving rate. This rate for commercial cars in 1964 were determined as 23%, in 1967 as 45-65%, in 1970 as 55-70% and in 1980 as 75-85%. To reach domestic ratios, the protection rates in imports were kept high and related to increase in domestic ratios the forbid list of import parts were extended. Also the exchange allocations for the companies were reduced. The first serious production in Automotive Sector was made in 1966 by Anadol. The highest production number per year was 7.200. The production of the car continued till 1982 and 87.000 cars were manufactured till that time.

2.3 The Foundation of Tofas and Oyak-Renault Manufacturing Plants

In term 1968 and 1969, Tofas and Oyak-Renault companies were founded in Bursa Industrial Zone. Both started production with 20.000 annual capacity in 1971. Tofas started the production with Fiat 124 under the license of Fiat who owned the 22, 5% of the shares of the company. Oyak-Renault started the development with Renault 12 under the license of Renault who owned the 44% of the shares of the company. The share of the automotive manufacture under auto-main industry was 70%. It is generally accepted that these two companies were the base determiners for the development of Turkish Automotive Industry. Also these two companies made the required investments for the production of related industry products which are vital for car manufacture. The domestic ratio in car manufacturing was determined to be 76% after the 1,5 years and 85% after 5 years. With the year 1978, around 70-75% of domestic rate and the supply of 50% from the related industry companies for manufacturing were provided.

2.4 The Case of Automotive Sector after Customs Union

Customs Union process has been started without taking any precautions regarding to 1994 crisis and its effects on automotive sector. Due to the 1/95 Association Council Decisions, removal of all tariffs on EU products caused an unexpected increase of import. This excessive increase became a continuous and decisive fact. (OSD, 2006).

With the 2/95 Association Council Decisions, automotive imports" tax rate was kept higher than the Common Customs Tariff. This enforcement has continued from 1996 till 2000. In 1996 Turkey charged 33% tax on automotive products. However the tax rate for automotive products was 10% within the EU. In 5 years The tariff rates have been reduced with the rates defined. Since 01.01.2001 the same rate with the EU Common Customs Tariff is in process. The increases in demands were met by import, which boost the share of import in the Turkish market. (OSD, 2006)

In so many aspects, Turkish Automotive Sector is leading the Turkish economy. The sector engages an important place in state budget by providing labor support, positive contributions on the balance of payments with import-based foreign exchange saving power. Also it creates an important income of tax from the companies. In addition, sector plays a vital role on the transfer of innovation. (OSD, 2006)

After Customs Union put in process, world-wide companies like Toyota, Hyundai and Honda adjudged to move their investments to Turkey. These companies have many manufacturing plants around the world. Also other important companies like Fiat and Renault have operations in Turkey. These automotive companies with foreign capitals make important contributions to Turkish labor and economic developments.

Figure 2.1 below shows the share of automobile production in automobile export. With the realization of the Customs Union in 1996, there were important increases of automobile production, as well as exports. However, Customs Union also hastened the import of automotive products. Removal of tariffs made imports more advantageous for the Turkish consumers. According to the reduction of demand, the automobile production was also reduced. As seen in the figure the share of automobile production in automobile export showed a fast drop till 2001. Since this date a stable trend was followed.

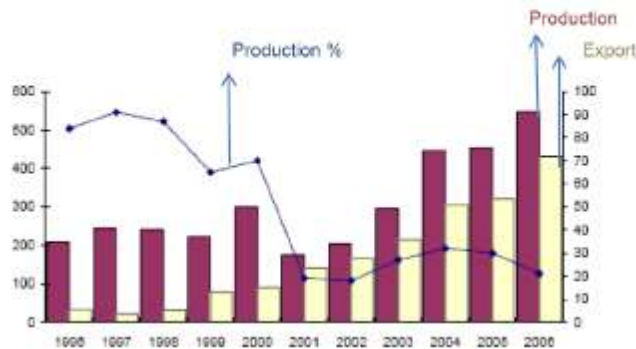


Figure 2.1 Automobile Production/Export (1996/2006)³¹

Table 2.1 below shows the share of automobile production and the number of automotive export. As seen on the table the share of automobile production in automobile export decreased from 84% to 21% in 2006. This drop was due to the reduction of production since the effects of financial crisis in 2001.

Table 2.1 Automobile Production/Export³²

Years	1996	1997	1998	1999	2000	2001
Total Pro.	325.460	399.923	405.001	325.291	468.831	285.737
Auto Pro.	207.757	242.780	239.937	222.041	297.476	175.343
Total Exp.	39.252	31.174	37.926	92.051	104.744	202.158
Auto Exp.	33.404	22.051	32.377	77.459	90.026	142.289
Pro./Exp. %	84	91	87	70	70	19
Years	2002	2003	2004	2005	2006	
Total Pro.	357.217	562.466	862.035	914.359	1.024.987	
Auto Pro.	204.198	294.116	447.152	453.663	545.682	
Total Exp.	261.394	358.745	518.595	561.078	706.402	
Auto Exp.	166.851	213.587	305.072	319.825	430.420	
Pro./Exp. %	18	27	32	30	21	

Table 2.2 gives the shares of productions for 5 automobile companies to their capacities. Oyak-Renault leads the market on automobile production with 266.000 unit capacity.

³¹Source: Retrieved September 10.2009 on the World Wide Web. [URL:http://www.osd.org.tr](http://www.osd.org.tr)

³²Source: Retrieved September 10.2009 on the World Wide Web. [URL:http://www.osd.org.tr](http://www.osd.org.tr)

Table 2.2 The Production Capacities of the Companies and the Shares³³

Companies	Toyota Türkiye	Anadolu Honda	Oyak Renault	Tofas Fiat	Hyundai Assan
Automobile	150.000	30.000	266.000	250.000	100.000
Share (%)	19	4	30	32	13
Production	176.688	18.322	228.593	79.729	42.350
Share (%)	32	3	42	15	8

Automotive sector became a leading profitable sector. However the removal of tariffs increased the sales of import automobiles in domestic market, which caused a reduction on domestic automobiles. (See Table 2.3)

Table 2.3 Automotive Sector Sales in Years³⁴

	1996	1997	1998	1999	2000	2001
Auto.Sales (Imp+Exp)	239,715	344,835	315,59	288,667	466,726	131,438
Vehicle Sales	337,172	525,242	486,126	407,284	660,077	195,426
Dom. Auto. Sales	182,239	219,81	204,054	157,452	207,739	59,179
Imp. Auto Sales	57,479	125,025	111,536	131,215	258,987	72,259
Imp/Vehicle (%)	24	36	35	45	55	55
Import/Vehicle	76	64	65	54	44	45
Domestic/Vehicle	54	42	42	39	31	30

In 2000, with the government's economic policies and the reduction of interest on credits, new records have been broken on import, as well as sales and export. However the November 2000 crisis made all these progresses collapse. While the exchange was keeping strictly under control, foreign currencies eased up due to high inflation. The effect of economic crisis in 2000 and 2001 also continued in 2002. The economic program implemented by IMF could not meet the objectives in order to aid the market. Application of floating exchange rate caused serious floats on currencies and high inflation. By 2002 low rate of floating on currencies decreased the inflation rate in comparison to 2001. (IKV, 2004). In 2003, economic and political stability created a trustable environment and a demand occurred from the previous years. In parallel to the decreases on real interests, new consumer credits were offered with better conditions. Related to these improvements there was a important increase on total sales as well as the sales with credits. In addition to these positive developments in the economy, the government applied new legislation, which decreased the private consumption tax (ÖTV)

³³Source: Retrieved September 10.2009 on the World Wide Web. [URL:http://www.osd.org.tr](http://www.osd.org.tr)

³⁴Source: Retrieved September 10.2009 on the World Wide Web. [URL:http://www.osd.org.tr](http://www.osd.org.tr)

for the knockdown kits. (IKV, 2004). In 2006 there was 14% of loss in domestic automobile market and 14% of loss in import automobile market. The devaluation in May 2006 caused these reasonable drops. However the massive increase in export and production reduced the shrink effect in the market.

2.5 Strengths and Weaknesses of the Sector

Table 2.4 below, shows the general view of the strengths and weaknesses of the sector.

Table 2.4 Strengths and Weaknesses of the Sector³⁵

Strengths	Weaknesses
High Potential in domestic market Harmonisation with EU and technical legislations Flexible production with competitive costs High quality standards on production Well trained, young, dynamic, motivated and skilled workforce Flexible and long time working conditions Technical and trade skills International Managerial Systems (quality, environment, security) Consistency skills on changes of conjuncture and standards, flexibility on production and delivery, High "Know-How" level on supplier industry with foreign company cooperation Existence of entrepreneurs	Infrastructure problems on technical legislations. Insufficient integration between main industry, supplier industry and marketing organisations Sudden and high increases on taxes and instability on demands as a result High taxes on sales High taxes on fuel products and high energy costs Promotion legislations are not competitive with competitors Insufficient funds for R&D Unnecessary procedures/costs on import-export, EU procedures are not efficiently applicable Insufficient export promotions The increase on costs can be reflected to sale prices

2.6 Opportunities and Threats of the Sector

Opportunities and the threats are given in details on Table 2.5 below.

Table 2.5 Opportunities and Threats of the Sector³⁶

Opportunities	Threats
Increase on internal demands related to progresses in New opportunities in global market and neighbour countries New export markets Low costs in comparison to the EU Cooperation with supplier industry on new projects - Harmonisations with EU legislations Attraction for new investments - High potential for market enlargement Low labour costs in comparison to the EU standards Developments on new generation cars	Removal of tax on imported second hand cars Global restructuring between the manufacturers and overcapacity on the world Insufficient plan and strategy Uncertainty on economics and politics, lack of coordination between state institutions Lack of credibility for foreign capital No infrastructure for technical legislations New EU block exemption regulation High sum of direct and indirect taxes Uncertainties about the new regulations for "energy efficiency" and "environment law" Rapid increases on raw product costs Overvalued currency (TL) Threat of East European Countries, China and India, which can offer new projects, composed of value added parts with low costs

³⁵Source: State Planning Organization, 9. Development Plan (2007 -20013), P:70

³⁶Source: State Planning Organization, 9. Development Plan (2007 -20013), P: 71

2.7 The Results of Customs Union on Automotive Sector

Automobile sector was known to be one of the least supporters of customs union. They argued that sector is not mature enough to face a severe competition from the EU, so the government should continue to protect the sector. The Customs Union entered into force as it is supposed to be. Today automobile sector is one of the biggest gainers from the customs union. After 90's foreign automobile companies' interest in Turkey increased. This resulted by their investments. Today the 15 largest companies are established by foreign investment and out of these 8 companies are EU original.(OSD, 2005) Automobile products export recorded continuously increasing trend. Non-EU original automobile companies aimed to benefit from quota and tariff free environment that Turkey provides to access the EU market. Investments of foreign automobile companies to Turkey, increased the quality of infrastructure. Some EU companies shifted production of some types to Turkey. It started with Fiat's Tempra and continued with various types like Renault Megane and Fiat Doblo. Sector is mainly composed of EU original companies. This led to fast harmonization of EU standards compared to other sectors. In addition, relatively low cost and qualified Turkish labor and Turkey's geographical location, which formed benefits to EU companies for exports to Middle and Far East markets, helped an export focused production understanding to settle. The supplier industry did not compete with the competition after the customs union. They then turned to export. Therefore, increase in supplier industry export also increased the automobile sector total exports. (OSD, 2005) The acquits adaptation was more rapid than other sectors. The labor is qualified, young and cost low in Turkey. R&D studies and exclusive production of some types created know-how. These gave Turkey an opportunity to enjoy, which is a chance to become production base. Today there are around 30 brands in the automobile sector. The internal market becomes competitive after customs union.

Therefore, automobile sector gained from customs union. Sector is R&D and technology based, Turkey's progress is very hopeful and has potential future earnings. The internal market opened to competition, the quality and after sales services improved whereas prices decreased, which in turn increased consumer utility. Sector learned export based production, and isolated itself from domestic economic fluctuations as possible as they can. Therefore, it continued to grow independent of economic crises. (OSD, 2005).

CONCLUSION

Turkish Automotive Sector, which has close relations with other sectors, is accepted as a locomotive of the Turkish economy. The sector has also technological effects on the developments of iron-steel and petrochemical industries. In addition the sector provides real and trustable taxes to the economy.

Regarding to the changes on the market and new competition conditions, sector shows permanent developments. Turkish automotive industry also follows this process. Especially the decision of Customs Union changed the structure of automotive industry.

Turkish Automotive industry firms applied reasonable cooperation with the strongest companies on world automotive sector. The firms started their productions with these international licenses. In the last years a big progress has been made and some models are designed for the production only in Turkey, which increased Turkey's level of export in the following years. In this frame Turkey has a potential to become a production and export center. To evaluate this potential, firstly new investments should be made on efficiency and quality improvements. On the other hand, as said above, while exporting, new designed productions should be increased in collaboration with supplier industries for long term benefits of the sector. To reduce the costs of new model developments, firms should support the R&D operations.

Strong capital structure of the Turkish automotive industry, foreign partners, the existence of strong supplier industry, skilled labor force and low labor costs, establishment of quality management/system and borders with developing markets show the strong parts of the sector. However, over capacity, low production per firm, cost disadvantages related to low capacity usage, insufficient and instable domestic market, insufficient infrastructure on quality certification and lack of integration between main and supplier industries create the weak parts of the sector. On the other hand, domestic demand potential and the chance to become the production and export center on the world automotive sector are important opportunities that need to be evaluated.

Sector has a big potential with well-trained human resource, knowledge and experience. The most important one, labor force has a vital role on technological developments. Sector directly or indirectly provides job opportunities for more than 500.000 people. To improve the

Turkish human resource intensive trainings are being continued. Problems on education quality, insufficient and unhealthy relations between universities and the industry and political instability cause negative effects on the development of the sector.

During the Customs Union, the increases on imports and the new firms in the Turkish market put the automotive manufacturers in to hard situations. From 1996 till 2006, instead of global and economical crisis, we may see the permanent increase on imports. Bu, domestic automobile sales shows continuous drops. With the global crisis in 1997, sector also spent 1998-1999 period in negative conditions. In 2000 in parallel to macroeconomic progress and expectations sector spent a successful year. However instability and devaluation caused hard conditions for the sector. Since 2002 in parallel to macroeconomic developments there was resurgence on automotive sector. In spite of insufficient domestic demands, the increase on export conditions had an important role for the restructuring of the sector.

In automotive production (total and automobile production), instead of the crisis period, there was a continuous increase till 2006. In these increase 1996-2002 period played recovery period and annual production increase continued with low level. There was an important progress in 2003 on automobile production. Same as production 1996-2002 periods acted as a recovery period for export. Since 2003 there was an important progress on total and automobile export. If we look at the sales of the five companies that were undertaken during the study, we see that the sales made by exports to the EU were more than the domestic sales. In 1996 the share of import car sales in domestic sales was 24%. This number increased to 68% in 2006. This also confirms the thesis that the Customs Union has an effect on the increase of imported automobile sales.

But the positive progresses of the Customs union are more evident than the negative progresses. These positive progresses are listed below:

- Customs Union did not increase the external trade deficit nor reduce the state income. Customs Union had a positive effect on increasing the total trade volume.
- Especially the alarming results did not occur on competition, progresses have been made for an economy with strong competition, which is open to foreign markets.
- As a result of Customs Union, no trade deflection occurred, which is disadvantageous for the third countries.
- Sector's trade structure did not have negative effects; an opportunity occurred to export intermediate goods and to make high added value investments. Customs Union

improved the exports of sectors with high technology, which gave competition power to these sectors.

- There were important progresses on trade volume by establishing new free trade agreements with other countries.
- Instead of the developments on trade, the most important contributions of the Customs union are to improve the competition law and competition environment, to protect the customer's rights and to establish the implementations on international trade law. Thanks to this required environment has been completed in order to increase the trust to Turkish economy.
- Customs Union was really beneficial in order to hasten the harmonization with EU legislations and to improve the administrative capacity.
- The increase on foreign capital investments cannot be achieved. But the reason was beyond the Customs Union. Turkey couldn't create the attractive environment for the capital in economy and politics.

Regarding to added value the sector takes the third place after food and textile. It has important contributions to state tax incomes, employment and potentially balance of payments. Externalizing the sector and having the international competition power are important priorities for the sector. In according to this, sector should follow the latest production technologies, allow production with economic scales and support the policies about promotion, competition, environment, investment and customer protection. If these precautions are taken, the costs in the industry will drop; quality and the number of new models will increase. Also it will enlarge the sale, distribution and service networks.

Turkey proved its performance to the world with 60 years of history, technology, design and experienced labor force. In spite of these developments the sector is still an import sector. Imports are two times more than exports. The main reason is that the firms are still providing their part needs from foreign countries. Also the production costs are still higher than the EU countries. That's why the government should gradually decrease the taxes on automobile sales in respect to budget balances.

Insufficient R&D works and investments detain the Turkish automotive sector to catch the developed countries. Main and supplier industries should make a detailed SWOT analysis with the state in order to define the strategy of the sector.

The primary objective of the sector should be that demand of the domestic market should be covered with the cars produced in Turkey not with import cars. The state should support the development of the sector which is a tax source.

In conclusion, in a globalized sector, Turkey showed its external sale skills with quality, delivery performance and prices. Automotive main and supplier industries have to develop new opportunities in order to continue external sales in short and middle term. Otherwise these demands will be supplied by other countries. On product definition and designing process, contributions of engineers should be increased. The collaborations between main and supplier industries have to be developed and these industries should focus on using idle capacity and increasing the added value. State should supply the required stabilized environment, harmonize the technical legislations and perform the coordination between the institutions and legal arrangements in order to reach these objectives.

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DECLARATION OF AUTHORSHIP

I declare that this thesis and the work presented in it are my own and have been generated by me as the result of my original research.

None of the part of this thesis has previously been submitted for a degree of any other qualification at this University or any other institution

The written Document matches completely to the CD version.

Where I have quoted from the work of others, the source is always given within the reference part of my thesis.

Hamburg, 01.07.2010

A handwritten signature in blue ink, appearing to be 'J. Doe', with a long horizontal stroke extending to the right.