

POLITECNICO DI MILANO

Facoltà di Ingegneria dei Sistemi



POLO REGIONALE DI COMO

Master of Science in

Management, Economics and Industrial Engineering

**TURKEY & THE EU RELATIONS
POLITICS AND ECONOMICS OF ACCESSION**

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Academic year: 2010/2011

ABSTRACT

In this study they have been analyzed, in case of Turkey's accession to the EU, the possible economical changes both in Turkey and in the EU countries. Turkey's political aspects, historical background, as well as its economical milestones, have been briefly explained, since the relationship between Turkey and EU belongs to that history.

In order to measure the possible accession consequences both for Turkey and EU, the textile and apparel sectors are focused: Turkey has a comparative advantage on it and additionally the Customs Union agreement did not remove the tariff barriers on these sectors, while the others did. The "Ricardian Model" is used to express the comparative advantages of Turkey, and Italy is selected as comparison country, being one of the biggest textile and apparel importers from Turkey. Since the main obstacles to accession are not only economic but also political, in the last part of this study the main issues about Turkey's EU accession are evaluated.

In this paper, it has been aimed to answer to questions such as the most important economic aspects of Turkish accession to the EU and the political obstacles to this accession.

SOMMARIO

In questo elaborato sono stati analizzati, relativamente all'annessione della Turchia all'Unione Europea, i possibili cambiamenti nell'economia della Turchia e degli altri paesi dell'UE.

Un breve accenno al contesto politico, storico ed economico della Turchia è inoltre stato fatto per comprendere meglio il rapporto tra Turchia ed Unione Europea. Al fine di quantificare le conseguenze dell'annessione, sia per la Turchia che per l'UE, si è concentrata l'attenzione sui settori tessile e dell'abbigliamento: la Turchia si trova avvantaggiata in questo senso e l'accordo con l'Unione Doganale non vede alcuna eliminazione di barriere tariffarie in questi settori, cosa che non è successa con gli altri paesi. E' stato utilizzato il "Modello Ricardiano" per mostrare i vantaggi economici della Turchia, e l'Italia è stata scelta come metro di paragone, essendo uno dei maggiori importatori di tessuti e abbigliamento dalla Turchia. Poichè i principali ostacoli all'annessione non sono solamente economici, ma anche politici, nell'ultima parte di questo elaborato sono stati studiati i principali problemi concernenti tale annessione.

In questa ricerca si è puntato a rispondere ai vari quesiti relativi ai principali aspetti economici, nonchè ai relativi ostacoli politici dell'annessione della Turchia all'UE.

ACKNOWLEDGEMENTS

This thesis has been written for a Master of Science Degree in Management, Economics and Industrial Engineering. I want to express my gratitude to all the people who have given their heart and help whelming full support in making this compilation of dissertation.

First and foremost, I would like to express my deep and sincere gratitude to my supervisor, Prof. Lucia Tajoli for her enthusiasm, dedication, support and guidance during my entire research study.

I would like to extend my sincere gratitude to the entire staff of the Politecnico di Milano University, including visiting lecturers, who have contributed in many ways towards my study.

I wish to express my profound gratitude and thanks to my father and to my entire family for their love, affection, trust, support and encouragements throughout my life and their kind co-operation which help me in completion of this project. Besides, I need to express my special regard to my mother since her existence and precious support is so much mean to me; without her, this success would never happen.

Last but not least, I wish to give special thanks to Ahmet Atılgan and Bercis Merdanoğlu for their great love, help and as well as encouragement.

I would also like to thank all the participants who contributed to my work. This dissertation would not have been possible without their participation.

Benan Merdanoğlu

June, 2011

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CHAPTER 1: GENERAL INFORMATION ABOUT TURKEY

The general information for Turkey has been explained in this chapter as demographics, foreign relations, population, religion, relations with other countries and international agreements. While analyzing these aspects, it has been objected to understand that the country's real situation in the world by internal and external realities for discovering the EU relations sources.

1.1 Land

Turkey lies between Asia and Europe, serving as a bridge geographically, culturally and economically. Its location on two continents plays a central part in Turkish history and gives the country a major advantage in serving the markets of Europe, the Middle East and North Africa.

In the west, Turkey borders on Greece and Bulgaria, in the east on Georgia, Armenia, Nakhchevan and Iran, and in the south on Iraq and Syria. Turkey's area is 774 815 square kilometers, 97% of which lies in Asia (the Anatolian Plateau) and the remaining 3% in Europe. The Turkish shoreline stretches for 8 210 kilometers along the Mediterranean in the south, the Aegean in the west and the Black Sea in the north. In the northwest, there is also the important inland Sea of Marmara. The country is roughly rectangular in shape, measuring 1 600 kilometers from east to west, and 650 from north to south.

With 81 administrative provinces, Turkey is divided into seven geographical regions: The Marmara Region, the Black Sea Region, the Mediterranean Region and the Central Anatolian Region, each of which possesses unique climatic and ecological features.

1.2 Population

Turkey has intense dynamism due to youth of its population. 43.2% of Turkey's population is below the age of 25 and as a result, society is in a state of activity and change. This change is evident in the economic, social, physical, cultural and political dimensions. By the end of 2009, the population of the country had reached 72.6 million. Turkey's population density is 94 persons per sq. km. on the average. The density is the greatest in the western coastal regions. The major cities and their populations are: Istanbul (12.9 million), Ankara the capital

city which is situated in the center of the Anatolian plateau (4.7 million), Izmir (3.9 million), Bursa (2.6 million), Adana (2.1 million), Konya (2.0 million) and Antalya (1.9 million).

Of the economically active population, 23.9% was employed in the agricultural sector in March 2010. Industry employs 19.8% of the working population whereas the construction and services sectors employ 5.8 and 50.5% respectively.

1.3 Religion

Turkey has a secular constitution, with no official state religion. Nominally, though, 99% of the Turkish population is Muslim of whom over 70% belong to the Sunni branch of Islam. A sizeable minority, about over 25% of the Muslim population, is affiliated with the Shi'a Alevi branch. The Christians (Eastern Orthodox, Catholic, Gregorian, Syriac, Protestant) and Jews (Sephardic, Ashkenazi) were formerly sizable religious minorities in the country. Turkey would be the first Muslim-majority country to join the European Union, although Albania, Bosna and Herzegovina and Kosovo are also Muslim-majority, and have been recognized as potential candidate countries.

Official population census polls in Turkey do not include information regarding a person's religious belief or ethnic background due to the regulations set by the Turkish constitution, which defines all citizens of the Republic of Turkey as Turkish in terms of nationality, regardless of faith or race.

1.4 State and Political Structure

Turkey has been a country with a constitutional democracy since 1923 and, after being governed by a single-party system; in 1946 it transitioned to a multi-party system. The Turkish State is a Republic and The Republic of Turkey is a democratic, secular and social state governed by the rule of law, bearing in mind the concept of public peace, national solidarity and justice; respecting human rights and loyal to the nationalism of Atatürk who is the founder and the first President of the Turkish Republic.

CHAPTER 2: FOREIGN POLICY AND INTERNATIONAL RELATIONS

2.1 General Principles

Turkey contributes to global stability and security by taking part in the UN (United Nations), NATO (North Atlantic Treaty Organization) and EU (European Union) peace missions. Thus, Turkey aims at contributing to attainment of the UN Millennium Goals. While persistently pursuing of the EU accession process, it plays a key role in global governance as a member of the UN Security Council and G-20 and takes a leading role in geographical/regional organizations varying from the OIC to the Council of Europe.

Turkey has been an associate member of the European Union (EU) and its predecessors since 1963. After the ten founding members, Turkey was one of the first countries to become a member of the Council of Europe in 1949, and was also a founding member of the Organization for Economic Co-operation and Development (OECD) in 1961 and the Organization for Security and Co-operation in Europe (OSCE) in 1973. The country has also been an associate member of the Western European Union since 1992, and is a part of the "Western Europe" branch of the Western European and Others Group (WEOG) at the United Nations. Turkey is a member of international organizations such as the, World Trade Organizations, Organization of the Islamic Conference (1969), Black Sea Economic Cooperation, Economic Cooperation Organization, Developing-8, Group of 20, Industrial Nations (1999) and Confederation of International Contractors Association and assumed or will assume chairmanships of some of them. By the NATO agreement, Turkey serves as the organization's vital eastern anchor, controlling the Turkish straits which lead from the Black Sea to the Mediterranean and sharing border with Syria, Iraq and Iran. A NATO headquarters is located in Izmir, and the United States had maintained air forces at the Incirlik Air Base in the province of Adana.

2.2 The European Union

European Union membership is one of the primary objectives of Turkish foreign policy and a strategic goal for Turkey. The recognition of Turkey as a candidate country for accession at the Helsinki European Council of December 1999 ushered in a new era in Turkey – EU relations. Taking into account the reforms that were realized during the period of 2000-2004, the Commission published its report and recommendation in October 2004, declaring that

Turkey sufficiently met the Copenhagen political criteria and recommending the opening of accession negotiations.

Based on the aforementioned report and recommendation of the Commission, the European Council, held in Brussels in December 2004, decided to open accession negotiations with Turkey on 3 October 2005. The opening of accession negotiations on 3 October 2005 was not only a historic step in Turkey-EU relations, but also constituted a significant milestone in Turkey's EU integration process. With the launch of negotiations on 3 October 2005, Turkey-EU relations, previously an "association relationship" turned into a comprehensive process of alignment with the EU in all fields from taxation to food safety, and Turkey also simultaneously shifted from "candidate" to "accession" country.

Within the context of Turkey's EU membership process the implementation of reforms is also continuing. In the respect, the last "National Program" was announced on 31 December 2008. The said plan forms the road map for the reforms and the negotiation process. In 2009, official high level visits were paid to Brussels, a new State Minister and Chief Negotiator exclusively in charge of EU affairs was appointed and the administrative and operational capacity of the Secretariat General for EU Affairs was strengthened.

Turkey's contribution to the EU will not be limited merely to its own potential but will also encompass the strategic geography it is located in: the crossroads of the increasingly important energy, transportation, and communication networks that link the East to Europe.

The EU and Turkey enjoy a deep trade relationship. Indeed, the EU ranks by far as number one in both Turkey's imports and exports while Turkey ranks 7th in the EU's top import and 5th in export markets.

2.3 World Trade Organization and Turkey

Turkey signed the General Agreement on Tariffs and Trade (GATT) in 1951 and became a part to the agreement. With the establishment of the World Trade Organization (WTO) as a result of the Uruguay Round in 1995, Turkey automatically became a founding member of the organization.

With the establishment of the WTO, Turkey has bound all of its tariffs for the agricultural products in line with the Agreement on Agriculture. In the framework of the Schedule of

Commitment List attached to this agreement, Turkey has made 10% minimum cut per product and 24% average cut for all agricultural products between the period 1995 and 2004. As a result, Turkey has reached its current bound rates in 2004.

Turkey has also undertaken tariff reductions on industrial products to be implemented gradually within five years. However in the meantime, as a result of the Customs Union established with the EC in 1995 and came into force in 1996, Turkey began to apply the Community's Common Customs Tariffs on the imports of industrial goods from third countries. Thus, with the Customs Union, Turkey's simple average protection rate against the third countries declined up to 4,2% by 2007, which is far below its Uruguay Round bound rates. This rate is zero for the EU and EFTA countries since 1996. Hence, despite its developing country status in the WTO, in case of the industrial products Turkey has embarked on one of the most comprehensive tariff reductions among member countries.

2.4 IMF-Turkey Monetary Relations

IMF began its operations on March 1, 1947 and now has 186 member countries worldwide. IMF is working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. Since its policies are criticized because of “one-size-fits-all” approach, in general the IMF insists on a combination of tight macroeconomic policies, including cuts in public spending, higher interest rates and tight monetary policy.

Turkey has been a member of the International Monetary Fund (IMF) since 1947, became a member of the IMF to ensure the Turkish economy become more integrated with the world. Starting from those years up to now, Turkey has made nearly 20 arrangements, expresses 50 billion SDR with the IMF. Since Turkey was not able to perform the IMF’s stability program conditions, nearly half of those arrangements could not be completed. Turkey experienced traumatic economic crisis in November 2000 and again in February 2001; there were several actions taken to fix the negative effects. The IMF has been involved with the macro management of the Turkish economy both prior and after the crisis.

Since to become indebted to the IMF means the country is not in a consistent economical situation and its credibility is so low that other financial institutions don’t lend financial

support, countries try to avoid taking support from the IMF. Turkey took so many actions to improve financial stability and also got good results in terms of interest rate, inflation, credibility; so instead of making agreement with IMF, Turkey decided to make regulations on its fiscal policy and foreign exchange policy.

Table 1: Arrangements with IMF and The Total Amount Approved

Arrangements	Duration	Amount Approved (Million SDR)	Amount Drawn (Million SDR)	Repurchases (Million SDR)	Projected Payments (Million SDR)
17th Stand-By Arrangement	(12.1999 - 02.2002)	15,038	11,739	11,739	0
18th Stand-by Arrangement	(02.2002 - 02.2005)	12,821	11,914	11,914	0
19th Stand-by Arrangement	(05.2005 - 05.2008)	6,662	6,662	3,508	3,154
TOTAL		34,522	30,315	27,161	3,154

2.5 Foreign Relations of Turkey

Foreign relations of the Republic of Turkey are historically, based on the Western-inspired reforms of Mustafa Kemal Atatürk, such policies have placed heavy emphasis on Turkey's relationship with the Western world, especially in relation to the United States, the North Atlantic Treaty Organization and the European Union. The post Cold War period has seen a diversification of relations, with Turkey seeking to strengthen its regional presence in the Balkans, the Middle East and the Caucasus, as well as its historical goal of EU membership.

2.5.1 Greece

The issue of Turkish membership, has been contentious in Greece, opinion polls suggest only 25% of Greeks believe Turkey has a place in the European Union. The former Greek Prime Minister Kostas Karamanlis stated that Turkish membership of the EU could only be predicated upon, "full compliance, full accession" in December 2006. In 2005 the European Commission referred to relations between Turkey and Greece as "continuing to develop positively" while also citing a key barrier to progress being Turkey's ongoing claim of *casus belli* over a dispute about territorial waters boundaries.

2.5.2 Cyprus

In July 1974 a group of Cypriots who wanted the island to become part of Greece tried to kill president and take over Cyprus. Turkish troops landed in Northern Cyprus to protect the Turkish – Cypriots, who didn't want to join the Greece. Since then, Turkey has refused to acknowledge the Republic of Cyprus (an EU member since 2004) as the sole authority on the island, and recognizes the self-declared Turkish Republic of Northern Cyprus since its establishment in 1983. The Turkish invasion in 1974 and the resulting movement of refugees along both sides of the Green Line; and the establishment of the self-declared Turkish Republic of Northern Cyprus in 1983 form the core issues which surround the ongoing Cyprus dispute.

Turkey and the Turkish Cypriots backed the 2004 Annan Plan for Cyprus aimed at the reunification of the island, but the plan was subsequently rejected by Greek Cypriots on the grounds that it did not meet their needs. According to Greek Cypriots, the latest proposal included maintained residence rights for the many Anatolian Turks who moved to Cyprus after the invasion (and their descendants who were born on the island after 1974), while the Greek Cypriots who lost their property after the Turkish invasion would be granted only a restricted right of return to the north following the island's proposed reunification. Although the outcome received much criticism in the EU as well, the Republic of Cyprus was admitted into the EU a week after the referendum.

The Turkish government has refused to officially recognize the Republic of Cyprus until the removal of the political and economic blockade on the Turkish Republic of Northern Cyprus. Turkey's non-recognition of the Republic of Cyprus has led to complications within the Customs Union. Under the customs agreements which Turkey had already signed as a precondition to start EU membership negotiations in 2005, it is obliged to open its ports to Cypriot planes and vessels, but Turkey refuses to do this. It refuses to do so until the 27-nation bloc fulfills its pledge to ease the international isolation of the breakaway and internationally unrecognized Turkish Republic of Northern Cyprus.

Turkey's refusal to implement a trade pact between Turkey and the EU that requires the Turkish Government allow Greek Cypriot vessels to use its air and sea ports has prompted the EU to freeze eight chapters in Turkey's accession talks.

2.5.3 Balkans

Turkey has close historical, cultural, economic and political ties with the Balkan states, which are important for Turkey as they are the country's gateway to continental Europe. Turkey attaches importance to the creation of an atmosphere of mutual understanding and peaceful co-habitation through closer ties with the Balkan countries, which would lead to the preservation of peace and stability in the region. Turkey has participated in NATO operations and peacekeeping missions, contributing to the Kosovo Force (KFOR) and the United Nations police mission in Kosovo (UNMIK), as well as the EU-led police mission "Proxima" in the Republic of Macedonia. Turkey is also contributing to the EUFOR-ALTHEA. For the reconstruction efforts Turkey is part of launching the Southeastern European Cooperation Process (SEECP), and the Multinational Peace Force Southeast Europe (MPFSEE)/Southeastern Europe Brigade (SEEBRIG). Turkey also plays a role in regional economic initiatives as well as the Stability Pact for Southeastern Europe initiated by the EU and the Southeast European Cooperative Initiative (SECI).

CHAPTER 3: ECONOMIC OUTLOOK

This chapter outlines the concept of Turkish economic relations and besides this, Turkey's import and export regimes. Before analyzing the possible economic changes for Turkey in the case of accession to European Union, the historical and current situation of Turkish economy could give some previsions to understand the possible picture that it will be drawn in the future.

3.1 Turkish Trade Policy

The objective of Turkey's trade policies at all levels is to effectuate the principle of "free and fair trade" in its relations. In this regard, WTO, which regulates the course of the multilateral trade system is considered as an invaluable platform by Turkey to voice its concerns and endorse its interests.

Turkey is fully committed to the rules of the WTO as a founding member and actively participates in the multilateral trading system. Strengthening the WTO, through further liberalization and establishment of a fairer trading system, is the essence of the external economic policy of Turkey.

The Customs Union with European Union is another major economic determinant of the Turkish foreign trade policy. Turkey sees Customs Union as an intermediary stage on the way to the full membership to the EU.

Turkey also makes efforts to achieve a liberalized world trade and beginning from its region, works to enhance its commercial and economic relations with its neighbors. Turkey expects its trade policy to contribute to the economic and also political stability in its region. Towards that end, Turkey also pursues ambitious trade agendas from a regional perspective in organizations such as Economic Cooperation Organization (ECO), Black Sea Economic Cooperation (BSEC), Organization of Islamic Conference (OIC) and Developing-8 as a member.

3.1.1 Turkey's Bilateral Free Trade Agreements

In order to prevent any possibility of trade diversion, Turkey has been taking steps in order to adopt the EU's preferential trade agreements. In addition to the Free Trade agreement signed

with EFTA countries in 1992, Turkey has signed Free Trade Agreements with Israel, Macedonia, Croatia, Bosnia-Herzegovina, Palestine, Morocco, Tunisia, Syria, Egypt, Georgia, Albania, Montenegro, Serbia, Chile and Jordan. Negotiations with the Faroe Islands, Lebanon, the Gulf Cooperation Council, Mercosur, Libya, Ukraine, Mauritius, the Seychelles, South Korea and Cameroon are still continuing.

Under the Customs Union (CU), Turkey is applying the same common commercial policy measures with the European Union. Together with the Common Customs Tariff, the preferential trade regime constitutes the most important part of the trade policy applied towards third countries. Due to the rules and modalities of the alignment, Turkey will take the necessary measures and negotiate agreements on a mutually advantageous basis with the countries concerned. In addition to providing for a common external tariff for the products covered, the Customs Union foresees that Turkey is to align to the *acquis communautaire* (is the accumulated legislation, legal acts, court decisions which constitute the body of European Union law) in several essential internal market areas, notably with regard to industrial standards.

In 1996 a free trade area was established between Turkey and the European Union for products covered by the European Coal and Steel Community. Decision 1/98 of the Association Council covers trade in agricultural products.

Finally, Turkey is also member of the Euro-Mediterranean partnership and as such should conclude free trade agreements with all other Mediterranean partners, with a view to the creation (by 2010) of a Euro-Mediterranean free trade area.

3.2 Export Regime of Turkey

Turkey has been implementing an export-oriented strategy since 1980. The basic objective of this strategy is to constitute an outward oriented economic structure in the framework of free market economy and to be integrated with world markets. With this new strategy, export intensive measures consisting of various supportive components, arrangements directed to the foreign trade liberalization.

In addition to liberal arrangements made to improve exports, some support programs came into effect. The main facilities provided for the exporters were as follows: corporate tax exemption, tax refund, premium to the resource utilization and support fund, subsidies

obtained from the Support and Price Stabilization Fund. However, the above mentioned supports have been gradually eliminated in accordance with Turkey's international commitments since the second half of 1980s.

On the other hand, with the establishment of the Turk Eximbank in 1987, supporting exports gained a new dimension. In this respect, in order to increase the competitive strength of the Turkish exporters in foreign markets, some credits and guarantee programs under the international commitments began to be applied to the sectors with high export potentials.

Related to particularly support of exports, policies of the foreign trade strategy that was set up under the conditions of 1980s have been reviewed and modified in view of the developments taken place in the world and Turkey in the 1990s. In this respect, State Aids prepared in compliance chiefly with the World Trade Organization and Turkey's international commitments were put into practice as of 01.06.1995.

The most significant phenomenon in Turkey's foreign trade policy is the Customs Union established between the EU and Turkey as of 01.01.1996. This development initiated the duration needed for the legal infrastructural consistency of foreign trade strategy with the EU's norms, and thus both import and export regimes have been made consistent with the regulations of the EU. Within the framework of the modifications made in the laws, the Export Support Regime applied until 1.1.1996 was modified in compliance with the Customs Code of the Community.

Export is the exportation of goods, in compliance with the current Export Regulations, Customs Regulations, out of Turkey's custom area or to the free trade zones or other ways of leaving country which can be accepted as an export by the Undersecretariat for Foreign Trade.

Types of exports are as follows:

- (a) Registered Export
- (b) Pre-licenced Export
- (c) Exports by means of consignment
- (d) Barter trade
- (e) Exports without returns

(f) Exports through leasing (Subject to Customs Legislation)

All goods, other than those whose exportation is prohibited by laws, decrees and international agreements, can be freely exported within the framework of the Export Regime Decree.

However, within the framework of WTO rules, restrictions and prohibitions on exports may be imposed in case of market turmoil, scarcity of exported goods, in order to protect public safety, morals, health; flora and fauna, environment, as well as, articles bearing artistic, historical and archeological value.

Main Turkish exports markets in 2007 were the EU (56.4%), Russia (4.4%), USA (3.9%), Romania (3.4%), United Arab Emirates (3.0%) and Iraq (2.6%). Textiles and transport equipment dominate EU imports from Turkey, both accounting for about 24% of the total. Other important imports are machinery (17.7%), and agricultural products (7.1%).

Table 2 shows the so-called revealed comparative advantages of Turkey. In particular, the first column presents the share of exports of a particular sector in Turkey, relative to the average share of that sector in other countries' export (and multiplied by 100). If a sector features an index larger than 100, then it is said that Turkey specializes its exports in that sector, i.e. it has a revealed comparative advantage in that sector relative to other countries. According to this index, table reveals that Turkey specializes in Agriculture, Textiles, Wearing Apparel, and most Services sectors (excluding Trade Services). The exports of Textiles, Wearing Apparel, Transport and Business Services are also important in absolute terms: they make up more than 50% of all exports of Turkey, since these sectors are relatively open. The comparative advantages of Turkey to some extent mimic those from the other accession countries. In particular, both specialize in Agriculture, Textiles and Wearing Apparel. Accordingly, the accession of Turkey to the EU could affect the competitiveness of the Central and Eastern European Countries in these sectors. Yet, there are also some important differences. Most of the Accession-10 countries export more machinery products and more products from the Food Processing industry, while Turkey exports relatively more Business and Other Services.

Table 2: Export Specialization, Export Shares and Openness of Sectors in Turkey

	Revealed Comparative Advantage	Export in % total exports	Exports in % of production
Agriculture	225	4.5	7.9
Energy	18	1.0	4.0
Food processing	82	2.9	7.3
Textiles	534	13.4	63.5
Wearing apparel	403	9.6	72.9
Chemicals and minerals	63	7.3	24.9
Other manufacturing	52	3.0	15.8
Metals	144	5.9	34.7
Machinery and equipment	38	10.9	42.6
Transport equipment	71	6.8	54.9
Transport services	129	10.3	21.5
Trade services	81	2.5	3.7
Business services*	151	11.3	40.9
Other services*	125	5.9	11.3
Construction*	696	4.6	16.2

3.3 Import Regime of Turkey

The Import Regime of 2009, reflecting both Turkey's international rights and obligations and the country's economic needs, has been prepared by taking into account the agreement establishing the World Trade Organization (WTO), the Customs Union Agreement between Turkey and the European Union, the free trade agreements signed with various countries, the preferential treatments granted by Turkey to the least developed countries and some developing countries within the framework of generalized system of preferences and also the specific needs and requirements of the agricultural and industrial sectors .

Turkey maintains a transparent and open trade regime. The clarity of the Import Regime is ensured by indicating the rates of the customs duties separately for countries and country groups and the products are classified under six lists. Namely;

- Agricultural products
- Industrial products
- Processed agricultural products
- Fish and fishery products
- Suspension list
- List of goods used in civil aircraft eligible to relief from customs duties

In addition, the changes made by the Undersecretariat of Customs on the tariff nomenclature and/or descriptions of the items for the year 2005 are taken into consideration and related amendments and arrangements are made in all the lists and communiqués annexed to the Import Regime.

Imports into Turkey came from the following key markets: the EU (40.8%), Russia (14.0%), China (7.9%), USA (4.8%), Iran (3.9%) and Switzerland (3.1%). Main EU exports to Turkey are machinery (32.2%), transport material (18.6%) and chemical products (16.9%).

3.4 General Economic View

The Turkish economy has shown remarkable performance with its steady growth over the last eight years. A sound macroeconomic strategy in combination with prudent fiscal policies and major structural reforms in effect since 2002, has integrated the Turkish economy into the globalized world, while transforming the country into one of the major recipients of FDI in its region. Turkey is a large, middle-income country with relatively few natural resources. Its economy is currently in transition from a high degree of reliance on agriculture and heavy industry to a more diversified economy with an increasingly large and globalized services sector. Coming out of a tradition of a state-directed economy that was relatively closed to the outside world, Prime Minister and then President Turgut Ozal began to open up the economy in the 1980s, leading to the signing of a Customs Union with the European Union in 1995. In the 1990s, Turkey's economy suffered from a series of coalition governments with weak economic policies, leading to high-inflation boom-and-bust cycles that culminated in a severe banking and economic crisis in 2001, a deep economic downturn (GNP fell 9.5% in 2001), and an increase in unemployment. Turkey's economy recovered strongly from the 2001 recession thanks to good monetary and fiscal policies and structural economic reforms made with the support of the International Monetary Fund and the World Bank.

Turkey has enjoyed strong growth averaging 5.9% in the period from 2002 until 2008—one of the highest sustained rates of growth in the world. During this period, inflation and interest rates fell significantly, the currency stabilized, and government debt declined to more supportable levels (39.5% of GDP in 2008). By fiscal policies, structural reforms, privatization, restructuring the banking system due to the financial crisis, Turkish financial sector grew by 8.5% in 2009 despite the ongoing global financial crisis which caused an

economic contraction of 4.7% in Turkey. However as of the last quarter of 2009 which witnessed a 6 % GDP growth, Turkey is back on the recovery track with economic growth projections for 2010 at 3.5 % according to the government's medium term program covering the period 2010 – 2012. According to the IMF World Economic Outlook Report announced in April 2010, domestic confidence in Turkey has recovered after the external shock. Turkey is cited in the Emerging Europe List as the country with the highest growth rate projection in Europe. Due to the developments in the Turkish economy the IMF has revised Turkish growth rate projection for 2010 to 6.2 which was predicted as 3.7% previously. Moreover, according to OECD projections, the Turkish economy is expected to be the fastest growing one among the OECD countries with an annual average growth rate of 6.8% during 2011-2017.

Necessary structural reforms in the public and financial sectors, the social security and tax system, institutional reforms as well as increasing privatization have been expected through Turkey's EU accession. The main goals are to enhance the efficiency and resilience of the financial system, increase the role of the private sector in the Turkish economy, place social security on a solid foundation, and enhance tax laws to let Turkey rightfully compete in the global economic arena. Incentives, free zones and tax breaks for R&D efforts are only some relevant examples. Privatization is still one of the priorities of the government. Turkey's progress in these areas has been acknowledged by the EU in its most recent progress report on Turkey where its resilience during the economic crisis and its ability to cope with competitive market forces was well recognized. Macroeconomic fundamentals are strong and manifested in decreased inflation levels of 9.1% as of May 2010, down from 30% in 2002. The EU-defined general government nominal debt stock fell to 45.4% from 74% in a period of seven years between 2002 and 2009. Hence, Turkey has been meeting the "60% EU Maastricht criteria" (are the criteria for European Union member states to enter the third stage of European Economic and Monetary Union and adopt the euro as their currency) for public debt stock since 2004. The budget deficit has also been meeting the "3% Maastricht criteria" since 2005; it was brought down to 2.2% of the GDP in 2008, from levels reaching 10% in 2002.

As to the productivity of the economy, GDP levels almost tripled to USD 742 billion at current prices in 2008, up from USD 230 billion in 2002. Due to the global financial crisis and a weaker currency, GDP per capita exceeded USD 10.000 in 2008 as compared to USD 3500 in 2002. Turkey is the sixth largest economy in comparison with the EU countries and

number 16 worldwide in purchasing power parity. According to Goldman and Sachs in Turkey will be the third largest economy in Europe and number nine globally by the year 2050. The evident progress in the economy is also reflected in foreign trade, where exports reached USD 102 billion by the end of 2009, despite a contraction in the global economy. As a measure of comparison, Turkey earned USD 36 billion from exports in 2002. Similarly, tourism revenues, which were around USD 8.5 billion in 2002, reached USD 22 billion in 2009 which shows the fact that Turkey is ranked as the seventh most visited country in the worldwide in 2008.

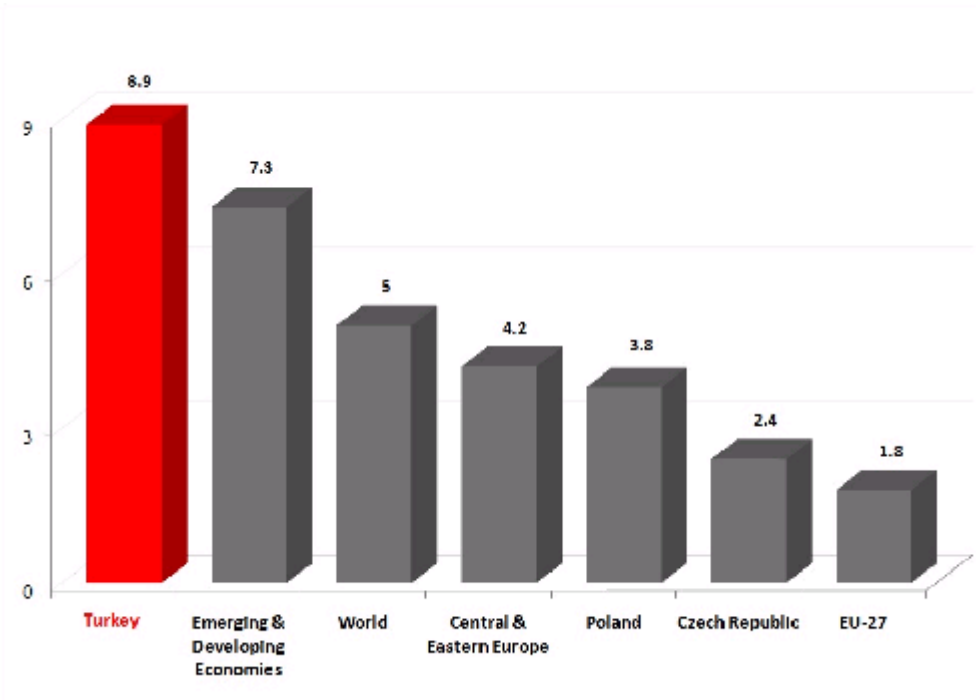


Figure 1: 2010 Real GDP Growths (%)

All these indicators are supported by the fact that Turkey enjoys demographic advantages that will support a long term supply of a skilled labor force. Currently 64 % of the Turkey’s population is between the ages 14 and 60. The UN expects this population range to remain steady at 58% in 2050. Additionally, Turkey’s education produces approximately 400.000 graduates annually, providing an abundant supply of highly skilled labor.

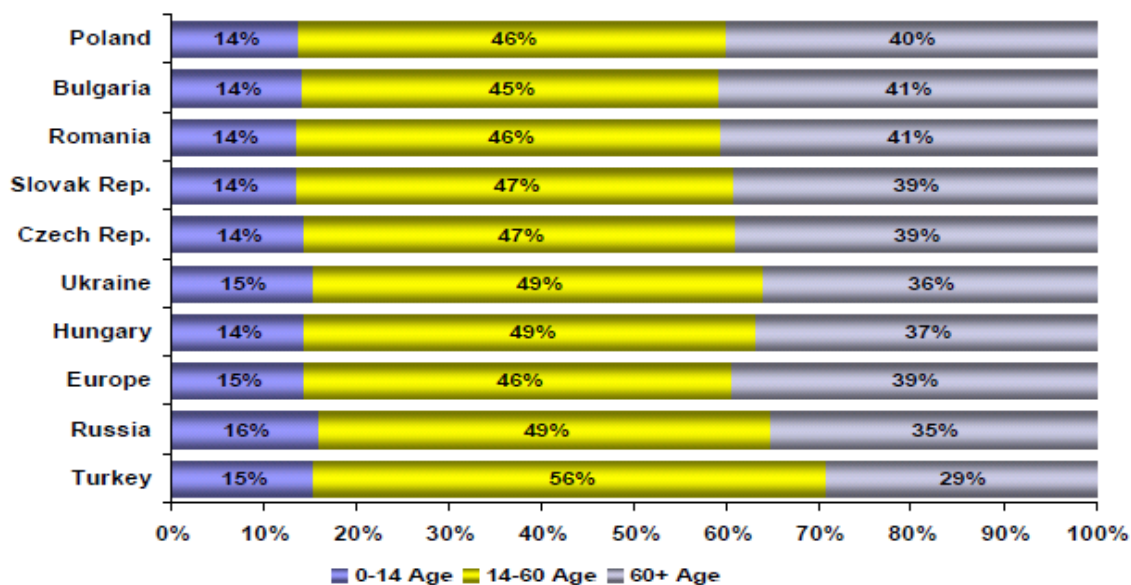


Figure 2: Demographic Profile (2050 Projections)

However, booming economic growth contributed to a growing current account deficit (-5.6% of GDP or \$41.6 billion in 2008). Growth fell to 1.1% in 2008, and the economy contracted by 4.7% in 2009 due to the global economic slowdown and reduced exports. Growth was expected to pick up to 6.8% in 2010, based on strong first and second quarter growth rates. Continued implementation of reforms, including tight fiscal policy, and securing independent Central Bank monetary policies is essential to sustain growth and stability.

As a summary; Turkey:

- Institutionalized economy fueled by USD 94 billion of FDI in the past eight years and ranked the 15th most attractive FDI destination for 2008-2010 (UNCTAD).
- 16th largest economy in the world and 6th largest economy compared with EU countries in 2010 (GDP at PPP, IMF-WEO).
- Robust economic growth over the last seven years with an average annual real GDP growth of 4 percent.
- GDP reached USD 736 billion in 2010, up from USD 231 billion in 2002.
- Sound economic policies with tight fiscal discipline.
- Strong financial structure resilient to the global financial crisis.
- Rapid recovery from the global financial crisis.

The visible improvements in the Turkish economy have also boosted foreign trade, while exports reached USD 114 billion by the end of 2011, up from USD 36 billion in 2002. Similarly, tourism revenues, which were around USD 8.5 billion in 2002, exceeded USD 20 billion in 2011.

Significant improvements in such a short period of time have registered Turkey on the world economic scale as an exceptional emerging economy, the 16th largest economy in the world and the 6th largest economy when compared with the EU countries, according to GDP figures (at PPP) in 2010.

Prior to the recent global recession which hit all economies throughout the world, the Turkish economy sustained strong economic growth for 27 quarters consecutively, making it one of the fastest growing economies in Europe. However, the global financial crisis has considerably challenged the macroeconomic and financial stability of many economies by adversely affecting financing facilities and external demand, thus causing a significant slowdown in all global economic activities.

While the financial markets in Turkey proved resilient to the crisis, the decrease in external demand and slowing international capital flows have had a negative impact on the economy, thus causing an economic contraction in 2009. However, the perceived positive developments in the economy showed signs of a fast recovery beginning as early as the last quarter of 2009, with an impressive 5.9 percent economic growth rate, hence making Turkey one of the fastest recovering economies in the world. Its robust economic growth continued in 2010 as well, having reached 12 percent, 10.3 percent, 5.2 percent and 9.2 percent in the first, second and third quarters of 2010 respectively, thus achieving an overall growth rate of 8.9 percent throughout 2010. Turkey, with such a robust economic performance, stood out as the fastest growing economy in Europe and one of the fastest growing economies in the world.

Table 3: Turkey's Foreign Trade

Million Dollar

	ANNUAL											JANUARY-MARCH		
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2010	2011	% Chan.
EXPORTS (FOB)	27.775	31.334	36.059	47.253	63.167	73.476	85.535	107.272	132.027	102.143	113.979	26.000	31.468	21,0
IMPORTS (CIF)	54.503	41.399	51.554	69.340	97.540	116.774	139.576	170.063	201.964	140.928	185.541	38.495	56.063	45,6
FOREIGN TRADE VOLUME	82.278	72.733	87.613	116.593	160.707	190.251	225.111	277.334	333.991	243.071	299.520	64.495	87.531	35,7
FOREIGN TRADE BALANCE	- 26.728	- 10.065	- 15.495	-22.087	-34.373	-43.298	-54.041	-62.791	-69.936	-38.786	-71.562	- 12.495	- 24.595	96,8
EXPORTS / IMPORTS (%)	51,0	75,7	69,9	68,1	64,8	62,9	61,3	63,1	65,4	72,5	61,4	67,5	56,1	...
EXPORTS / GNP (%)	10,5	15,9	15,6	15,5	16,2	15,3	16,2	16,5	17,8	16,6	15,5	...	...	...
IMPORTS / GNP (%)	20,5	21,0	22,4	22,7	25,0	24,3	26,5	26,2	27,2	22,9	25,2	...	...	...

Source: Undersecretariat of the prime ministry for foreign trade

	2004	2005	2006	2007	2008	2009
GDP (US\$ million, current prices)	390 387	481 497	526 429	648 754	741 754	617 611
GDP Growth Rate (in 1998 prices,%)	9.4	8.4	6.9	4.7	0.7	-4.7
Sectoral Shares of GDP (in 1998 prices,%)						
- Agriculture	10.4	10.2	9.7	8.6	8.9	9.7
- Fishing	0.3	0.3	0.3	0.3	0.3	0.3
- Industry	26.0	26.1	26.5	26.8	26.9	26.3
- Construction	5.8	5.8	6.4	6.5	5.9	5.2
- Wholesale&Retail Trade	13.1	13.2	13.1	13.3	13	12.2
- Other	44.4	44.4	44	44.5	45	46.3
Per Capita GDP (\$)	5 764	7 021	7 583	9 234	10 436	8 590
EURO Exchange Rate (Annual Average) *	1,7762	1,6776	1,8087	1,7868	1,9049	2,1609
US\$ Exchange Rate (Annual Average) *	1,4229	1,3473	1,4380	1,3078	1,2992	1,5545

Figure 3: Main Economic Indicators of Turkey

Table 4: Main Economic Indicators

YEARS	FOREIGN TRADE - ANNUAL (\$ Million)				EXP./IMP. %	\$/TL	% Chg.	EURO/TL	EURO/\$	WPI (PPI) %	RATE OF CAP.UTIL.	GROWTH RATES %
	EXPORT	IMPORT	BALANCE	VOLUME								
1990	12.959	22.302	-9.343	35.261	58,1	0,0026	24,3	-	-	49,2	74,4	9,4
1991	13.593	21.047	-7.454	34.640	64,6	0,0042	60,2	-	-	59,2	75,6	0,3
1992	14.715	22.871	-8.156	37.586	64,3	0,0069	64,8	-	-	61,4	77,3	6,4
1993	15.345	29.428	-14.083	44.773	52,1	0,0111	60,5	-	-	60,3	80,5	8,1
1994	18.106	23.270	-5.164	41.376	77,8	0,0299	169,9	-	-	149,6	72,9	-6,1
1995	21.637	35.709	-14.072	57.346	60,6	0,0460	53,9	-	-	64,9	78,5	8,0
1996	23.224	43.627	-20.402	66.851	53,2	0,0818	78,0	-	-	84,9	78,0	7,1
1997	26.261	48.559	-22.298	74.820	54,1	0,1528	86,8	-	-	91,0	79,4	8,3
1998	26.974	45.921	-18.947	72.895	58,7	0,2622	71,6	-	-	54,3	76,5	3,9
1999	26.587	40.671	-14.084	67.258	65,4	0,4222	61,0	0,4478	1,06	62,9	72,4	-3,4
2000	27.775	54.503	-26.728	82.278	51,0	0,6267	48,5	0,5767	0,92	32,7	75,9	6,8
2001	31.334	41.399	-10.065	72.733	75,7	1,2313	96,5	1,0990	0,89	88,6	70,9	-5,7
2002	36.059	51.554	-15.495	87.613	69,9	1,5131	22,9	1,4367	0,95	30,8	75,4	6,2
2003	47.253	69.340	-22.087	116.593	68,1	1,5003	-0,8	1,6934	1,13	13,9	78,4	5,3
2004	63.167	97.540	-34.373	160.707	64,8	1,4292	-4,7	1,7762	1,24	13,8	81,7	9,4
2005	73.476	116.774	-43.298	190.251	62,9	1,3473	-5,7	1,6776	1,25	2,7	80,7	8,4
2006	85.535	139.576	-54.041	225.111	61,3	1,4380	6,7	1,8087	1,26	11,6	81,7	6,9
2007	107.272	170.063	-62.791	277.334	63,1	1,3078	-9,1	1,7868	1,37	5,9	81,1	4,7
2008	132.027	201.964	-69.936	333.991	65,4	1,2992	-0,7	1,9049	1,47	8,1	64,7	0,7
2009	102.143	140.928	-38.786	243.071	72,5	1,5545	19,7	2,1609	1,39	5,9	69,7	-4,8
2010	113.976	185.535	-71.559	299.511	61,4	1,5076	-3,0	1,9990	1,33	8,9	75,6	8,9
2009(1)	16.320	18.356	-2.036	34.675	88,9	1,7128	13,6	2,22941	1,30			
2010	16.105	23.472	-7.367	39.577	68,6	1,5357	-10,3	2,0855	1,36	8,6	67,3	...
2011	19.667	34.417	-14.750	54.084	57,1	1,5823	3,0	2,2132	1,40	10,1	73,2	...

Source: Undersecretariat of the prime ministry for foreign trade

Table 5: Economic Indicators of Turkey

	ANNUAL								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
GROSS DOMESTIC PRODUCT (GDP)									
At current prices (TL Million)	454.781	559.033	648.932	758.391	843.178	950.534	952.559	1.105.101	...
At current prices (\$ Million)	304.901	390.387	481.497	526.429	648.754	742.094	616.703	735.828	...
At 1998 prices (TL Million)	76.338	83.486	90.500	96.738	101.255	101.922	97.003	105.680	...
GDP Per capita (\$)	-	-	7.022	7.586	9.240	10.438	8.559	10.079	...
GDP - GROWTH RATES OF GROSS DOMESTIC PRODUCT IN CURRENT PRICES (%)	29,8	22,9	16,1	16,9	11,2	12,7	0,2	16,0	...
GDP - GROWTH RATES OF GROSS DOMESTIC PRODUCT IN CONSTANT PRICES (%)	5,3	9,4	8,4	6,9	4,7	0,7	-4,8	8,9	...
PRODUCTION									
Production index of manufacturing Industry (2005-2010 years, 2005=100) (February, 2011)	112,0	123,7	100,0	107,2	114,4	112,7	99,9	114,3	111,6
Capacity utilization in manufactur. Ind.(Weighted average) (March, 2011)	78,4	81,7	80,7	81,7	81,1	64,7	69,7	75,6	73,2
Electricity production (GWh) (Hydraulic+Geothermal+wind) (January-February, 2011)	35.330	46.084	39.714	44.465	36.362	34.279	37.890	54.994	6.876
Electricity production (Thermal GWh), (January-February, 2011)	105.101	104.464	122.242	131.835	155.196	164.139	156.923	155.292	30.217
FIXED INVESTMENTS (TL Million) (Programme, 2011)	55.618	78.782	97.647	123.569	186.915	191.815	163.943	207.676	230.688
Public	15.810	18.052	24.444	30.410	32.534	39.123	39.342	53.933	51.821
Private	39.808	60.730	73.204	93.159	154.381	152.692	124.600	153.743	178.867
NUMBER OF WORKERS ABROAD	1.197.968	1.195.612	1.381.657	1.205.506	1.465.920	1.408.524	1.400.414	...	...

Table 6: Price & Interest Fluctuations

PRICE FLUCTUATIONS	ANNUAL						
	2005	2006	2007	2008	2009	2010	2011
Producer Price Index	2,7	11,6	5,9	8,1	5,9	8,9	10,1
Consumer Price Index	7,7	9,7	8,4	10,1	6,5	6,4	4,0
INTEREST FLUCTUATIONS							
Interest Rates on Deposits / Weighted Averages %							
Time deposits	20,4	23,7	21,0	25,7	15,7	13,0	12,2
Demand deposits	6,5	10,7	15,9	19,6	14,2	0,3	0,3
Weighted Limits of Interest Rates on Credits %							
Short (0-12 Months)	20,5	22,1	21,1	25,2	14,8	12,3	12,7
Medium (Between 12-24 Months)	21,9	20,4	20,2	22,5	17,0	11,7	11,4
Gold prices (Bullion) (TL/gr)	19,4337	28,2064	29,1193	36,3323	48,5623	59,5195	72,5600
TL/Dollar (Selling prices)	1,34726	1,43801	1,30779	1,29915	1,55453	1,50760	1,58227
TL/EURO (Selling prices)	1,67759	1.80868	1,78676	1,90492	2,16089	1,99895	2,21321

Table 7: Social Indicators of Turkey

	2003	2004	2005	2006	2007	2008	2009	2010
AREA (Km²)	769.604	769.604	769.604	769.604	769.604	769.604	769.604	769.604
POPULATION (1000 persons) (Address-Based Population Register System)	66.873	67.734	68.582	69.421	70.586	71.517	72.561	73.723
ANNUAL POPULATION GROWTH RATE (In thousand)	12,9	12,6	12,3	12,1	11,8	13,1	14,5	15,9
POPULATION DENSITY	86,9	88,0	89,1	90,2	91,7	92,9	94,3	95,8
SCHOOLING RATIO (%)	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Primary school	91,0	90,2	89,7	89,8	90,1	97,4	96,5	...
Secondary education	50,4	53,4	54,9	56,6	56,5	58,6	58,5	...
University and other higher education	14,7	15,3	16,6	18,9	20,1	21,1	27,7	...
	2003	2004	2005	2006	2007	2008	2009	2010
INFANT MORTALITY (In thousand)	25,6	24,6	23,6	22,6	21,7	21,0	20,5	...
AVERAGE LIFE EXPECTANCY (Year)	70,9	71,1	71,3	71,5	71,7	73,6	73,7	...
Female	73,4	73,6	73,8	74,0	74,2	75,8	76,1	...
Male	68,6	68,8	68,9	69,1	69,3	71,4	71,5	...
POPULATION PER DOCTOR	718	683	675	637	...	...	...	...
LENGTH OF ROAD (Km)	61.491	61.814	61.939	61.764	61.912	62.023	62.219	...
LENGTH OF MOTORWAYS (Km)	1.882	1.741	1.746	1.987	1.987	2.010	2.100	...
RAILWAYS (Km)	8.697	8.697	8.697	8.697	8.697	8.699	8.686	...
AUTOMOBILE (Per 1000 persons)	66,5	75,9	78,1	84,8	91,7	...	...	...
TELEPHONE (Per 1000 persons)	267	266	261	258	258	...	...	...
TELEVISION SETS (Per 1000 persons)	498	534	600	...	...	...	...	...
ANNUAL CONSUMPTION OF ELECTRICITY (Per capita/Kwh)	1.581	1.687	1.808	1.936	2.198	2.264	2.162	...

Source: TSI, Ministry of National Education

CHAPTER 4: HISTORY OF RELATIONS BETWEEN TURKEY AND THE EUROPEAN UNION

In this chapter it has been focused on the European Union introduction, Turkey and EU relationship history & future, drawbacks of members about Turkey, possibility of advantages & disadvantages of Turkey's membership by Turkey's and EU members' perspective.

4.1 Background of Turkey and EU Relationship

Turkey is the only pluralist secular democracy in the Moslem world and has always attached great importance to developing its relations with other European countries. Historically, Turkish culture has had a profound impact over much of Eastern and Southern Europe.

Turkey began "westernising" its economic, political and social structures in the 19th century. Following the First World War and the proclamation of the Republic in 1923, it chose Western Europe as the model for its new secular structure.

Turkey has ever since closely aligned itself with the West and has become a founding member of the United Nations, a member of NATO, the Council of Europe, the OECD and an associate member of the Western European Union. During the Cold War, Turkey was part of the Western alliance, defending freedom, democracy and human rights. In this respect, Turkey has played and continues to play a vital role in the defence of the European continent and the principal elements of its foreign policy have converged with those of its European partners.

Having thus entered into very close cooperation with Western Europe in the political field, it was therefore only natural for Turkey to complete this in the economic area. Thus, Turkey chose to begin close cooperation with the fledgling EEC (European Economic Community) in 1959.

Turkey applied for membership in 1959 soon after the establishment of EEC. However, Turkey's application for membership was rejected due to the insufficiency of Turkey's development level to meet the requirements of the full membership. Yet, the EEC proposed Turkey to sign an association agreement that will regulate Turkey-EU relationship, until the time full membership conditions are met.

4.1.1 The Ankara Agreement

Due to the EEC's response to Turkey's application in 1959 was to suggest the establishment of an association until Turkey's circumstances permitted its accession, the ensuing negotiations resulted in the signature of the Agreement Creating an Association between the Republic of Turkey and the European Economic Community (the "Ankara Agreement") on 12 September 1963. This agreement, which entered into force on 1 December 1964, aimed at securing Turkey's full membership in the EEC through the establishment of a Customs Union which would serve as an instrument to bring about integration between the EEC and Turkey.

The Ankara Agreement envisaged the progressive establishment of a Customs Union which would bring the Parties closer together in economic and trade matters. In the meantime, the EEC would offer financial assistance to Turkey. Under the First Financial Protocol which covered the period 1963-1970, the EEC provided Turkey with loans worth 175 million ECU (European Currency Unit). The trade concessions which the EEC granted to Turkey under the form of tariff quotas proved, however, not to be as effective as expected. Yet, the EEC's share in Turkish imports rose from 29% in 1963 to 42% in 1972.

The Customs Union that was to be established between the Parties went much further than the abolition of tariff and quantitative barriers to trade between the Parties and the application of a Common External Tariff to imports from third countries, and envisaged harmonization with EEC policies in virtually every field relating to the internal market.

The Ankara Agreement still constitutes the legal basis of the Association between Turkey and the EU. Ankara Agreement, the ultimate aim of which is full membership of Turkey, does not limit Turkey-EU relations with free movement of goods, but also aims to provide free movement of labor, services and capital in order to integrate Turkey to European Single Market. The Agreement has foreseen three stages: "preparatory stage", "transitional stage" and "final stage". By the end of transitional stage, completion of Customs Union was aimed.

4.1.2 The Additional Protocol

When the preparatory stage ended, the transitional stage has started by the Additional Protocol that was signed in 13 November 1970 and entered into force on 1 January 1973. The Additional Protocol determined the provisions of the transitional stage and the obligations of both parties and aimed transitional completion of the Customs Union. It provided that the EEC would abolish tariff and quantitative barriers to its imports from Turkey (with some

exceptions including fabrics) upon the entry into force of the Protocol, whereas Turkey would do the same in accordance with a timetable containing two calendars set for 12 and 22 years, and called for the harmonization of Turkish legislation with that of the EU in economic matters. Furthermore, the Additional Protocol envisaged the free circulation of natural persons between the Parties in the next 12 to 22 years.

The Additional Protocol brought significant advantages for Turkey's agricultural exports to the EEC. 92% of Turkish agricultural exports in 1971 benefited from this regime. Despite other agricultural producers such as Greece, Portugal and Spain later becoming member states, and the EEC's conclusion of preferential trade agreements with certain Mediterranean countries, Turkey preserves even today its position as one of the EEC's most privileged trading partners.

Had the Additional Protocol been implemented in full, the free circulation of goods and services and the harmonization of Turkish legislation with that of the EEC in a multitude of areas would have been achieved at the end of the 22 year timetable.

4.1.3 Turkey's Application for Full Membership in 1987

On 24 January 1980 Turkey shifted its economic policy from an autarchic import-substitution model and opened its economy to the operation of market forces. Following this development in the economic area and the multiparty elections in 1983, the relations between Turkey and the Community, which had come to a virtual freeze following the military intervention of 12 September 1980 in Turkey, began returning to normality. In the light of these positive developments, Turkey applied for full membership in 1987, on the basis of the EEC Treaty's article 237 which gave any European country the right to do so. Turkey's request for accession, filed not under the relevant provisions of the Ankara Agreement, but those of the Treaty of Rome, underwent the normal procedures. The Council forwarded Turkey's application to the commission for the preparation of an opinion. This has reconfirmed Turkey's eligibility, given that a similar application by Morocco was turned down by the Council on the grounds that Morocco is not a European country. The Commission's Opinion was completed on 18 December 1989 and endorsed by the Council on 5 February 1990. It basically underlined Turkey's eligibility for membership, yet deferred the in-depth analysis of Turkey's application until the emergence of a more favourable environment. It also mentioned that Turkey's accession was prevented equally by the EC's own situation on the eve of the single market's completion which prevented the consideration of further enlargement. It went

on to underpin the need for a comprehensive cooperation program aiming at facilitating the integration of the two sides and added that the Customs Union should be completed in 1995 as envisaged.

Although it did not attain its basic objective, Turkey's application revived Turkey-EC relations: efforts to develop relations intensified on both sides, the association's political and technical mechanisms started meeting again and measures to complete the Customs Union in time were resumed. Meanwhile, the Commission's promised cooperation package, known as the "Matutes Package", was unveiled in 1990, but could not be adopted by the Council due to Greece's objection.

4.2 The Customs Union

The Customs Union constitutes of the most important steps for the modernization of the Turkish economy and its integration into the world trade system. The Customs Union between Turkey and the EU is the most important development affecting the Turkish economy as a whole since the liberalization measures launched in 1980.

4.2.1 The Technical Aspects of the Customs Union

These Agreements primarily aim at the establishment of long term economic relations and the improvement of bilateral commercial relations. Turkey's economic growth primarily depends on increasing exports through access to new markets, the improvement of present market access conditions, and the diversification of export products. In this context, Free Trade Agreements are invaluable in achieving these requirements for developing export performance. Moreover, these agreements will enable the parties to create joint investment possibilities in third countries through the improvement of cooperation opportunities.

With regard to the adaptation of Turkish legislation to the EU Competition policy, a great degree of progress has been achieved; laws on protection of competition and consumer protection as well as decrees on patents, copyrights, trademarks and industrial designs entered into force, and a Competition Authority has been appointed.

Pursuant to the Article 5 of Ankara Agreement, by the entry into force of the Customs Union in 1 January 1996, the "final stage" of the association relationship has begun. Turkey chose to complete the envisaged Customs Union with the Community. Talks began in 1994 and were finalized on 6 March 1995 at the Turkey-EU Association Council. The Association Council is

the highest ranking organ of the association and is composed of the Foreign Ministers of Turkey and the 15 EU Member States. On that day the Association Council adopted its decision 1/95 on the completion of the Customs Union between Turkey and the EU in industrial and processed agricultural goods by 31 December 1995. At the same meeting, another resolution on accompanying measures was adopted and the EU made a declaration on financial cooperation with Turkey as part of the customs union "package".

Customs Union means of free movement of goods without facing any barriers forms the essence of the Customs Union, which obliges the parties to implement a common trade policy in order to secure free movement of goods and prevent possible trade diversions.

With the entry into force of the Customs Union which is defined as an economic integration model, in which customs duties, quantitative restrictions and measures having equivalent effect are eliminated in trade between parties, while a common customs tariff is applied towards third countries; Turkey abolished all duties and equivalent charges on imports of industrial goods from the EU. Therefore, Turkey is obliged to undertake the preferential regimes applied to the third countries and to harmonize its legislation with the EC's in a wide spectrum including the standards and technical legislation which gained importance by the elimination of tariff protection. Moreover, competition rules, which affect trade between parties indirectly, should be applied on an equal ground. This process is to be completed in 5 years.

As a result of these measures, Turkey's weighted rates of protection for imports of industrial products originating in EU and EFTA member states have fallen from 5.9% to 0%, and from 10.8% to 6% for similar goods originating in third countries. The latter rates will further drop to 3.5% when the EU fulfills its obligations under the WTO negotiations.

Although basic agricultural products have been excluded from the initial package, a preferential trade regime for these products has been adopted on 1 January 1998. Further efforts are expected to be made in the same direction. Moreover, Turkey is progressively adopting many aspects of the Common Agricultural Policy. On the other hand, under the Customs Union decision, the EU is expected to take as much account as possible of Turkey's agricultural interests when developing its agricultural policy.

Turkey's efforts towards harmonizing its legislation with that of the EU are under way. These efforts include, in commercial matters, monitoring and safeguarding measures on imports

from both the EU and third countries, the management of quantitative restrictions and tariff quotas and the prevention of dumped and subsidized imports. As to competition rules, subsidies through state resources in any form whatsoever which distort or threaten to distort competition will be banned. A special Competition Authority has been set up for this purpose. Assistance to promote economic development in Turkey's less developed regions and assistance intended to promote cultural heritage conservation and which does not adversely affect competition will however be allowed. Furthermore, Turkey is progressively adjusting its legislation regarding state monopolies of a commercial nature so as to ensure that no discrimination exists in the conditions under which goods are produced and marketed between nationals of Turkey and EU Member States. Turkey is also in the process of harmonizing its laws with EU legislation eliminating technical barriers to trade during a transitional period which is expected to last five years, as foreseen in the Customs Union decision. Effective cooperation between Turkey and the EU in the fields of standardization, calibration, quality, accreditation, testing and certification will be achieved as part of this process. Harmonization of Turkish legislation to that of the EU on intellectual, industrial and commercial property has been realized and laws for consumer protection are now being put in place. It is also noteworthy that both parties are banned from using internal taxes as indirect protection mechanisms and from using tax rebates as export subsidies.

4.2.2 The Resolution on Accompanying Measures

Apart from these rather technical provisions related to the establishment and the proper functioning of the Customs Union, the package also comprised an Association Council Resolution providing for the intensification of cooperation between Turkey and the EU in such areas not covered by the Customs Union as industrial cooperation, Trans-European networks, energy, transport, telecommunications, agriculture, environment, science, statistics, as well as matters relating to justice and home affairs, consumer protection, cultural cooperation, information etc. Concerning processed agricultural products, the parties have agreed on the establishment of a system in which Turkey would differentiate between agricultural and industrial components of the duties applied on these products, similar to the model applied in the Community. These provisions also aimed at ensuring that the higher degree of integration achieved between Turkey and the EU through the Customs Union was not limited solely to economic/trade matters and that the Customs Union did serve its purpose

under the Ankara Agreement: constituting an important cornerstone towards Turkey's accession to the EU.

4.2.3 Financial Cooperation

The third element of the Customs Union package was the statement on financial cooperation which the EU delivered at the Association Council meeting where decision 1/95 was adopted. The Association Council Decision (ACD) No 1/95, determines the Customs Union rules between Turkey and the EU and includes provisions that go beyond Ankara Agreement and the Additional Protocol. Some of the obligations of Turkey stated in the ACD are aimed to be completed by the entry into force of the Customs Union and some are foreseen to be accomplished within a transition period. The transition periods envisaged in the ACD have already been ended. This financial cooperation, which amounted to 2.22 billion ECU over a five-year period, aimed at alleviating the burden which the opening up of the economy to EU competition would bring to Turkish economic operators on the one hand, and improving Turkey's infrastructure and reducing the economic disparities between the parties on the other hand. Yet, the transfers envisaged within this framework have so far failed to materialize due to the lack of political will on the part of the EU.

The ACD No 1/95 includes provisions regarding:

- Free movement of goods (elimination of customs duties, quotas and measures having equivalent effect; compliance to the Common Customs Tariff),
- Harmonization of technical legislation,
- Alignment with the Common Trade Policy,
- Undertaking EU's preferential regimes,
- Turkey's compliance to the Common Agricultural Policy of the Community and preferential regime to be applied to the agricultural products,
- Compliance to the Customs Code and mutual administrative cooperation,
- Approximation of the laws (protection of intellectual property rights, competition rules of the Customs Union, trade protection instruments, public procurement, taxation),

- Institutional provisions (Customs Union Joint Committee, consultation and decision procedures, dispute settlement, safeguard measures).

Turkey is obliged to undertake the EU's technical legislation within a 5 years period with a view to eliminate non-tariff barriers in trade between parties and to prevent distortion of trade, which is freed from tariffs, by technical barriers. Turkey-EU Customs Union covers institutional and processed agricultural products; in this respect, in trade of the said products, the elimination of customs duties and charges having equivalent effect and quantitative restrictions and measures having equivalent effect were eliminated. As an obligation to undertake the Community's Common Trade Policy, the quantitative restrictions applied by the EU to the third countries in the textile and apparel sector was also started to be applied by Turkey by the beginning of 1996. In order to prevent trade diversion the preferential regimes applied by the EU to the third countries are aimed to be undertaken within a 5 years transition period.

The full integration of the Community market with the Turkish market and prevention of unfair trade in the single market required determination of common rules and applications in the areas other than trade policy. In this framework, Turkey is under the obligation to adopt parallel competition rules and by the entry into force of the ACD Turkey needs to provide equivalent protection level with that of the EU's in the area of intellectual property rights, to adopt a Competition Law and establish a Competition Authority, while it needs to provide compliance to the Community legislation regarding state aids and trade related state monopolies within two years period.

The ACD also includes institutional provisions. In that respect, it is aimed that compliance of the Turkish legislation with that of the Community's in the areas directly related with the functioning of the Customs Union, which are determined to be trade policy, agreements signed with the third countries that are trade related in terms of industrial products, legislation regarding removal of technical barriers in the trade of industrial products, competition legislation, industrial and intellectual property and customs legislation. In order to realize the compliance, the decision envisaged a continuous consultation procedure that rests on 3 principles.

In this respect,

- Establishment of a Customs Union Joint Committee (CUJC) and in order to help the functioning of the Committee, establishment of sub-committees and working groups as deemed necessary by the CUJC,
 - Establishment of a consultation and information process in the case of an adoption or preparation of a legislation directly related with the functioning of the Customs Union by the Commission, Council or by Turkey,
 - Participation of Turkish experts to the related committee meetings of the Commission regarding technical issues,
- were decided.

4.3 The European Union's Enlargement Process and Turkey

Turkey attached particular importance to the EU's current enlargement process for two main reasons. Firstly, having played an active role in the demise of the Soviet bloc, it was only natural for Turkey to aspire for inclusion in the new European architecture which it helped to build. Second, the Association between Turkey and the EU aims at Turkey's full membership in the EU, as underlined once again with the Customs Union whose dynamics aim at bringing about further integration between the two parties. This is why Turkey kept the question of inclusion in the EU's enlargement process on the agenda of Turkey-EU relations. At the last Association Council of 29 April 1997, the EU reconfirmed Turkey's eligibility for membership and asked the Commission to prepare recommendations to deepen Turkey-EU relations, while claiming that the development of this relationship depended on a number of factors relating to Greece, Cyprus and human rights.

The Commission, however, excluded Turkey from the enlargement process in its report entitled "Agenda 2000" which it disclosed on 16 July 1997. While the report conceded that the Customs Union was functioning satisfactorily and that it had demonstrated Turkey's ability to adapt to the EU norms in many areas, it repeated the same political and economic arguments against Turkey and made no reference to Turkey's full membership objective. The Commission unveiled on the same day as "Agenda 2000", the "Communication" to enhance relations with Turkey, where it reconfirmed Turkey's eligibility and brought a number of recommendations ranging from liberalization of trade in services to consumer protection, that

aim at taking Turkey-EU relations beyond the Customs Union, but cited a number of political issues as pre-conditions for moving Turkey's relations forward.

The fact that the EU confirmed Turkey's eligibility for membership but excluded it from the enlargement process has been seen as a contradiction. The Commission opted to propose measures that would reinforce the relationship within their current framework and complemented these measures with the idea of inviting Turkey to the European Conference. In the light of the EU's claims that all candidates would be judged according to the same objective criteria and that there would be no prejudice in their evaluation, Turkey found the Commission's approach unjust and discriminatory.

As a result, even though the Commission argued that the same criteria were applied to Turkey and the other candidates, they produced logically diverging conclusions.

4.4 The Luxembourg European Council and the Following Period

Although the decisions of the Luxembourg Summit reflected by and large the contents of the Commission's "Agenda 2000", the following points related to Turkey need to be highlighted:

- Turkey's eligibility was reconfirmed.
- The EU decided to set up a strategy to prepare Turkey for accession and to create a special procedure to review the developments to be made.
- Turkey was invited to the European Conference, but a number of unacceptable pre-conditions were put forward.
- The development of Turkey-EU relations was made conditional on certain economic, political and foreign policy questions.
- The Commission was asked to submit suitable proposals to enhance Turkey-EU relations.

In a statement issued the day after the summit, the Turkish Government criticized the EU's attitude, stated that Turkey's goal of full membership and association would nevertheless be maintained, but that the development of bilateral relations depended on the EU's honoring its commitments, and that it would not discuss with the EU issues remaining outside the

contractual context of the bilateral relations as long as the EU did not change its attitude. In line with this statement Turkey did not participate in the inaugural meeting of the European Conference held in London on 12 March 1998. Turkey has thus made it clear that the way out of this difficult situation in the bilateral relations depended on the political will to be displayed by the EU.

The Commission published its recommendations for a "European Strategy" on 4 March 1998. Its contents were more-or-less similar to former packages which the EU promised but failed to deliver in the past. Moreover, the ambiguity over how this package would be financed prevented Turkey from being optimistic about its chances of being put into effect soon. The Commission itself conceded that the implementation of this package would require considerable financial resources.

The summit meeting held in Cardiff on 15-16 June 1998 offered a good opportunity to rectify the unwarranted difficult period which Turkey-EU relations entered into following the Luxembourg Summit. Although certain positive developments were achieved with regard to the language used for Turkey in the Presidency Conclusions of the Summit, they were not sufficient for Turkey to modify its policy outlined after the Luxembourg Summit. An important result of the Cardiff Summit for Turkey-EU relations was the EU leaders' endorsement of the Commission's "European Strategy" for Turkey and the request made to the Commission to find solutions with a view to making available the financial resources required for the implementation of the "European Strategy".

In the Statement issued by the Ministry of Foreign Affairs following the Cardiff Summit, the positive developments mentioned above were noted and the EU's quest for finding the financial resources required by the "European Strategy" was interpreted as an indication of the EU's awareness of the need for fulfilling its obligations towards Turkey with due emphasis on the importance of concrete steps in this area. The Statement nevertheless underlined the contrast between the pre-accession strategy devised for the other candidates and the "European Strategy" for Turkey, which consisted simply of a set of ideas whose financing remained uncertain. It also stressed the fact that Turkey would not accept the subjection of its candidacy to additional political pre-conditions, that the parameters put forward in the Government Statement of 14 December 1997 remained valid, and that Greece's persistent obstructions would continue to have negative effects on Turkish-Greek relations.

In fact, the strategy does not contain new elements. Most of the proposals made in it reiterate commitments contained in earlier agreements which have not been fulfilled over the years. Although four rounds of talks were completed, there has not been sufficient progress in the implementation of the strategy which was proposed by the EU as a basis for the development of Turkey's relations with the EU. The lack of financial resources and a proper perspective for Turkey's accession are, in fact, the main obstacles which impede the proper implementation of the strategy. Consequently, the strategy has been insufficient in bringing Turkey's relations to the desired level.

At the Cologne European Council held on 3-4 June 1999, the initiative was taken by the German Presidency with a view to ensuring the recognition of Turkey's candidate status on an equal footing with the others. Compared to the previous Government in Germany, the new coalition government which came to power in October 1998 seemed to have taken a more positive line regarding Turkey's quest for EU membership. However, the objections of some EU Member States prevented this initiative from being realized. As a consequence, the EU refrained from taking a decision to include Turkey in the accession process. This constituted yet another failure of the EU to recognize Turkey's candidate status clearly and unambiguously. Therefore, in the statement made by the Deputy-Spokesman of the Ministry of Foreign Affairs on 4 June 1999, Turkey's appreciation of the initiative taken by the German Presidency was expressed, but it was also declared that since the discriminatory approach towards Turkey remained unchanged at the Cologne Summit concerning the recognition of its candidate status, the decision adopted by the Turkish Government on 14 December 1997 following the Luxembourg Summit, pertaining to the conduct of its relations with the EU would remain valid.

The EU Foreign Ministers, at their Gymnich-type meeting on 4 and 5 September in Saariselka, in Finland, had discussions on aid to Turkey following the earthquake in northwestern part of Turkey in August 1999 and on future relations between Turkey and the Union. However, no agreement was reached at the meeting on Turkey's candidate status.

On the other hand, EU Council President, Finnish Foreign Minister Tarja Halonen invited Turkish Foreign Minister İsmail Cem to attend a working lunch after the General Affairs Council meeting 13 September 1999 in Brussels. This provided an opportunity to express the Turkish views concerning the need for reconstruction after the earthquake, as well as the current Turkish-EU relations. In addition to the two emergency humanitarian aid packages of

2 million euros each granted to Turkey in the week preceding the earthquake, the consensus has been reached at the meeting for another humanitarian aid package of 30 million Euros for the reconstruction.

It was understood that 150 million Euros foreseen for the 3-year period may now be released. In fact, this amount which is divided into 15 and 135 million Euros has already been foreseen within the framework of the "European Strategy for Turkey". "Unanimity rule" is required only for the 15 million Euro part, whereas the other part of the said amount is subject to consensus.

The European Investment Bank has decided to launch a loan of 500-600 million Euro to help Turkey tackle the consequences of the earthquake. The allocation to Turkey of a "substantial part" of the resources of the MEDA II programme for 2000-2007 period has also been foreseen.

However, Greece has not lifted its veto on the 375 million Euro from budgetary resource or from the 750 million Euro of the European Investment Bank for Turkey as envisaged in 1995 when the Customs Union between Turkey and EU was realized.

In preparation for the European Council to be held in Helsinki in 10-11 December 1999, the Commission issued its second regular report on the progress which Turkey makes towards accession on 13 October 1999. In the composite paper which was also presented together with the Progress Report, the Commission took important steps by proposing that Turkey be considered as a candidate and backed this with concrete actions similar to those provided for the other candidates. Turkey welcomed these proposals that would prepare her for full membership to the EU. In the Statement made by the Foreign Ministry of Turkey, it was stated that the endorsement of all these EU Commission proposals at the Helsinki European Council, in other words, Turkey's recognition as an official candidate with all its inherent modalities, would initiate a new phase in Turkey-EU relations.

After the OSCE Summit held in İstanbul, Foreign Minister Cem gave a lunch to his EU counterparts. At this meeting, Turkish candidacy at the European Council in Helsinki was discussed at length and Turkey was able to present the latest developments.

The Helsinki European Council held on 10-11 December 1999 produced a breakthrough in Turkey-EU relations. At Helsinki, Turkey was officially recognized without any precondition as a candidate state on an equal footing with the other candidate states. While recognizing Turkey's candidate status, the Presidency Conclusions of the Helsinki European Council endorsed the proposals of the Commission made on 13 October 1999. Thus, Turkey, like other candidate states, will reap the benefits from a pre-accession strategy to stimulate and support its reforms. This will also include an Accession Partnership, which will be drawn up accordingly, combined with a National Program for the adoption of the *acquis*. Turkey will participate in Community programs open to other candidate countries and agencies. Turkey will be invited to the meetings between candidate states and the Union in the context of the accession process. A single framework for coordinating all sources of EU financial assistance for pre-accession will also be created. Within the framework of the candidate status, Turkey's adaptation efforts gain a new dimension with an enlarged perspective. Turkey's accession to the European World would mark perhaps the most significant enlargement so far, extending EU borders to Iraq, Syria, Iran and the Caucasus and bringing in for the first time a huge country with a largely Muslim population.

4.5 Harmonization Carried Out by Turkey Following The Customs Union

With the completion of the Customs Union, Turkey eliminated all customs duties and charges having equivalent effect applied to imports of industrial products from the EU and started to apply the Community's Common Customs Tariff for imports from the third countries with the exception of a limited number of sensitive products such as automobiles, footwear, leather products and furniture, for which Turkey retained customs duties higher than the Common Customs Tariff between 1996 to 2000. However, with the entry into force of import regime for 2001, the said transition period ended and alignment with the CCT for all of the industrial products was attained.

In this framework, Import Regime that entered into force on 1 January 2011 is prepared taking into account Turkey's obligations stemming from the Customs Union as well as WTO obligations and the provisions of the free trade agreements concluded with the third countries. As a result, average protection rate regarding industrial goods which was 16% prior to the Customs Union was reduced to 4.2% for the countries except the EU, EFTA and the countries with which Turkey concluded FTAs.

Furthermore, the efforts for the adoption of the Generalized System of Preferences (GSP) including the autonomous tariff concessions applied by the EU against the developing and least developed countries have been completed as of 1 January 2008 for the products covered by the Customs Union.

In the framework of the harmonization efforts regarding the rules regulating/restricting imports from the third countries, Turkey started to implement similar measures to the countries for which the EU apply quantitative restrictions and surveillance measures for textile and clothing products as from 1 January 1996. Most of these measures were abolished by 2005, parallel with the EU implementation.

In order to eliminate technical barriers to trade and to develop infrastructure arrangements in the fields of testing and documentation, Turkish Accreditation Agency (TURKAK) started its operations in 1999. In the framework of the Articles 8-11 of the Customs Union Decision, the harmonization efforts for the legislative alignment with the elimination of technical barriers to trade were accelerated. Up to date, alignment with more than half of the EU legislation under the scope of the Association Council Decision No.2/97 was completed. In this field, "*Law on the Preparation and Implementation of the Technical Regulations on Products*" ("*Framework Law*") which is the legal basis for alignment with the EU directives was published in the Official Newspaper on 11 July 2001 and entered into force on 11 January 2002. 4 out of the 5 implementation regulations of the said Framework Law entered into force. As a result, it is envisaged to eliminate technical barriers to trade between the parties as well as protection of consumers and the control of imports in the framework of internationally accepted norms.

In addition, in order to ensure free movement of goods and to integrate into the internal market of the EU, arrangements which are necessary for harmonization with the international norms and standards are made in the fields of state aid, taxation, intellectual and industrial property rights which are related to competition.

On the other hand, the establishment of the Competition Board, the alignment of the state aid legislation with the global and EU norms, the participation of Turkey to international agreements regarding intellectual, industrial and trade related property rights and the effective functioning of Turkish Patent Institute are among the arrangements made to align with the common competition policy.

4.5 Turkish Membership Issues

4.5.1 Effect Upon the EU

Proponents of Turkey's membership argue that it is a key regional power with a large economy and the second largest military force of NATO that will enhance the EU's position as a global geostrategic player; given Turkey's geographic location and economic, political, cultural and historic ties in regions with large natural resources that are at the immediate vicinity of the EU's geopolitical sphere of influence; such as the East Mediterranean and Black Seacoasts, the Middle East, the Caspian Sea basin and Central Asia.

The Turkish high-speed railway network and the Marmaray tunnel can play an important role in improving trade and commerce between the EU and Turkey. According to the Swedish foreign minister, Carl Bildt, "the accession of Turkey would give the EU a decisive role for stability in the eastern part of the Mediterranean and the Black Sea, which is clearly in the strategic interest of Europe." One of Turkey's key supporters for its bid to join the EU is the United Kingdom.

Upon joining the EU, Turkey's 72 million inhabitants would bestow the second largest number of MEP's (Members of the European Parliament) in the European Parliament. Demographic projections indicate that Turkey would surpass Germany in the number of seats by 2020.

Turkey's membership would also affect future enlargement plans, especially the number of nations seeking EU membership, grounds on which Valéry Giscard d'Estaing has opposed Turkey's admission. Giscard has suggested that it would lead to demands for accession by Morocco. Morocco's application is already rejected on geographic grounds; while Turkey, unlike Morocco, has small territory in Europe (which includes Istanbul, its largest city; however only 3% of Turkey's territory is in Europe). French President Nicolas Sarkozy stated in January 2007 that "enlarging Europe with no limit risks destroying European political union, and that I do not accept...I want to say that Europe must give itself borders, that not all countries have a vocation to become members of Europe, beginning with Turkey which has no place inside the European Union."

EU member states must unanimously agree on Turkey's membership for the Turkish accession to be successful. A number of nations may oppose it; notably Austria, which historically served as a bulwark for Christian Europe against the Ottoman Empire whose

armies twice laid siege to Vienna in 1529 and 1683; and France, where some are anxious at the prospect of a new wave of Muslim immigrants, given the country's already large Muslim community.

Negotiations to remove the French constitutional requirement for a compulsory referendum on all EU accessions after Croatia resulted in a new proposal to require a compulsory referendum on the accession of any country with a population of more than 5% of the EU's total population; this clause would mainly apply to Turkey and Ukraine. The French Senate, however, blocked the change in the French constitution, in order to maintain good relations with Turkey! Current constitution situation is as follows: if 3/5 of the delegates (from the Senate + the Parliament) agree to the Turkey accession, there would be no referendum.

4.5.2 Public Reactions in the EU

Public opinion in EU countries generally opposes Turkish membership, though with varying degrees of intensity. The Eurobarometer September–October 2006 survey shows that 59% of EU-27 citizens are against Turkey joining the EU, while only about 28% are in favour. Nearly all citizens (about 9 in 10) expressed concerns about human rights as the leading cause. In the earlier March–May 2006 Eurobarometer, citizens from the new member states were more in favour of Turkey joining (44% in favour) than the old EU-15 (38% in favour).

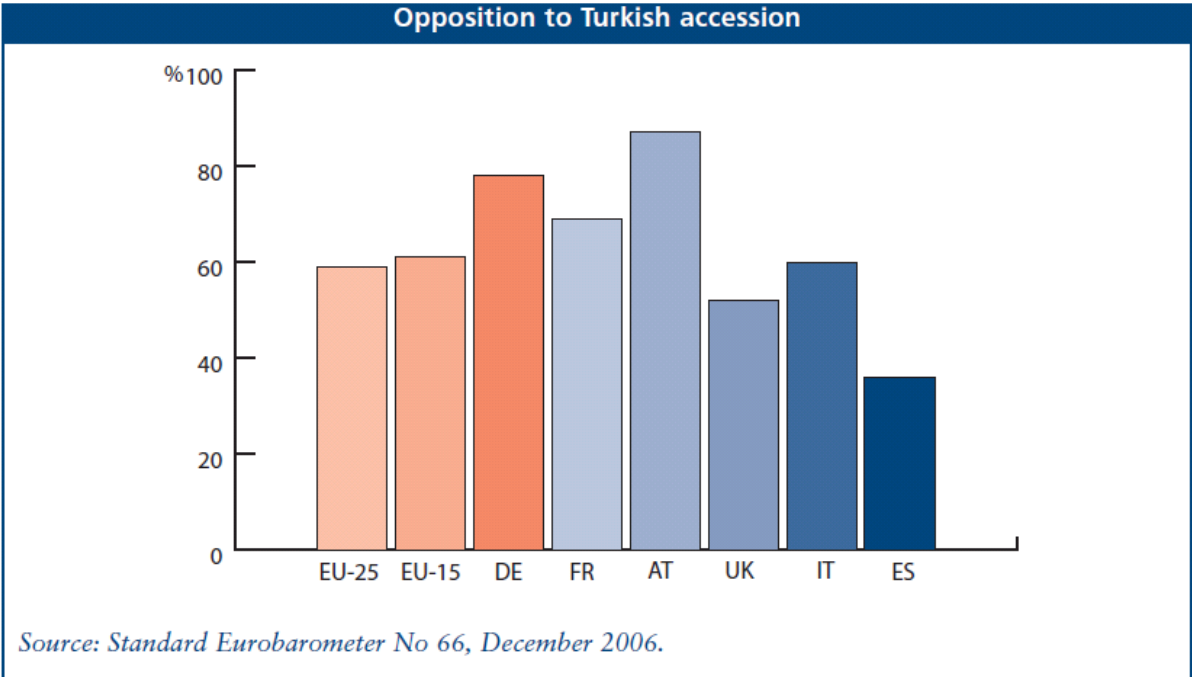


Figure 4: Opposition of Turkish Accession

At the time of the survey, the country whose population most strongly opposed Turkish membership was Austria (con: 81%), while Romania was most in favor of the accession (pro: 66%). On a wider political scope, the highest support comes from the Turkish Cypriot Community (pro: 67%) (which is not recognized as sovereign state and is *de facto* not EU territory and out of the European institutions). These communities are even more in favor of the accession than the Turkish populace itself (pro:54%). Opposition in Denmark to Turkish membership was polled at 60% in October 2007, despite the Danish government's support for Turkey's EU bid.

4.5.3 Public Reactions in Turkey

The opening of membership talks with the EU in December 2004 was celebrated by Turkey with much fanfare, but the Turkish populace has become increasingly skeptical as negotiations are delayed based on what it views as lukewarm support for its accession to the EU and alleged double standards in its negotiations particularly with regard to the French and Austrian referendums. A mid-2006 Eurobarometer survey revealed that 43% of Turkish citizens view the EU positively; just 35% trust the EU, 45% support enlargement and just 29% support an EU constitution.

Moreover, Turks are divided on whether to join at all. A 2007 poll put Turkish support for accession to the EU at 41.9% (up from 32% in 2006), with 27.7% opposed and 24.0% indifferent. A 2009 poll showed that support for accession had risen to 48%, even as negative views of the EU had risen from 28% to 32%.

In 2010, despite the government accelerating its quest to join the bloc, public opinion changed with just 38 percent in favor, against 73 percent in 2004. This was read in line with Turkey's increasing economic prosperity and a growing role as a regional power-broker. Twenty percent of Turks also favored closer ties with other Muslim countries instead, a doubling in just one year.

4.6 Recent Developments in Turkey-EU Relations and the State of Play of the Turkey-EU Accession Negotiations

The Helsinki European Council held on 10-11 December 1999 produced a breakthrough in Turkey-EC relations. At Helsinki, Turkey was officially recognized without any precondition as a candidate country on an equal footing with the other candidate countries. Thus, Turkey,

like the other candidates, became eligible to benefit from a pre-accession strategy to stimulate and support its reforms. Specifically, a single framework for coordinating all sources of EC financial assistance for pre-accession period was created. Furthermore, Turkey was also given the right to participate in the Community programs open to other candidate countries and agencies.

Turkey-EU Association Council established 8 sub-committees on 11 April 2000 to carry out an analytical examination of the level of harmonization of the Turkish legislation with the *acquis communautaire*. In the subsequent meetings of these sub-committees, the progress achieved within the framework of Turkey's pre-accession strategy was evaluated and a number of decisions were taken, concerning Turkey's participation in Community programs and providing technical assistance of TAIEX.

The European Council approved the Accession Partnership on 8 March 2001 and the Framework Regulation concerning EC's financial assistance to Turkey on 26 February 2001. The Accession Partnership document sets priority areas where Turkey is expected to complete its alignment to the *acquis* and determines EC's financial schemes that will support Turkey within the accession process.

Within this context, Turkey should complete its alignment to the *acquis communautaire*, to reinforce its existing administrative structures as well as the establishment of the new ones in various fields, such as technical legislation, state aids, public procurement and customs.

After the approval of the Accession Partnership, Turkish government announced its own National Program for the Adoption of the *Acquis* (NPAA) on 19 March 2001. The National Program was edited with a careful appreciation of the requirements of Turkey as spelled out in the Accession Partnership. This comprehensive document demonstrated the will of Turkey to adopt the EC *Acquis* in all relevant areas that are required for the accession to the EC. More specifically, it laid down the tasks to be accomplished within the short and medium terms and, thus, clarified the responsibilities of the institutions within the harmonization process.

Turkey's efforts to comply with the accession criteria gained a new impetus in the period up to the Copenhagen European Council of December 2002. With a view to meeting the accession criteria, Turkey accelerated its efforts along the path set by the National Program.

The Copenhagen European Council of December 2002 decided that “if the European Council in December 2004, on the basis of a report and a recommendation from the Commission, decides that Turkey fulfils the Copenhagen political criteria, the European Union will open accession negotiations with Turkey without delay”. The European Council also invited the Commission to submit a proposal for a revised Accession Partnership and to intensify the process of legislative scrutiny. Also, it was decided that the EC-Turkey Customs Union should be extended and deepened.

In order to strengthen accession strategy for Turkey, the revised Accession Partnership prepared by the Commission was published in the Official Journal of the EC on 12 June 2003. The revised Accession Partnership set out in a single framework the priority areas for further work identified in the Commission’s 2002 regular report on the progress made by Turkey towards accession, the financial means available to help Turkey implement these priorities and the conditions which will apply to that assistance.

Turkey prepared the revised National Program for the adoption of the *acquis* parallel with the priorities laid down in the Accession Partnership. It was published in the Official Gazette on 24 July 2003.

On 6 October 2004, the European Commission published the 2004 Progress Report and the Recommendation Document. Within the recommendation document, Turkey’s fulfillment of the political criteria was confirmed and the launch of accession negotiations with Turkey was recommended.

Brussels European Council of December 2004 confirmed that Turkey fulfils the Copenhagen political criteria and decided to start accession negotiations with Turkey on 3 October 2005. Decisions taken at the Brussels Summit with regard to Turkey’s membership included some special clauses that were not featured in previous rounds of EU enlargement. In the decision, there was reference to the possibility of permanent restrictions in such areas as freedom of movement of persons, structural policies and agriculture.

The European Commission submitted the Accession Negotiations Framework for Turkey on 29 June 2005 to the European Council. The framework includes the principles governing the negotiations, the substance of negotiations, negotiating procedures and list of negotiation chapter headings. The framework document emphasized that the ultimate objective of negotiations is full membership. The document was adopted by the EU Council on 3 October

2005. On 29 July 2005, Turkey signed the Additional Protocol extending the Turkey-EU Customs Union to new member states that acceded to the EU on 1 May 2004, together with a declaration. The EU has also announced a declaration in response to Turkey's declaration on 21 September 2005.

Shortly after the EU Accession Negotiations was launched on 3 October 2005, Screening Process was started with a meeting on the Chapter "Science and Research" on 20 October 2005. Screening Process for all negotiation Chapters was completed on 13 October 2006.

Currently, negotiations regarding Chapter "Science and Research" is provisionally closed, and negotiations for Chapters "Enterprise and Industrial Policy", "Financial Control", "Statistics", "Consumer and Health Protection", "Trans-European Networks", "Free Movement of Capital", "Intellectual Property Rights", "Corporate Law", "Information Society and Media", "Taxation", "Environment" and "Food Safety, Veterinary and Phytosanitary Policy" are ongoing. On 29 November 2006, the European Commission recommended suspension of opening of negotiations in 8 chapters (Free Movement of Goods, Right of Establishment and Freedom to Provide Services, Financial Services, Agriculture and Rural Development, Fisheries, Transport Policy, Customs Union and External Relations) and not closing negotiations in any of the chapters due to problems in Commission's view of implementation of Additional Protocol to Ankara Agreement. In that respect, until the time European Council decides that Turkey fulfills its commitment stemming from the Additional Protocol, screening reports will be prepared, opening criteria will be determined, but negotiations will not start in the said chapters and negotiations will not be closed permanently in the other chapters. Therefore, fulfillment of the obligations stemming from the Additional Protocol is determined as the closing benchmark of all chapters.

For Chapters "Economic and Monetary Union" and "Education and Culture" Turkey has already sent her Position Paper to the Commission. Opening benchmarks were set for 8 chapters, including "Free Movement of Goods", "Agriculture and Rural Development" and "Competition Policy" and opening of negotiations were subject to fulfillment by Turkey of related benchmarks. Screening Reports for 9 chapters are currently being negotiated within the Council; for 1 chapter Screening Report has not been submitted yet to the Council by the Commission.

The EU General Affairs and External Relations Council agreed with the recommendation of the Commission to suspend opening of negotiations for 8 chapters on 11 December 2006. This decision was confirmed by Brussels European Council of 14-15 December 2006.

A Revised Accession Partnership was approved by the European Council on 23 January 2006 which set the short/medium-term priorities for Turkey. Turkey's Program for Harmonization with the EU acquis was published on 17 April 2007. The said Program that includes the necessary legislative changes for the period 2007-2013 set a roadmap for the harmonization efforts within the framework of accession negotiations.

The fourth Accession Partnership was approved by the European Council on 26 February 2008 and the Third National Program, aiming to meet the priorities stated in the Accession Partnership Document, was published on 31 December 2009.

The last Progress Report for Turkey was published by the European Commission on 9 November 2010.

4.7 Accession Negotiations: State of Play

Closed Chapters	Opened Chapters
Science and Research	Enterprise and Industrial Policy Financial Control Statistics Consumer and Health Protection Trans-European Networks Company Law Intellectual Property Law Free Movement of Capital Information Society and Media

	Taxation
	Environment
	Food Safety, Veterinary and Phytosanitary Policy

Figure 5: Opened and Closed Chapters

4.8 Timeline of Turkey and EU Relationship

30 June 2010 - Negotiations are opened on Chapter 12: Food safety, veterinary and phytosanitary policy.

June 2008 - Negotiations are opened on two chapters: Intellectual property and Company law (June 2008).

February 2008 - Adoption by the Council of a revised Accession Partnership for Turkey.

December 2007 - Negotiations are opened on two chapters: Trans-European Networks and Consumer and health protection

June 2007 - Negotiations are opened on two chapters: Financial Control and Statistics.

March 2007 - Negotiations are opened on the chapter Enterprise and Industry

December 2006 - Due to the Turkish failure to apply to Cyprus the Additional Protocol to the Ankara Agreement, the Council decides that eight relevant chapters will not be opened and no chapter will be provisionally closed until Turkey has fulfilled its commitment. The eight chapters are: Free Movement of Goods, Right of Establishment and Freedom to Provide Services, Financial Services, Agriculture and Rural Development, Fisheries, Transport Policy, Customs Union and External Relations.

June 2006 - Negotiations are opened and closed on the chapter Science and Research

December 2005 - Adoption by the Council of a revised Accession Partnership for Turkey.

October 2005 - Starting of the screening process concerning the analytical examination of the acquis.

October 2005 - Adoption by the Council of a Negotiating Framework setting out the principles governing the negotiations followed by the formal opening of Accession negotiations with Turkey.

June 2005 - The Commission adopts a Communication on the civil-society dialogue between EU and Candidate countries . This communication sets out a general framework on how to create and reinforce links between civil society in the EU and candidate countries.

December 2004 - The European Council defines the conditions for the opening of accession negotiations.

October 2004 - The Commission presents its Recommendation on Turkey's Progress towards accession along with its paper Issues Arising from Turkey's Membership Perspective.

May 2003 - Adoption by the Council of a revised Accession Partnership for Turkey.

March 2001 - The Council adopts the Accession Partnership for Turkey.

December 1999 - EU Helsinki Council recognises Turkey as an EU candidate country on an equal footing with other candidate countries.

December 1997 - At the Luxembourg European Council, Turkey is declared eligible to become a member of the European Union.

1995 - Turkey-EU Association Council finalises the agreement creating a customs union between Turkey and the EU.

April 1987 - Turkey makes an application for full EEC membership.

November 1970 - The Additional Protocol and the second financial protocol are signed in Brussels, preparing the ground for the establishment of the customs union.

September 1963 - An association agreement (known as the Ankara Agreement) is signed, aiming at bringing Turkey into a Customs Union with the EEC and to eventual membership. A first financial protocol to the initial agreement is also signed.

September 1959 - Turkey applies for associate membership of the European Economic Community (EEC).

CHAPTER 5: CUSTOMS UNION BETWEEN TURKEY AND THE EU

5.1 The Macroeconomic Condition in Turkey Before the Customs Union

In the end of 1970s, Turkey experienced a severe economic crisis, resulting high inflation rate, negative growth rate, accumulating external debt and foreign exchange shortages due to the import-substitution growth strategy followed by Turkey for almost 2 decades. This shortage with the expansionary fiscal policy led to high inflation rate, reaching 120% in early 1980. At the same time, in addition to high inflation, economy experienced negative growth rate in the late 70's. In order to solve these problems that Turkish economy faced in the late 70's, a new economic package, which is also known as "January 24th Decisions" was announced in 1980. The package was one of the turning points of Turkish economy. With these decisions, the imports-substitution development strategy was replaced by export-oriented growth strategy and, as a result, Turkish economy has witnessed a significant transformation, from a highly protected state-directed system to a market-oriented free enterprise system.

To solve the external debt problem, the new strategy heavily emphasized on exports, outward orientation and liberalization in both foreign trade and domestic economy. To do so, Turkey aimed at creating an economic structure that could earn foreign exchange rate to payback its debt and support economic growth in the long run. That is why; export has become the main engine of new growth strategy after 1980. The major reforms realized during the 80's can be summarized as follow:

- Removing price controls, which mean that in addition to price of goods and services, exchange rates and interest rates have also been determined by the market forces, namely demand and supply conditions of markets. As a result of these policies, interest rates went up, and this led to an increase in savings substantially after 1980.
- Reducing both subsidies and role of the public sector in the economy. In this context growth in industrial and service sector has been emphasized through incentive policies, and private investment and sector have been encouraged.
- Liberalizing foreign trade by reducing nominal tariff rates, abolition of quantitative restrictions, and reducing the bureaucratic controls on imports. The liberalization of imports has been realized gradually to protect domestic industries from foreign competition.

- Promoting exports by introducing an export incentive scheme. In this context, Turkey started to promote the exports of industrial goods, particularly textile and clothing, and steel products. The incentive for industrial exports included tax rebates, cheap exports credit through Turk Eximbank established in 1987, exemption from taxes and duties, foreign exchange retention, foreign exchange allocation and duty-free importation of inputs, exemptions from fund charges and corporate tax reduction. In addition, support and price stabilization fund has also been established to provide subsidy payments. As expected, flexible exchange rate policy and nominal devaluations also promoted exports in the 80's. With the implementation of new strategy, Turkish Lira (TL) was depreciated against US dollar by 33 % in one day. This major devaluation was followed by eleven small devaluations within 16 months. After these devaluations, exchange rate was adjusted daily to provide a margin of competitiveness to domestic producers in the international markets. According to some economy criticizers, the real TL had depreciated by more than 100% relative to its level in 1979.
- Easing capital transfer and exchange controls and encouraged foreign investment; In this context, controls on capital account of balance of payments were relaxed. And domestic residents were allowed to open foreign currency deposit accounts with domestic banks.

Table 8: Main Macro Economic Indicators Between 1980-1995								
	GDP Growth (%)	CPI (%)	Exports (Million \$)	Change (%)	Imports (Million \$)	Change (%)	Short Term Capital Inflow (Million \$)	Current Account Balance (Million \$)
1980	-2.4	110.2	2,910	-	7,909	-	-2	-3,408
1981	4.9	36.6	4,702	61.6	8,933	12.9	121	-1,936
1982	3.6	30.8	5,746	22.2	8,843	-1.0	98	-952
1983	5	31.4	5,728	-0.3	9,235	4.4	798	-1,923
1984	6.7	48.4	7,134	24.5	10,757	16.5	-652	-1,439
1985	4.2	45	7,958	11.6	11,343	5.5	1,479	-1,013
1986	7	34.6	7,457	-6.3	11,105	-2.1	958	-1,465
1987	9.5	30	10,190	36.7	14,158	27.5	332	-806
1988	2.1	77.7	11,662	14.4	14,335	1.3	-1,103	1,596
1989	0.3	63.3	11,625	-0.3	15,792	10.2	802	961
1990	9.3	60.3	12,959	11.5	22,302	41.2	3,547	-2,625
1991	0.9	66	13,593	4.9	21,047	-5.6	-2,397	250
1992	6	70.1	14,715	8.2	22,871	8.7	3,807	-974
1993	8	66.1	15,345	4.3	29,428	28.7	6,971	-6,433
1994	-5.5	106.3	18,106	18.0	23,270	-20.9	-3,969	2,631
1995	7.2	93.6	21,637	19.5	35,709	53.5	3,950	-2,339
Average (1980-95)	4.18	60.65	-	14.40	-	11.29	921.25	-1242.19

Source: State Institute of Statistics

As a result of all these reforms, the structure of Turkish economy and especially foreign trade changed dramatically. As it can be seen at table 8, with the implementation of new economic program, the inflation rate dropped from 110.2% in 1980 to 36.6% in 1981. The inflation rate, however, started to increase in the mid-80's and remained relatively high averaging 60.6 % between 1980-95.

The most impressive developments occurred in foreign trade, particularly in exports. Starting from the beginning of the 80's, the main source of economic growth between 1981-1995 was the expansion of exports, which increased at an average of 14.40% per annum during this period. The total Turkish exports increased from 3 billion US in 1980 to about 13 billion US dollar in 1990 and about 22 billion US dollar in 1995, just before the Customs Union.

Another result of export-led growth strategy has been seen in structure of exports. As it can be seen in table 9, the main exports item for Turkey was agricultural products. The share of

agricultural products was 65 % of total Turkish exports in 1980. On the other hand, the share of manufactures was only 26 % of Turkish exports in 1980. The composition was exports, however, changed dramatically with the implementation of new strategy. At the end of the decade, the share of manufactured goods increased 67.7% in 1990, while the share of agricultural products dropped 25.5%. Just before the CU, the share of these two sector were 74.2% and 21.1% respectively. When the detailed data is analyzed, it can be seen that Turkey specialized in labor-intensive, low-skill sectors. Even in the 90's, the revealed comparative advantage for Turkey was highest in textile and clothing, while skill-intensive goods like machinery, medical products and office machines showed negative results. The highest growth rates of exports have been experienced for textile, clothing and iron/steel industry. The share of these products in total Turkish exports increased considerably between 1980 and 1995. Even after the Customs Union, these three sectors still have the biggest share in Turkish exports. Especially textile and clothing sectors are still responsible for the major part of Turkey's total employment in manufacturing.

Table 9: Turkish Exports by Products

<i>(Million \$)</i>	1980	Share (%)	1990	Share (%)	1995	Share (%)
I. AGRICULTURAL PRODUCTS	1,881	64.6	3,300	25.5	4,555	21.1
II. MINING PRODUCTS	277	9.5	875	6.8	1,003	4.6
III. MANUFACTURES	751	25.8	8,778	67.7	16,064	74.2
<i>Iron and Steel</i>	29	1.0	1,490	11.5	1,972	9.1
<i>Chemicals</i>	47	1.6	747	5.8	890	4.1
<i>Other semi-manufactures</i>	104	3.6	672	5.2	1,455	6.7
<i>Machinery and transport equipment</i>	83	2.9	855	6.6	2,406	11.1
<i>Automotive Products</i>	50	1.7	153	1.2	643	3.0
<i>Textile</i>	343	11.8	1,440	11.1	2,532	11.7
<i>Clothing</i>	131	4.5	3,331	25.7	6,121	28.3
<i>Other consumer goods</i>	14	0.5	243	1.9	687	3.2
IV. OTHERS	1	0.0	5	0.0	15	0.1
TOTAL	2,910	100.0	12,958	100.0	21,636	100.0

Source: The Under secretariat of Foreign Trade

On the other hand, when compared to the composition of world trade, it can be seen that Turkish exports concentrated heavily on the sectors the share of which in total world trade either decrease or stay constant. This mismatch led to unsustainable and unstable exports growth throughout the 80's and 90's.

5.1.1 Regions Comparison

When the regional concentration of Turkish exports is analyzed, it can be seen that the EEC had the biggest share in total exports during the pre-CU period. Especially, Germany was the most important export markets for Turkish products, mainly textile and clothing and food products during the same period. Turkey's trade intensify coefficient for the EEC countries was 1.57 in 1993 (1.46 in 1980), indicating that a very high trade intensity. The same coefficient was 0.4 for the USA and Canada and 0.27 for Japan, indicating a lacking or less intensity trade relations compared with the importance of the partner trade in world trade. The intensive trade relations with the EEC countries could be result of the fact that Turkish industrial products could be exported to the EEC market at zero tariff rates since 1971.

Table 10: Turkish Exports by Regions (%Share)

	1980	1990	1996
North America	4,7	8,0	7,6
S. America	0,2	0,3	0,6
Western Europe	51,7	58,1	51,3
Asia	2,8	6,2	6,4
Africa	3,7	5,8	5,0
Middle-East	18,8	12,1	9,4
Former Soviet Union and Eastern Europe	17,7	7,6	16,6

Source: The Undersecretariat of Foreign Trade

On the other hand, even though the share of the Middle East in total export was 18.8 in 1980 due to increase in oil revenues, the share of these countries started to decline in the second part of the 80's as a result of the Iran-Iraq war and income losses in the oil exporting countries. To compensate the losses experienced in Middle-East countries, Turkish exporters targeted the North America and Asia in this period, and at the end of the 80's, the share of these two regions increased 8 and 6.2 respectively.

5.1.2 GNP

The share of total investment in total GNP increased starting from the mid-80's, but this increase, obviously, was not enough to explain export growth in the same period, largely due to increase in investment on transportation and telecommunication infrastructure made by public sector. On the other hand, it cannot be observed that any investment boom in private sector, mainly due to unstable macroeconomic environment.

The export boom occurred in this period mainly supported by the unutilized capacity created during the 60's and 70's. The capacity utilization rate decreased 55% in 1980 due to the both economic and political instability in Turkey during the 70's.

5.1.3 GDP

The share of industry in total GDP increased in the same period, but this increase did not lead a dramatic change in Turkish economy. Only 21 % of total workforce was employed in industry in 1995, representing only 1 points of increase compared to 1981. In other words, the new export-led strategy could not able to transform the structure of Turkish economy dramatically. According to table 11 It is observed that transfer of employment had happened between agriculture and services sectors, instead of industry. The share of the services sectors in total employment increased from 26.4% in 1981 to 31.2 % in 1995. Turkey could not manage to change its economic structure in favor of industry despite the new development strategy.

In addition to economic package announced in 1980, another important date for pre-custom union period of Turkish economy was when Turkish economy experienced one of its most severe economic crises on April 5, 1994. The combination of high public sector deficits, a high current account deficit and a substantial increase in external indebtedness caused a serious financial crisis in the beginning of 1994. The results were a marked increase in domestic borrowing rates and a sharp depreciation of the Turkish Lira against major currencies. The sharp depreciation of the Turkish Lira also adversely had negative impact on the banking sector. On 5 April 1994, the Government announced the "Stabilization Program" the aim of which achieve a comprehensive macroeconomic stabilization and structural reform and to reduce the macroeconomic imbalances in the economy and re-establish the conditions for sustainable growth. In particular, the Stabilization Program aimed at reducing the inflation rate, improving the external balance and restoring stability to the foreign exchange market. Efforts to reduce public expenditure and increase tax revenues were supported by structural reforms such as privatization, tax reform, a change in agricultural support policy and structural reforms in banking sector. The program was also supported by an IMF stand-by-program designed to reduce the macroeconomic imbalances in the economy.

Implementation of the Stabilization Program has been successful in the first year of program. External balances recovered quickly in 1994. In addition, official foreign currency reserves

increased and exceeded pre-crisis levels, and stability in the foreign exchange market was restored. Despite all these success in external balance, Turkish economy experienced a negative growth and three-digit inflation rate in 1994. However, Turkish economy grew by 8 % in 1995, indicating that the negative effects of crisis lasted in one year after the crisis emerged. Before the Customs Union, Turkish economy was not in a very favorable condition due to the 1994 crisis.

5.2 The Customs Union Characteristics for Turkey

Customs Union between Turkey and the EU is not a typical customs union. In some areas, the content and the provisions of the decision go far beyond the minimum requirement of a typical customs union. Thus, it is more like a preparation of Turkey to the more deep integration for the EU.

The EU has abolished almost all the nominal tariff rates and quantitative restrictions on industrial goods import from Turkey since 1971. However, some exceptions such as import tariff on some oil products over a fixed quota and quantitative restrictions on textile and clothing products, which are the most important exporting items for Turkey, had been implemented by the EU before the completion of the CU. Customs Union did not bring about a significant liberalization for Turkey's exports to the EU. Following the termination of the WTO Textile and Clothing Agreement in 2005 and thus the elimination of quotas for WTO members, the number of countries that are subject to quotas to two countries on the imports of some textiles and ready to wear products. Imports of the same product group from two countries are under a unilateral surveillance system. With the implementation of the Customs Union Decision (CUD), the EU abolished all these tariff and non-tariff barriers, and the nominal protection rate applied by the EU on imports of all industrial goods from Turkey were dropped to zero by 1999.

As a consequence of the Customs Union, the average of Turkey's weighted rates of protection through custom duties on industrial imports from the European Union and EFTA countries dropped from approximately 10% to 0%. For products imported from third countries the average protection rate decreased from approximately 16% to 4.2% as of 2010.

When the trade statistics between Turkey and the third countries which Turkey signed free trade agreements after the CU is analyzed, it can be seen that both imports from these

countries (40%) and Turkish exports to these countries (28%) increased more than the general Turkish exports and imports increase in the period between 1996-2000. Another trade pattern is that imports from these countries increased more than Turkish exports to these countries in the same period.

5.3 Effects of the Customs Union on Turkish Foreign Trade

With the completion of the Customs Union, Turkish economy has integrated to an important economic bloc of the world. Obviously, it has become the biggest impetus to Turkish economy since the adoption of liberalization measures of the early 1980's.

5.3.1 Changes in Trade Pattern by Sectors

With the Customs Union, Turkey has opened its internal market to the competition of the EU and third countries, while guaranteeing free access to the EU market. Accordingly, in the course of its fourteen-year implementation, both positive and negative reflections of the Customs Union have been experienced. Today, more than half of Turkey's trade is with the EU. Turkey's trade with the EU is almost balanced, the deficit being less than € 8.3 billion, and having a share of 13% in Turkey's total trade deficit. The foreign trade statistics of the EU for the year 2009 demonstrate that Turkey ranks seventh at imports and fifth at exports of the EU with shares of 3% and 4% respectively.

Even before the Customs Union, the EU countries have always been the main exporting markets for the Turkish products. There are three main reasons why the EU has been the major market for Turkish exporters. The first one is the fact that most of the Turkish industrial goods have been exported to the EU with zero tariff rates since 1971. Secondly, geographically, the EU countries are the closest developed markets to Turkey. This closeness creates a cost advantage in transportation for Turkish exporters. Finally, Turkish population living in the EU countries that reached almost 5 millions has been always a natural buyer for Turkish products exported to the EU countries.

The Customs Union has strengthened the traditionally comprehensive trade relations. Turkish exports to the EU increased from US\$ 11 billion in 1995 to US\$ 63,3 billion in 2008. During the same period, Turkish imports from the EU increased from US\$ 16,8 billion to US\$ 74,7 billion. Turkey's trade relations with the EU during the Customs Union, Turkey's exports

increased 472% and have showed a higher rate of growth than imports which increased 343%. In the same period, Turkey's total exports increased 510% and total imports increased 465%.

However, due to the global economic crisis in 2009, the EU has witnessed an important economic recession and EU economy contracted by 4,1%. As a result of this recession, total EU imports decreased 24% in 2009. In parallel, Turkish exports to the EU also decreased by 25,8%, from US\$ 63,3 billion to US\$ 47 billion. Accordingly, the share of the EU in Turkish exports decreased to 46%. On the other hand, Turkish imports from the EU decreased by 24,4% in 2009 and the EU's share in Turkey's imports remained at 40,1%.

As a result, the volume of trade between Turkey and the EU reached US\$ 103,5 billion in 2009, while it was US\$ 27.9 billion in 1995.

Table 11: Turkey's Exports to and Imports From the EU

Year	Export	Change (%)	Import	Change (%)	Volume	Change (%)
2005	38,4	11.4	49,2	8.3	87,6	9.7
2006	43,9	14.5	54,0	9.8	97,9	11.8
2007	60,3	37.3	68,5	24.6	128,9	30.2
2008	63,3	5	74,7	9	138	7.1
2009	46,9	-25,9	56,5	-24,3	103,5	-25

To a large extent, the increase in foreign trade deficit of Turkey during the period of 1995-2009 is attributed to the Customs Union. In fact, during this period, Turkish trade deficit has showed a parallel course to conjectural economic volatility in Turkish economy and to global economical developments. Accordingly, it is observed that trade deficit has decreased significantly during periods of economic crisis and increased during economic growth recovery phases.

Since 1996 Turkish imports from the EU have fluctuated in parallel with internal and external macroeconomic developments. While in the first years of the Customs Union imports showed a higher rate of increase than exports, during the period of 1995-2009, the increase rate of exports has exceeded the increase rate of imports.

Turkey's trade deficit with the EU increased from US\$ 5,7 billion in 1995 to US\$ 9,5 billion in 2009. However, it is a fact that the share of the EU in Turkish trade deficit declined from 41% in 1995 to 24,6% in 2009. Moreover, export-import ratio in trade with the EU has increased from 49,9% in 1996 to 83,1 % in 2009. The fact that a substantial part of Turkey's trade deficit was created due to trade with third countries shows that EU's role in the increase of Turkey's trade deficit is exaggerated. Therefore, the role played by internal and external economic factors should not be ignored while considering the increase in imports observed after the Customs Union.

The product composition of exports transformed parallel to changing production scales and structure due to the improved competition conditions and market access advantages gained from the Customs Union. Apart from traditional sectors like textile and clothing or iron and steel, certain high value added sectors such as durable goods and automotive increased both their shares in total exports and improved their competitiveness in the EU and world market.

From the table 12, it can be seen that just before the Customs Union, the share of the EU in total Turkish exports was 51.2 %, while the share of imports from the EU in total Turkish imports was 47.2%. This, more than 50 % of total foreign trade of Turkey has been realized with the EU countries.

Trade figures after the completion of the Customs Union reveal that, in 1996, Turkish imports from the EU rose and reached 23.2 billion dollars, while its exports, amounting to 11.548 billion dollars. The EU preserved its place as Turkey's biggest trading partner with a 53% share in its imports and 49.7% in its exports. This trend continued in 1997 and 1998. Turkey's exports to the EU rose from 12.2 billion dollars in 1997 to 13.4 billion dollars in 1998 and imports from the EU slightly decreased from 24.8 billion dollars in 1997 and 24 billion dollars in 1998. In 1997, the share of Turkish imports from EU in total imports increased further reaching 51.1% and in 1998 52.5%, also the share of EU exports in total exports increased from 46.6% in 1997 to 50% in 1998. According to 1997 figures, Turkey's share in total EU exports is 3.1% representing the significance of Turkey's potential as a growing market for the EU while Turkey's share in total EU imports is 1.8%.

The share of exports to the EU increased slightly from 56.0% in 2006 to 56.4% in 2007. Imports from the EU as a share of total imports declined, from 42.6% to 40.4%, mainly due to

the rising import bill for energy, which Turkey imported almost exclusively from non-EU countries.

On the other hand, Turkey has not experienced a major change in the composition of imports following the Customs Union. By 2009, the main products imported from the EU are automobiles, their parts and motors, medicines, iron and steel products, petro-chemical products and telephones. Turkey's main agricultural imports from the EU are cereals. However, while the share of investment goods slightly decreased from 1995 to 2009, the share of consumer goods marked a slight increase. In 2009, imports of intermediate and investment goods constitute 81,9% of total imports, while the share of consumer goods is 17,9%.

Since 66% of Turkey's exports to the EU consist of consumer goods, they are sensitive to changes in European demand. The slow growth rate recorded in Germany, Turkey's biggest trading partner within the EU, impeded the growth of Turkey's exports to that country in 1996. Turkey's exports to the EU are expected to raise with a return to higher growth rates in the Union. Turkish industry has also adapted itself very well to the new competitive environment, and not a single sector suffered from important problems. With these arrangements Turkey has taken important steps towards fulfilling its obligations not only for the Customs Union, but also in line with the conclusions of the Uruguay Round, and parallel to its policy of full integration into the world economy. The main European export destinations of Turkey in 2009 are Germany (US\$ 9,8 billion), France (US\$ 6,2 billion), United Kingdom (US\$ 5,9 billion), Italy (US\$5,8 billion) and Spain (US\$ 2,8 billion); while Turkey's main EU import partners are Germany (US\$14 billion), Italy (US\$7,6 billion), France (US\$ 7 billion), Spain (US\$ 3,7 billion) and United Kingdom (US\$3,4 billion).

Trade deficit also increased from 5.8 billion US dollar in 1995 to 12.1 billion US dollar in 2000. During the same period, general exports and imports increase were 23% and 53% respectively. So, Turkish exports to the EU increased less than Turkish exports to the world, while imports from the EU rose more than imports from world.

Table 12: Foreign Trade Between Turkey and the EU(billion \$)

	Total Exports	Chg. (%)	Total Imports	Chg. (%)	Exports To the EU	Chg. (%)	Share (%)	Imports From the EU	Chg. (%)	Share (%)
1990	12,959	11.5	22,302	41.2	7,177.0	26.9	55.4	9,897.5	53.1	44.4
1991	13,593	4.9	21,047	-5.6	7,347.2	2.4	54.0	9,896.0	0.0	47.0
1992	14,719	8.2	22,871	8.7	7,936.8	8.0	53.9	10,656.2	7.7	46.6
1993	15,348	4.3	29,428	28.7	7,376.4	-7.1	48.1	13,873.9	30.2	47.1
1994	18,105	18.0	23,270	-20.9	8,634.4	17.1	47.7	10,915.1	-21.3	46.9
1995	21,636	19.5	35,709	53.5	11,078.2	28.3	51.2	16,860.5	54.5	47.2
1996	23,224	7.3	43,627	22.2	11,548.6	4.2	49.7	23,138.1	37.2	53.0
1997	26,261	13.1	48,559	11.3	12,200.4	5.6	46.5	24,869.7	7.5	51.2
1998	26,974	2.7	45,921	-5.4	13,498.1	10.6	50.0	24,074.7	-3.2	52.4
1999	26,588	-1.4	40,671	-11.4	14,349.5	6.3	54.0	21,417.3	-11.0	52.7
2000	27,775	4.5	54,503	34.0	14,509.7	1.1	52.2	26,610.3	24.2	48.8
2001	31,186	12.3	40,507	-25.7	16,078.2	10.8	51.6	18,059.4	-32.1	44.6

Source: The Under secretariat of Foreign Trade

The implementation of the Customs Union did not bring a new advantage in terms of nominal tariff rates for Turkish exporters because as it has mentioned before except some products such as textile and clothing the tariffs to industrial goods which have imported from EU countries decreased to zero. The elimination of textile quotas was the main advantages that contributed to the Turkish exports. However, the effect of elimination of quotas was not as strong as it was estimated before the Customs Union. The clothing exports rose less than total exports increase during this period.

As it was expected before the Customs Union, imports from the EU countries increased substantially due to the impressive tariff reduction made in the beginning of 1996. When the imports by sectors are observed, it has the similar trend to what is observed in exports. After the Customs Union, the share of manufactures imports rose, while the share of agricultural products imports decreased between 1995 and 2001.

The changes in structure of Turkish exports by sectors, some positive developments have observed. After the Customs Union, the manufactures exports rose more than total exports increase and its share in total exports increased 84.6 % from 76.7%. On the other hand, agricultural products exports decreased by 18 % at the same period. Especially, triple-digit increase in machinery and transport equipment exports and its sub-sections is one of the successes of the Customs Union for Turkey. On the other hand, even though it has still the

biggest share, clothing exports rose only by 10 % between 1995-2000 and its share decreased 6.1 points. Despite this slow export growth rate, clothing exports is still consisting of almost 1/3 of total Turkish exports to the EU. If it is considered with the textile, textile and clothing exports are still the main exports items of Turkey. However, the developments in favor of manufactures and especially machinery and transport equipment continued by accelerating rate in 2001 as well, and if this trend keeps continue in the near future, this sector will become the main exporting item of Turkey.

The share of agricultural products imports dropped dramatically from 8.2% in 1995 to 4.3 % in 2000. Between 1996 and 2009 the share of agriculture sector in Turkish exports to the EU decreased from %16,8 to %8,6, and the share of textile and clothing sector decreased from 49,1% to 28,2%. However, the share of automotive sector increased from 3,4% to 19,5%, the share of machinery increased from 3,9% to 8,9% and the share of iron and steel sector increased from 3,6% to 5,8%. In 2009, 75% of Turkey's automotive exports, 69% of textile and clothing exports, 54% of electronic equipment exports and 51% of machinery exports are directed to the EU.

Table 13: Turkish Exports to the EU by Sectors

	<i>Million US\$</i>				
	1995	Share (%)	2000	Share (%)	Chg. (%)
1- Agricultural Products	2,055	18.5	1,682	11.6	-18.1
Food	1,872	16.9	1,518	10.5	-18.9
Agricultural Raw Materials	183	1.6	164	1.1	-10.4
2- Mining Products	518	4.7	540	3.7	4.3
3- Manufactures	8,498	76.7	12,271	84.6	44.4
Iron and steel	375	3.4	689	4.7	83.5
Chemicals	292	2.6	354	2.4	21.3
Other semi-manufactures	649	5.9	1,039	7.2	60.0
Machinery and transport equipment	1,303	11.8	3,083	21.3	136.7
1.Other non-electrical machinery	162	1.5	323	2.2	99.4
<i>Office mach. & telecomm. Equip</i>	190	1.7	765	5.3	303.5
<i>Electrical machinery</i>	403	3.6	575	4.0	42.7
2.Automotive products	317	2.9	941	6.5	196.6
<i>Other transport equipment</i>	192	1.7	435	3.0	126.8
Textiles	1,308	11.8	1,906	13.1	45.7
Clothing	4,307	38.9	4,741	32.7	10.1
Other consumer goods	26	0.2	460	3.2	1,637.0
TOTAL	11,078	100	14,510	100	31.0

Source: The Under secretariat of Foreign Trade

In conclusion, it is detected that similar trend in both Turkish exports to the EU and Turkish imports from the EU with the implementation of the Customs Union. As the share of manufactures trade, especially machinery and transportation equipment increased dramatically, the share of agricultural products trade dropped.

It can be summarized the impacts of the Customs Union on Turkish industry as follows:

- Although its share in Turkish exports decreased in the post-Customs Union era, textile is still the biggest sector in terms of both value added and the number of employees. It is observed that, the value added, number of employees and fix capital formation in this sector also increased in the post-Customs Union period. On the other hand, productivity per worker reduced by 13.3% in the same period. It is observed that the similar trend in “Wearing apparel except footwear” sector.
- Second biggest sector in terms of value added in Turkish economy even after the Customs Union is still food sector. However, it can be seen that although the fix capital formation increased in this sector, the value added and productivity per worker in this period decrease in the post-Customs Union era. It is also observed that, the share of this sector in total value added and employment also decreased in the same period. Thus, development in value added and employment in food sector support the downward trend in food exports after the Customs Union.
- As it was observed before, the importance of automotive sector in Turkish exports increased dramatically after the Customs Union era. It can be observed a similar trend in value added, employment, investment and productivity in automotive sector.

5.4 Developments in Foreign Direct Investment

As a result of new development strategy, the amount of foreign direct investment increased substantially between 1980-1995. This increase has been connected to new export-led strategy and liberalization attempts in both Turkish and world economy during that period. However, when the other developing countries in Southeastern Asia and Latin America are compared, the amount of FDI in Turkey was very low level. In the 80's, while the share of Spain in total FDI in developing countries was 25.6% (Mexico had 13.3% and Brazil 13.1% share), Turkey only could attract 1.1 % of all FDI flowing into the developing countries. Manufacturing had still had the biggest share in total foreign investment. The biggest investor countries were

France, the USA, the Netherlands, Germany, Switzerland, the United Kingdom and Italy. So, the EU countries were the main investors in Turkey in this period.

Table 14: Classification of Foreign Direct Investment by Sectors (Million \$)

	Manufacturing	%	Services	%	Agriculture and Mining	%	Total	Inflow
1980	88.76	91.51	8.24	8.49	0.00	0.00	97.00	35
1985	142.89	60.94	80.97	34.53	10.63	4.53	234.49	158
1990	1214.06	65.23	534.45	28.72	112.65	6.05	1,861.16	1,005
1995	1,996.48	67.95	849.48	28.91	92.36	3.14	2,938.32	1,127
Total (1980-1995)	11,035.95	66.13	5,158.98	30.91	494.57	2.96	16,689.50	8,699.00

(%) Percentage share of the sector in total.

Source: Turkish Treasury

The formation of the Customs Union between Turkey and the EU may have some impacts on foreign direct investment (FDI) in Turkey. There could be two reasons why the Customs Union may affect FDI. First of all, since regulation in the area of economy now more similar to each other, making investment would be more attractive for the EU firms. In addition, these firms could benefit from low-wage yet relatively high-skilled labor in Turkey. Secondly, the Customs Union could attract more firms from non-EU countries that want to export to the EU market without any nominal tariff and other customs barriers from Turkey.

Table 15: Classification of Foreign Investment Approvals by Sectors

	Manufacturing	Chg. (%)	Agriculture & Mining	Chg. (%)	Services	Chg. (%)	Total	Chg. (%)
1990	1,214.1	27.8	112.7	431.4	534.5	-1.1	1,861.2	23.0
1991	1,095.5	-9.8	62.2	-44.8	809.6	51.5	1,967.3	5.7
1992	1,274.3	16.3	52.6	-15.6	493.1	-39.1	1,820.0	-7.5
1993	1,568.6	23.1	32.4	-38.3	462.4	-6.2	2,063.4	13.4
1994	1,107.3	-29.4	34.5	6.3	335.9	-27.4	1,477.6	-28.4
1995	1,996.5	80.3	92.4	167.9	849.5	152.9	2,938.3	98.9
Total 1990-95	8,256.2		386.7		3,484.8		12,127.7	
1996	640.6	-67.9	72.6	-21.4	3,123.7	267.7	3,837.0	30.6
1997	871.8	36.1	38.9	-46.4	767.5	-75.4	1,678.2	-56.3
1998	1,018.3	16.8	19.5	-49.9	609.7	-20.6	1,647.4	-1.8
1999	1,123.2	10.3	24.0	22.9	553.4	-9.2	1,700.6	3.2
2000	1,115.2	-0.7	66.1	175.8	1,878.9	239.5	3,063.1	80.1
2001	1,255.9	12.6	164.6	149.1	1,318.1	-29.8	2,738.6	-10.6
Total 1996-01	6,025.0	-27.0	385.6	-0.3	8,251.3	136.8	14,664.9	20.9

Source: Turkish Treasury

When the gross figures are analyzed, it can be realized that FDI in manufacturing sectors decreased after the Customs Union, on the other hand, FDI in services sector, which has the biggest share in total FDI flows to Turkey increased by almost 21% between 1996-2001 compared to period of 1990-95. FDI inflows to Turkey increased by 31% in 1996, the highest of all times, followed by decreases of 56% and 2% in 1997 and 1998 respectively, via the global economic crisis. In 1999, there was a 3% increase. Year 2000 was the year of second highest FDI inflow, \$3.5 billion, mainly generated by the 3rd GSM network. The following years' figures decreased by 22% and 18% in 2001 and 2002 respectively. On the other hand, the relatively high number is observed pre-Customs Union period in manufacturing sector was mainly due to the foreign direct investment in automotive sectors. In this period, some East Asian car producers such as Honda, Hyundai, and Toyota made investment in Turkey. On the other hand, some European and US automobile makers also made direct investment in Turkey in order to be benefited from high-skilled yet relatively cheap labor force that Turkey has in automotive sector. The main increase after the Customs Union was seen in the services sector. It can be particularly observed a major increase in telecommunication and banking sector due to the privatization in 2000 and 2001.

The trend of global inflows of FDI is also decreasing. The total global inflows of FDI in 2003 were \$560 billion, declining from its historical peak of \$1.1 trillion in 2000. The decrease in global FDI inflows, also decreased FDI's coming to Turkey. This is the one of the reasons why FDI did not increase after Customs Union.

Capital flow is prevented by bureaucratic obstructions and poor legislation, and the real cause for direct investment oriented foreign capital not entering Turkey at the expected level is economic and political instability. After Turkey entered into Customs Union, Turkey has 3 major economic and 2 major political crises. There were other negative effects like instable and high inflation, interest rates and lack of proper legislation. These all created an unfavorable environment for potential investors.

Table 16: Distribution of FDI in Turkey by Top 10 Countries

	1990-95	1996-01	Chg.(%)
France	2,226	2,932	31.7
The Netherlands	1,520	2,463	62.0
Germany	1,306	2,148	64.5
U. Kingdom	806	1,092	35.6
USA.	1,424	1,556	9.2
Italy	1,048	697	-33.5
Switzerland	958	481	-49.8
Belgium	117	199	69.8
Japan	841	630	-25.1
S. Korea	138	158	14.5
Total	10,385	12,356	19.0

When the top 10 countries is analyzed, it can be seen that the EU countries still have the biggest share in total FDI. The EU's share in FDI's coming to Turkey is 78%, between 1995 and 2001. The instability between EU-Turkey relations and uncertainty of Turkey's candidate status until 1999, then uncertainty of date for negotiations affected FDI inflows into Turkey. It is also observed that after the Customs Union, FDI from France, The Netherlands, Germany, Belgium and United Kingdom rose substantially, while FDI from Japan, Italy and Switzerland decreased dramatically. However, here are no major changes occurred after the Customs Union in terms of source of FDI in Turkey.

When Turkey is compared with other countries like Poland, Czech Republic and Hungary, these countries receive enormous amounts of FDI compared to Turkey. It is because they provide better conditions than Turkey such as their negotiations have started much before, their political wills and besides their costs which are labor, energy and land are lower than those of Turkey's.

Turkey is spending a lot of efforts and resources to attract FDI inflows into the country. On the other hand, Turkey exports FDI to third countries. Turkey's FDI outflows between 1997-2004 are reached to \$7 billion. Three out of first four countries that Turkey exports FDI are the EU countries, which are Holland, England and Germany. These are also the countries that Turkish people live most.

Turkey does not receive enough FDI that it is supposed to. EU foreign direct investments (FDI) in Turkey have reached almost € 9 billion in 2007. They account for about two thirds

of total FDI inflows in Turkey and they amount to 3.5% of Turkey's GDP. In the first quarter of 2008, the share of FDI flows from the EU fell further to 53%.

CHAPTER 6: INTERNATIONAL TRADE AND COMPETITIVENESS IN THE TEXTILE & APPAREL SECTOR

While trying to make visible the economical chances in Turkey and in EU in the case of Turkey's accession to EU, it has been focused on the Textile Industry of Turkey and the trade relationships with Italy since Textile Industry is one of the major industries that Turkey has a comparative advantage on it. Additionally, Italy is the 3rd biggest textile and clothing products importer from Turkey and this trade relationship abuts on historical realities. To focus on this sector and this relationship, will show that how this sector has changed due to the agreements and economical situations, besides this, the results will reveal that if Turkey will be a member of EU, how this trade will be affected.

6.1 Textile Sector

Textiles and clothing industry has long been an important component of international trade and trade in this industry is conducted on an immense scale. This industry is one whose production process is highly intensive in unskilled labor. Since this is a factor with which developing countries are relatively well-endowed, exports of textile and clothing products are argued to have been the 'obvious choice for developing countries for their industrialization effort'. Indeed, the development of textile and clothing industry has been an important "first step" of many developed countries industrialization progression. So there is a quite severe competition among developing countries in order to get larger share from the market or even to sustain their share for long periods of time. On the other hand, since the Agreement on Textiles and Clothing has been abolished all quota restrictions in trade in textiles and clothing, this competition becomes more severe; because quotas no longer guarantees markets and even the domestic market be opened to competition.

6.2 Turkish Textile

Textile and Apparel industry has a great contribution to the Turkish economy. The industry has been denominated as the locomotive of the Turkish Economy for years. The Turkish textile and clothing industry has the capability to meet high standards and can compete in international markets in terms of high quality and a wide range of products. With its fashion-oriented and high quality products, Turkey has been increasing its share in the main markets, especially in the European market which has high standards and sophisticated customer needs.

The history of textile production in Turkey goes back to the Ottoman period. In the 16th and 17th centuries, textile production was widespread and at an advanced level. The fact that until the end of the Empire the Ottoman industry was heavily relied on textile industry was the clear indication of the importance of the sector. Having rapidly developed in the 20th century, a great textile production capacity was created in Turkey between the years 1923-1962. The extensive growth in the cotton in Turkey, the most important raw material of the textile industry, was further contributed to the development of the textile sector during the following years. Turkey as a traditional cotton grower has a great advantage in the production of textile and clothing. With the completion of the Southeastern Anatolian Project (GAP : Güneydoğu Anadolu Projesi, in Turkish), it is estimated that Turkey's cotton production will be twofold.

6.2.1 Competitiveness of Turkey and Comparative Advantage

In economic theory, a country has a comparative advantage over another in the production of a good if it can produce it at a lower opportunity cost. That means it has to give up less labor and resources in other goods in order to produce it compared to the other countries.

Turkey's textile sector is labor-intensive sector and feature relatively low productivity levels. The international competitiveness of the Turkish economy by embodying four different measures of competitiveness, namely revealed comparative advantage (RCA), comparative export performance (CEP), trade overlap (TO), and export similarity (ES) indices, the empirical findings suggest that Turkey has a strong comparative advantage in raw material-intensive, and labor-intensive goods, and has comparative disadvantages in the difficultly imitable research-oriented goods and in easily imitable research-oriented goods. Turkey has comparative advantage at about 50 percent of the "standard" industrial products while has a definite disadvantage in "advanced" technology products with respect to the EU. Thus the country shares the same export structure with Romania, Poland, and partly with Bulgaria. While comparing the competitiveness of textile and clothing industries of Turkey and China, EU and the USA markets; Turkey, compared to China, has a comparative advantage in textile and clothing in both the EU and the USA markets. However, Turkey's advantage in relative terms is calculated to be higher in the USA market compared to the EU Market.

According to WTO statistics for 2010, Turkey's textile and apparel exports ranked seventh in the world with the share of 3,8% and Eurostat statistics shows that Turkey is the second in the EU market with the share of 17,5. Since textile production is more capital-intensive than clothing production, it is expected some developed countries such as USA, Japan, France,

Germany, Italy and UK should be found in the group of textile exporters, and the developing countries in the group of clothing exporters.

Turkey sometimes is weak in its performance of production and competition in research-oriented goods; but also it has improved its trade diversification. Attracting foreign direct investment (FDI) is the key factor to transfer technology and to reshape trade patterns.

By employing RCA approach, it has been investigated that the potential trade creation and diversion effects of economic integration for Turkey and the EU. It can be also used that the RCA index to examine if Turkey's accession will jeopardise the trade for southern members, i.e. Greece, Portugal, and Spain. Results confirm that the export structures are remarkably different among Turkey and the EU. It is pointed out that Turkey, probably, does not change the EU position significantly since country's low trade volume with respect to the EU. Results indicate that Turkey's accession to the EU market with no trade barriers may hamper the export position of the southern EU countries. As parallel to the expectations of the formation of Customs Union with the European Union (EU), the production capacity of the sector increased in the 1990's. With regards to machinery capacity, Turkey has 3% of short staple spinning capacity of the world, 5% of long staple spinning capacity of the world, 7,3 % of OE rotor capacity of the world, 3,5 % of shuttleless of weaving looms capacity of the world, 1,9% of shuttle weaving looms capacity of the world and 5,1 % of wool weaving looms capacity of the world by the year 2008.

The apparel industry is constituted mainly (80%) of small and medium sized firms whereas the technology-intensive textile production has been undertaken by large-scale companies. Today, around 20% of Turkey's 500 largest companies are involved in the textiles and apparel sector. As a more capital intensive industry as compared to clothing industry, most of the companies in the sector are medium scale. The industry has also large scale companies having integrated production facilities. There are nearly 7500 textile manufacturers producing for the textile export of Turkey. The production facilities mainly concentrated in İstanbul, İzmir, Denizli, Bursa, Kahramanmaraş and Gaziantep.

Turkish textile industry uses modern technology. Existence of a well-developed textile finishing industry in Turkey makes also possible production and marketing of highly value added, fashionable and quality products. Turkey ranks also among the top ten global producers of wool cloth, carpets, synthetic filament and fiber, polyester and polyamide

filament. Cotton textile products such as cotton, fiber, yarn, and woven fabrics constitute about 24% of total textile exports. The main export items are synthetic yarns from monofilaments cotton woven fabrics, knitted fabrics, synthetic filament yarns, woven pile fabrics like velvet. While Europe's 3rd largest polyester producer is a Turkish-US joint venture, Turkey's synthetics production amounts to 15% of Western Europe's capacity.

6.2.2 Main Advantages of Turkish Textile Industry

Main advantages of Turkish textile industry in production and supply of raw materials are:

- Richness in basic raw materials (ranked seventh in the world with the annual cotton production about 375 thousands tons and production of synthetic and artificial fibers in substantial amounts.)
- Geographical proximity to main markets, especially European markets; has a strategic geographical location between the continents of Asia, Europe and Africa
- Short logistics period due to geographical proximity, developed transport infrastructure and short shipping times provide a logistic advantage
- Qualified and well-educated labor force
- Liberal trade policies
- Well-developed textile finishing industry and has an important textile finishing capacity in Europe
- Customs Union agreement with the European Union, free movements within the EU, compliance with the EU's technical regulations.
- Products changing from the haute-couture clothing to the vocational clothing or technical textiles can be manufactured.
- Sensitivity about both workers' social conditions and quality, environment and health are among competitive advantages
- For the quality control and tests, Turkey has an advanced, modern and well equipped textile testing laboratory infrastructure
- Free Trade Agreements with different countries also stands as a competitive advantage for Turkish Textile and apparel industry.
- Free zones and organized industrial zones offer the industry advanced production infrastructure, technical knowledge, internationally accepted investment and export incentives.

6.2.3 Textile Export of Turkey

After the Customs Union, the European Union's quantity restrictions on Turkish textile and clothing were eliminated. The Turkish exporters have been expecting an increase in exports from this agreement, but only 4.74% increase in the exports has been realized. Besides that, a great deal of acceleration is observed especially after 1996 which prove that the Customs Union with the EU had positive effect on the Turkish trade pattern. Turkey's textile and apparel exports continued rising recently after began falling with elimination of EU and US quotas. While the export value of the textile sector was 1,1 million dollar in 1990, it has reached to 5,4 billion dollars by the end of 2009. In other words, total textile exports of Turkey folded five times within the last 20 years.

The production value of the sector is over US\$ 20 billion. Employment in the sector is estimated to be about 4 million people (2.5 million employed directly and a further 1.5 million indirectly through the sub-sectors). Official statistics also reveals that around 500,000 employees in the sector due to unregistered labor force. The apparel sector exports approximately 60% of its production. Capacity utilization rates are approximately 75% especially among exporting manufacturers.

Table 17: Annual Textile Export of Turkey

Annual Textile Export of Turkey			
Years	Total Export (1000 \$)	Textile Export (1000 \$)	Share of Textile in Total export %
1990	12.959.289	1.136.566	8,8
1991	13.593.539	1.043.628	7,7
1992	14.365.414	952.389	6,6
1993	15.345.000	1.030.145	6,7
1994	18.107.000	1.462.592	8,1
1995	21.637.041	1.644.094	7,6
1996	23.224.465	1.762.396	7,6
1997	26.261.072	2.380.707	9,1
1998	26.973.952	2.468.114	9,1
1999	26.588.264	2.463.618	9,3
2000	27.774.906	2.549.929	9,2
2001	31.339.991	2.797.693	8,9
2002	36.059.089	2.917.224	8,1
2003	47.252.836	3.562.462	7,5
2004	62.773.654	4.434.728	7,1
2005	73.415.678	4.807.143	6,5
2006	85.774.644	5.403.521	6,3
2007	107.271.750	6.363.918	5,9
2008	132.027.196	6.640.492	5,0
2009	102.164.809	5.374.208	5,3

Source: Undersecretariat of Foreign Trade / February 2010

As far as country groups are concerned, Turkey exports 49% of textile products to EU countries. The second important country group is former USSR countries including Russian Federation, Ukraine, Azerbaijan, Uzbekistan with the market share of 14 %. For the Turkish textile and clothing exporters, there is a very heavy reliance on the European Union (EU) market; 56% of Turkey's textile and 66% of her clothing exports are sent to EU. Especially Germany is the largest market with %11, Russia is the second largest market for Turkish textiles with a market share of 8% and Italy is the third largest market with 8% in 2009, respectively. In addition, it should be noted that there is a high level of concentration on certain markets. For example, textile exports to top ten countries account for 57% of total textile exports. Textile and clothing industry accounts for 10% in GNP, 40 % in industrial production, 30% manufacturing labor force, 35% of exports earning.

The textile and apparel sector contributes over 20 billion USD to the Gross National Product. The sector is mostly important for its export earnings; its share in the country's total exports has been between 33-39% since 1990.

6.3 Turkey's Textile Export By Countries

Table 18: Annual Textile Export of Turkey

	2008	2009	08/09	2009
	\$	\$	Change (%)	Share
GERMANY	927.402.999	855.184.575	-8%	11%
RUSSIAN FED.	941.730.698	626.900.252	-33%	8%
ITALY	734.916.069	614.283.398	-16%	8%
U.S.A	553.505.948	410.525.809	-26%	5%
U.K.	383.187.019	310.524.348	-19%	4%
FRANCE	356.107.714	303.596.240	-15%	4%
ROMANIA	403.800.465	292.246.618	-28%	4%
POLAND	364.236.935	282.739.766	-22%	3%
IRAN	244.447.264	259.525.609	6%	3%
BULGARIA	296.351.553	218.622.192	-26%	3%
TOTAL	9.896.654.608	8.097.887.549	-18%	

Turkey as being one of the most prominent textile and clothing producers in the world, now, has the production capacity to meet all the raw material needs of clothing industry. Some part of cotton and artificial and synthetic fibers needed by the industry are met by means of importation. Turkey has also gained valuable experience in fabric design and it is started to present its special designs with fashion shows in prominent markets. Turkish textile industrialists, most of whom has created their own trademark together with the patent rights, provide the most important foreign home textile and clothing companies with their fabric. The main goals of the sector under the current world conjuncture are to produce high value added,

original and high quality products and to sell them at a reasonable price level. On the other hand, as parallel to the current trends in the world, Turkey has shown great effort in the technical textile production in cooperation with the university-industry and governmental institutions and by giving importance to R&D.

6.4 Italy's Economic Situation and Textile Industry

Italy's main markets which it is making external trade are, Germany (%12,6), France (%11,5), USA (%5,9), Spain (%5,6), United Kingdom (%5,1), Switzerland (%4,6) and Turkey (%1,86). Main suppliers of Italy are, Germany (%16,6), France (%8,8), China (%5,9), Holland (%5,6), Spain (%4,3), Russia (%4,1), Turkey (%1,43)

Italy's main export products & product groups are machines (%18,9), textiles and apparel (%11,3), metal and metal products (%11,1) and transportation vehicles (%10,1). Italy's main import products and product groups are transportation vehicles (%11,9), chemicals (%8,7), metal and metal products (%8,3), immature petrol (%8,1), computer and electronic devices (%7,6)

Table 19: Turkey-Italy External Trade Datas (Million Dollar)

<u>Turkey-Italy External Trade Datas (Million Dolar)</u>						
YEARS	EXPORT	CHANGE	IMPORT	CHANGE	VOLUME	BALANCE
2000	1.789	6,36	4.332	35,71	6.121	-2.543
2001	2.342	30,91	3.384	-21,88	5.726	-1.042
2002	2.375	1,40	4.096	21,04	6.471	-1.721
2003	3.193	34	5.471	33,56	8.664	-2.278
2004	4.648	45,56	6.895	26,02	11.543	-2.247
2005	5.616	20,82	7.566	9,73	13.182	-1.950
2006	6.752	20,22	8.663	14,49	15.415	-1.911
2007	7.480	10,78	9.967	15,05	17.447	-2.487
2008	7.818	4,51	11.011	10,47	18.829	-3.193
2009	5.890	-24,63	7.673	-30,32	13.564	-1.783
2010	6.506	10,45	10.203	32,96	16.709	-3.697

Main products which Turkey's exports to Italy are; firstly, land transportation vehicles (in 2009 it was 1 604 986 dollars and in 2010 it was 1 859 866 dollars); and secondly textile and

apparel products (in 2009 it was 573 367 dollars and in 2010 it was 653 043 dollars). Total export to Italy was 5 890 483 dollars and was 6 505 965 dollars in 2010. Main products which Turkey's imports from Italy are, firstly, machines and devices which are using for different industries (in 2009 it was totally 890 260 dollars and in 2010 it was 1 027 842 dollars); on the seventh step, there is textile and apparel products (in 2009 it was 499 810 dollars and in 2010 it was 519 104 dollars). Total import from Italy was 7 673 373 in 2009 and was 10 202 600 dollars in 2010.

Italy has the 4% share of World trade, besides this, in the World economics, has the condition of 8th biggest importer. Unfortunately, in the World trade share of it is getting retrograde, for instance in furniture sector it had %18 of World trade but in 2002, its share has retrograde to %14.

With 47,7 billion Euro production capacity, after China, Italy is the second biggest textile exporter in the World. In this sector, it has %7 share in World trade. In Italy, approximately textile production's 35 percent is exported. In apparel sector, it has 34,5 billion Euro production capacity and apparel production's 23 percent is exported. In this sector Italy has %8 share in the World trade. With the %10,3 share, textile and apparel products are the third biggest export group in Italy.

Recently in restructuring of the EU and in the framework of the new developments within the EU and outside the EU, Italy is in permanent search of partners and is working forwards this direction. Italy, in recent years, is trying to take an active role in Eastern Europe and in the Balkans and as a result of this, including Turkey, countries such as the Mediterranean, the Balkans, Russia, attaches great importance to developing trade and economic relations with them. Existing cultural and historical ties with these countries is aimed to be reflected in economic relations. Indeed, the economic and commercial relations with these countries have already reached an advanced level for Italy. Italy has a high level of market share; for instance in the Balkan countries as 17% and 12% in North African countries On the other hand its market share has reached with Russia to 8.4%, 5.7% in the EU, while 2.2% share in the U.S. have been observed.

6.5 Analysis of Price Competitiveness in the Apparel & Textile Sector

There mainly exist two prominent theories of trade based on comparative advantage: the Ricardian theory and the Heckscher-Ohlin (H-O) theory. The Ricardian theory assumes that comparative advantage arises from differences in technology across countries while the H-O theory suggests that technologies are the same across countries. Instead, the H-O theory attributes comparative advantage to cost differences resulting from differences in factor prices across countries. In brief, the predictions of orthodox (classical) trade theories are based on the principle of comparative advantage which derives from relative price determination, i.e. differences in pre-trade relative prices across countries, underlined by supply and demand factors. Turkey has comparative advantage on textile and apparel industry; so the upcoming analyses have been discussed in the framework of Ricardian model.

6.5.1 Wages

To reveal the economical indicators in the case of Turkey's accession, firstly the wages which have been paid to textile and apparel workers of Turkey and also for Italian workers have been compared to understand the wage difference among them. With this calculation it has been aimed to understand that, how the costs are affecting the textile and apparel sector and also yearly how this difference has changed. Despite advances in technology and workplace practices, the textile and apparel manufacturing industries are among the most labor-intensive manufacturing industries. Although many workers still perform this work in the Italy, the industry increasingly contracts out its production work to foreign suppliers to take advantage of lower labor costs in other countries like Turkey; it is especially vulnerable to import competition from nations in which workers receive lower wages.

The high variability in wage differentials, both over time and between different categories of workers, that emerged from the analysis on micro data suggests that wage determination mechanisms envisaging a systematic comparison with the private sector (by sector, geographical areas, educational and occupational qualifications) can deliver wage dynamics in the public sector that are more consistent with the underlying macroeconomic and labor market conditions. A reform in this direction may not only increase efficiency and fairness but also enhance transparency in the public sector wage determination setup. It can be seen that Italy's weekly wage payment to textile and apparel workers has been increased by around 32% and in Turkey around %14. The wage difference was 224 Euro in 2000 and it has

increased to 247 Euro in 2009. The difference has increased by 10% during this time period. Turkey's payment which is the minimum monthly wage payment is 380 Euro.

In developing countries, public sector usually consist a major part of the wage employment. Therefore it could influence the wage setting and other employment in the labor market. In both the Italian and Turkish market, there is a clear wage gap between gender across the private and public sector. In Turkey women earns 78% of men earning on public sector and 51% in private sector with large wage gap between genders. In Turkey, public sector wages are significantly higher than covered private wage earners. Women in private sector earns 30.1% lower than the public sector, whilst men earns 35.1% less in private sector than public sector. Another factor is that public sector labors are better educated than private sector.

The public-private sector payment gap can be evaluated from different perspectives, either cross country or single country. Considering identical worker's characteristics, it has been found that the wage gap is wide in Italy. The common finding is that, after controlling for relevant characteristics, in fact there exists a wage premium in Italy for those who work in the public sector that is generally lower for men, high skilled workers, and in the Northern Italy.

In Italy the difference in pay between public and private sectors in the last decades has always been sizeable, Public sector employment in Italy has higher share from private sector. If the aggregated data from national accounts is focused, the gap was about 20 percent in 1980, almost reached 40 percent in 1990, decreased to 22 percent in 1995; it started to reach 36 percent in 2008. The gender gap is smaller than in the private sector (4% as national average, as opposed to 12% in the private versus)

There is a rapidly growing labor force in Turkey. The unemployment rate is 11,2% (2011 estimate). In Turkey –even in many other developing countries- government interfering to wage setting on public sector influence the wage setting. Although the public sector has gained union rights recently in Turkey, it is still sluggish to influence the wage setting because they do not have bargaining and strike rights. However, public sector employees in Turkey have life time permanent contracts which give them more secure environment than in the private sector. In private sector unionization is much stronger and has power to negotiate in Turkey. In public sector the wage is determined by individual education level and occupational status and increases annually with an equal proportion decided by the state

policy. This is one of the reason why the wage differential between genders in public sector is parity while it is significantly large in private sector.

Wages played two roles that must be distinguished. First, they represented the cost of labor to manufacturers. Turkish wages were much less than European wages. As it can be explained by the low price of the Turkish textile and apparel products which have been shipped to Europe, Africa, and the Americas. Whether low wages imply a low standard of living is another matter, however.

Second, wages reveal the standard of living if they are compared to the price of consumer goods. This is the interpretation that matters in assessing the prosperity of developing countries vis-à-vis Europe. Provided low developing countries wages were matched by low consumer goods prices, the standard of living of workers could have been the same at both ends of Eurasia even though Asian manufacturers had a competitive advantage in the textile industry.

YEARS	ITALY'S WEEKLY WAGES FOR TEXTILE AND APPAREL, IN EURO	TURKEY'S WEEKLY WAGES FOR TEXTILE AND APPAREL, IN EURO
2000	283,8861608	59,12268786
2001	293,6686469	62,49268107
2002	298,5067261	66,42971998
2003	305,0758986	69,74243522
2004	317,3137169	83,56959675
2005	330,8337555	109,1423733
2006	341,1966509	114,599492
2007	351,8845011	118,4958747
2008	362,9067811	120,3918087
2009	374,2743183	126,6521828

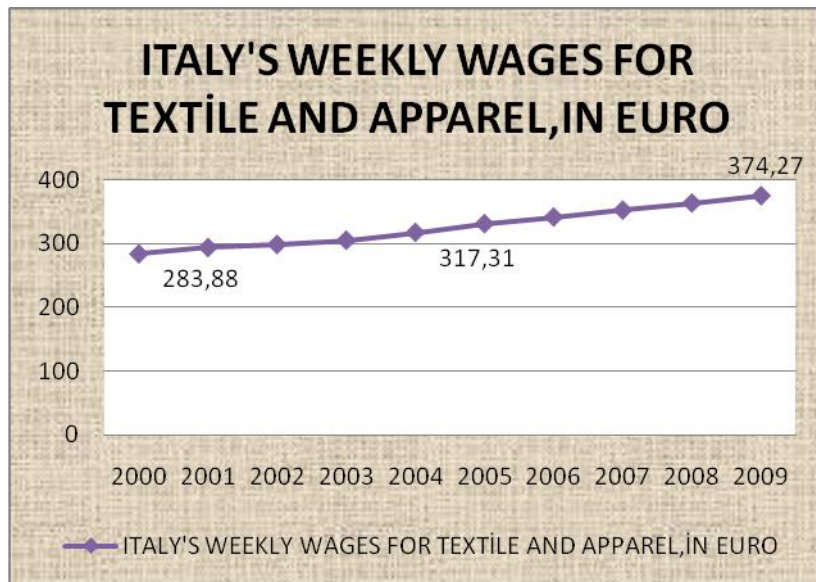


Table 20: Turkey's and Italy's Weekly Wages (in Euro)

WAGES IN ITALY-WAGES IN TURKEY (EURO)	MONTHLY DIFFERENCE (EURO)	YEARLY DIFFERENCE (EURO)
224,763473	899,0538918	10788,6467
231,1759659	924,7038635	11096,44636
232,0770062	928,3080246	11139,6963
235,3334634	941,3338535	11296,00624
233,7441201	934,9764805	11219,71777
221,6913822	886,7655287	10641,18634
226,5971589	906,3886356	10876,66363
233,3886264	933,5545055	11202,65407
242,5149724	970,0598896	11640,71867
247,6221355	990,4885421	11885,86251

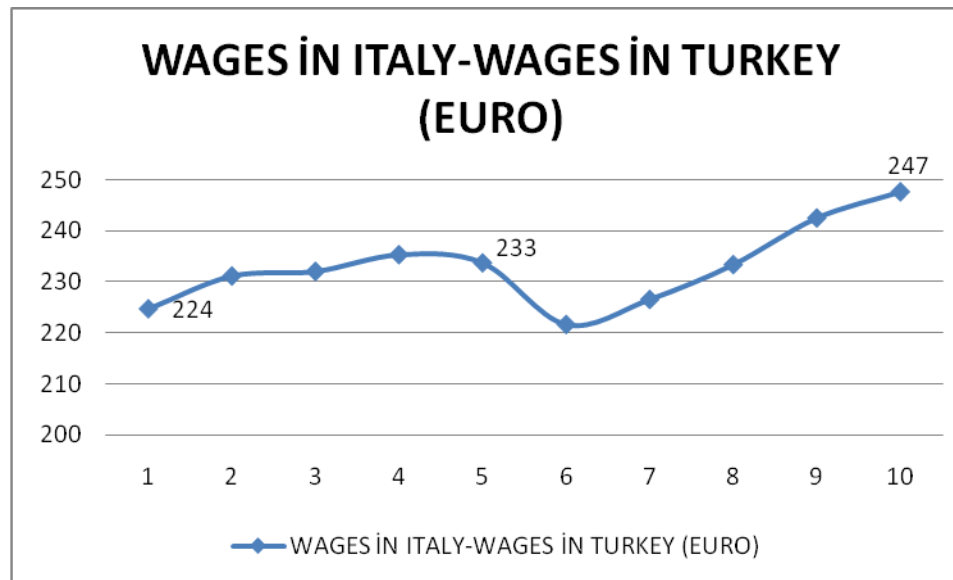


Table 21: Wages In Italy – Wages in Turkey

6.5.2 Prices

While making the analyses, in the prices part Eurostat data have been used. It has been calculated by getting quantity in a selected group of product and also getting the value of that quantity from Eurostat. By dividing quantity to value, the prices have been got for each textile and apparel group (Knitted Or Crocheted Fabrics, Articles Of Apparel And Clothing Accessories, Knitted Or Crocheted, Articles Of Apparel And Clothing Accessories, Not Knitted Or Crocheted). For Italy, the import value and import quantity, for Turkey the export value and export quantity have been used. While selecting the data from Eurostat, reporter was defined as Italy and partner defined as Turkey, and years were selected from 2000 to 2009.

6.5.3 Difference in Other Costs

By subtracting wages from prices, remain part is named as the other costs. Other costs infrastructure the access to different markets and they mean profit margins or other production costs since cost of production is the ratio of variable and fixed production costs over produced units, the decrease of the other production costs would allow to decrease to the cost of production and consequently the price of the produced unit would decrease. It has been expected that membership reduces these other costs because the legislation costs and the other hidden costs (like costs of passing customs at the frontier, time delays, formalities etc.) are bunching in this part and legislation costs are much higher to countries which are not EU member but trading with EU countries. Additionally, in the case of accession, the wages of Turkey will be higher so it will affect the unit prices of textile and apparel products and this part is expected to be decreased.

6.5.4 Knitted or Crocheted Fabrics Content and Trade Analysis

Crochet is a process of creating fabric from yarn, thread, or other material strands using a crochet hook. The word is derived from the French word "crochet", meaning hook. Hooks can be made of materials such as metals, woods or plastic and are commercially manufactured as well as produced by artisans. Crocheting, like knitting, consists of pulling loops through other loops, but additionally incorporates wrapping the working material around the hook one or more times.

Crochet differs from knitting in that only one stitch is active at one time and stitches made with the same diameter of yarn are comparably taller, and a single crochet hook is used instead of two knitting needles. Additionally, crochet has its own system of symbols to represent stitch types. Knitting is a method by which thread or yarn may be turned into cloth or other fine crafts. Knitted fabric consists of consecutive loops, called stitches. As each row progresses, a new loop is pulled through an existing loop. The active stitches are held on a needle until another loop can be passed through them. This process eventually results in a final product, often a garment. Knitting may be done by hand or by machine. There exist numerous styles and methods of hand knitting.

Different yarns and knitting needles may be used to achieve different end products by giving the final piece a different color, texture, weight, and/or integrity. Using needles of varying sharpness and thickness as well as different varieties of yarn can also change the effect.

In this part it can be observed that, there is a high correlation between the wage ratios of Italy and Turkey and the prices in Italy and Turkey. When the wage ratios were declining, at the same time the price ratios were declining as well. Besides, the correlation for Italy is nearly 0,47 which is fairly high; from this result it can be concluded that changes in prices is correlated to the changes in wages which is expected. And for Turkey price and wage correlation is not as high as Italy's but still enough to gather the same. In knitted or crocheted production, labor costs matter a lot and due to changes in the labor costs, this sector would have affected.

Moreover, while the difference in other costs is decreasing, it can be observed that there is an improvement in production in Turkey and in Italy since it can be related to the decrease of the production cost. Since the cost of production is defined as the ratio of variable and fixed production costs over production units, when the cost of production decreases it can be happen by the decrease in production costs which is covering the other production costs as well.

As it can be followed from the Table 22, Italy's other costs have fluctuated like Turkey's from year 2000 to 2009. When we compare the two countries, their other costs have declined from 2000 to 2002 but, the point that is needed to receive attention is from 2002 to 2003 the other costs of Italy have declined by % -15,42 while Turkey's has increased by %6.91. From 2002 to

2003, the imported amount of Knitted or Crocheted products that has been imported by Turkey to Italy is increased from 111 356 kg (in 100 kg) and the value of it has increased from 43 937 758 Euro to 65 908 22 Euro and for Italy's export to Turkey at the same years, the quantity has increased from 10 977 to 12 098 (in 100 kg) and the value has decreased from 16 387 285 Euro to 15 672 674 Euro, even the exported quantity has increased. And as it has mentioned before this could be a cause of increase in profit margins or increase of other production costs for Turkey and decrease in profit margins or decrease in other production costs for Italy. And vice versa, when the other costs results have been observed from 2003 to 2004; it can be seen that the difference in other costs has declined by % -15, 79 for Turkey and has increased by %19 for Italy. This could be a cause of increase in profit margins or increase of other production costs for Italy and decrease in profit margins or decrease in other production costs for Turkey. From 2004 to 2005, both 2 countries' other cost have declined since Turkey's other costs have decreased by % -25, 99 which is extremely high and Italy's other costs decreased by %15,87. From 2005 to 2007 there is an increase in other costs for both countries and again decrease from 2007 to 2009 which is not considerably high.

Clothing production is not as capital intensive as textile production. In the knitted or crocheted production, the main source is the human source which is cheaper in Turkey. So, Italy refers to import from Turkey. According to the Ricardian Model, when a country specializes and trade on a product, the relative price of the produced good rises, income for workers rises and imported goods are less expensive for consumers. And if the results are checked, it can be clearly seen that year by year the price and wage ratios are declining; the unit price increase is higher in Turkey also wages have been increased more than Italy.

Years	KNITTED OR CROCHETED FABRICS					
	Yearly Price Change for Italy	Yearly Wage Difference For Italy	Difference in Other Costs for Italy	Yearly Price Change for TURKEY	Yearly Wage Difference For TURKEY	Difference in Other Costs for Turkey
	$\frac{\text{year}(a+1) - \text{year}(a)}{\text{year } a}$	$\frac{\text{year}(a+1) - \text{year}(a)}{\text{year } a}$	Price - Wage	$\frac{\text{year}(a+1) - \text{year}(a)}{\text{year } a}$	$\frac{\text{year}(a+1) - \text{year}(a)}{\text{year } a}$	Price - Wage
2001-2000	-6,29%	3,45%	-9,74%	-0,79%	5,70%	-6,49%
2002-2001	-13,29%	1,65%	-14,93%	-4,44%	6,30%	-10,74%
2003-2002	-13,22%	2,20%	-15,42%	11,90%	4,99%	6,91%
2004-2003	23,01%	4,01%	19,00%	4,03%	19,83%	-15,79%
2005-2004	-11,61%	4,26%	-15,87%	4,61%	30,60%	-25,99%
2006-2005	3,79%	3,13%	0,66%	6,72%	5,00%	1,72%
2007-2006	8,89%	3,13%	5,76%	7,27%	3,40%	3,87%
2008-2007	-9,48%	3,13%	-12,61%	-1,53%	1,60%	-3,13%
2009-2008	-0,58%	3,13%	-3,72%	1,92%	5,20%	-3,28%
Correlations	0,467828102			0,106168242		

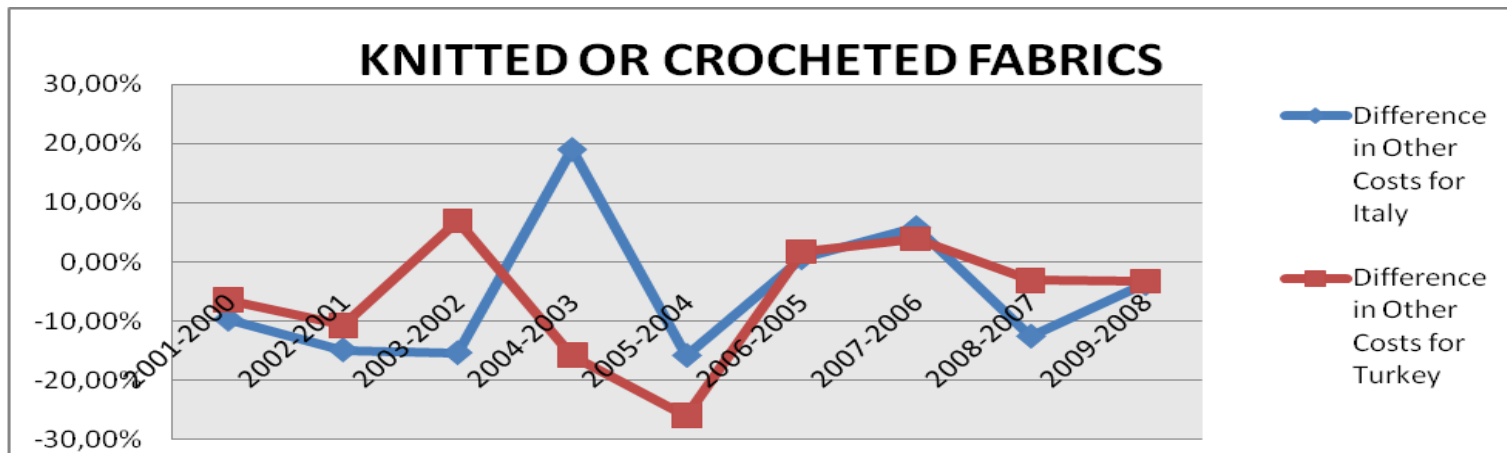


Table 22: Knitted or Crocheted Fabrics, Prices, Wages and Other Costs Comparison

KNITTED OR CROCHETED FABRICS

YEARS	WAGES(Italy) / WAGES(Turkey)	PRICE(Italy) / PRICE(Turkey)	Δ Production (Italy/ Turkey)
2000	4,80	4,41	
2001	4,70	4,17	0,52
2002	4,49	3,78	-0,32
2003	4,37	2,93	0,03
2004	3,80	3,47	-0,21
2005	3,03	2,93	0,10
2006	2,98	2,85	0,05
2007	2,97	2,89	0,16
2008	3,01	2,66	-0,18
2009	2,96	2,60	0,55

6.6 Articles of Apparel and Clothing Accessories, Knitted or Crocheted Content & Articles of Apparel and Clothing Accessories, Not Knitted Or Crocheted Content & Trade Analysis

Articles of apparel and clothing accessories products include overcoats, cloaks, anoraks, wind-cheaters, suits, ensembles, jackets, dresses, skirts, divided skirts, shirts, blouses and etc. In these parts we do not observe a consistent flow in the prices and the wages. Since textile production is more capital-intensive than clothing production, in this part we can see that labor cost is not the main cause to affect the prices, the huge investments should be done in this sector because the machines, factory areas, the processes can be done by only financial sources.

When the prices ratio of the Articles of Apparel and Clothing Accessories, Knitted or Crocheted trade data is observed, it can be seen that there is not a constant flow and it has been increasing or decreasing over years. This means the price has increased more in Italy while if we do not expect the constant Italian price and declining Turkish one.

For the articles of apparel and clothing accessories, knitted or crocheted part, from 2001 to 2003 there was an increase in the price ratios in favor of Italy. After 2004 it seem as like constant. And for the articles of apparel and clothing accessories, not knitted or crocheted part it can not be observed a constant increase or decrease in prices and till 2004, the production of Turkey has been improved according to Italian one and in 2004 there was a deep increase in favor of Italy and after that year there was a tendency to decline again and in 2007 and 2008 it has increased again.

In this part it can be observed that, there is not a correlation between the wage and price ratios of Italy, since its correlation between prices and wages for articles of apparel and clothing accessories, knitted or crocheted production is 0,05 which is considerably not high. Furthermore, Turkey's correlation is 0, 57 which is fairly high, can be conducted as changes in prices correlated changes in the wages in Turkey. When the wage ratios were declining, at the same time the price ratios were not declining in Italy. For Italy, this means in this type of production, labor costs don't matter a lot and due to changes in the labor costs, this sector has not been

affected since the labor cost changes expected to have great influence in Turkey for the same type of production.

And in the articles of apparel and clothing accessories, not knitted or crocheted production, Italy's wage and price correlation is 0,42 and for Turkey's 0,35 which means for both countries the changes in prices is correlated to the change in the wages. In this type of production the labor cost matter a lot.

When the tables 23 and 24 are analyzed, for articles of apparel and clothing accessories, knitted or crocheted production, it can be seen that Turkey has decreased its other costs and always stayed at negative percentage from 2000 to 2005 while in these years Italy's other costs have increased 3 year periods which are extremely high such as %22,47, %15,49 and %21,45. This could be a cause of increase in profit margins or increase of other production costs for Italy and decrease in profit margins or decrease in other production costs for Turkey. And from 2005 to 2008 all the country's other costs have increased since from 2008 to 2009 they have decreased to %-9,6 for Turkey and %-4,21 for Italy. Besides, for the articles of apparel and clothing accessories, not knitted or crocheted production, from 2000 to 2001 both Italy's and Turkey's other costs have increased respectively %14,71 and %8,12. From 2001 to 2001, Turkey's other costs have increased by %2,10 and Italy's have decreased by %-4,76. From 2002 to 2003, Turkey's other costs have declined by %-6,93, and Italy's other costs have declined by %-29,84 which is fairly high. From 2003 to 2004, Turkey's other costs have decreased by %-51,29 which is extremely high since Italy's have increased by %4,07. From 2004 to 2006 all the country's other costs have increased and from 2006 to 2007, Turkey's other costs have declined by %-0,57 and Italy's have increased by %40,44 which is extremely high. From 2007 to 2008 the other costs have increased both for two countries and from 2008 to 2009 it has declined again for both.

Over time, Turkey's and Italy's profit margins and general costs have shown different characteristics due to the economical stability and also the production group but mainly, it can be concluded that when Turkey's other costs decreases, Italy's other costs show a tendency to increase and vice versa. This means if a country's profit margins or other production costs

decreases, the country is benefiting from it while the contrary country's margins and costs are worsening.

Membership will mean that Turkey's textile and apparel trade with the Italy will be liberalized and prices will move towards equilibrium.

ARTICLES OF APPAREL AND CLOTHING ACCESSORIES, KNITTED OR CROCHETED						
Years	Yearly Price Change for Italy	Yearly Wage Difference For Italy	Difference in Other Costs for Italy	Yearly Price Change for TURKEY	Yearly Wage Difference For TURKEY	Difference in Other Costs for Turkey
	(year(a+1)-year(a))/year a	(year(a+1)-year(a)) / year a	Price - Wage	(year(a+1)-year(a)) /year a	(year(a+1)-year(a))/year a	Price - Wage
2001-2000	25,92%	3,45%	22,47%	3,74%	5,70%	-1,96%
2002-2001	-10,02%	1,65%	-11,66%	-10,30%	6,30%	-16,60%
2003-2002	17,69%	2,20%	15,49%	4,47%	4,99%	-0,51%
2004-2003	-32,94%	4,01%	-36,95%	5,39%	19,83%	-14,44%
2005-2004	25,72%	4,26%	21,45%	20,32%	30,60%	-10,28%
2006-2005	10,13%	3,13%	7,00%	10,48%	5,00%	5,48%
2007-2006	4,94%	3,13%	1,81%	7,92%	3,40%	4,52%
2008-2007	15,39%	3,13%	12,26%	4,82%	1,60%	3,22%
2009-2008	-1,08%	3,13%	-4,21%	-4,40%	5,20%	-9,60%
Correlations	0,058812267			0,576909839		

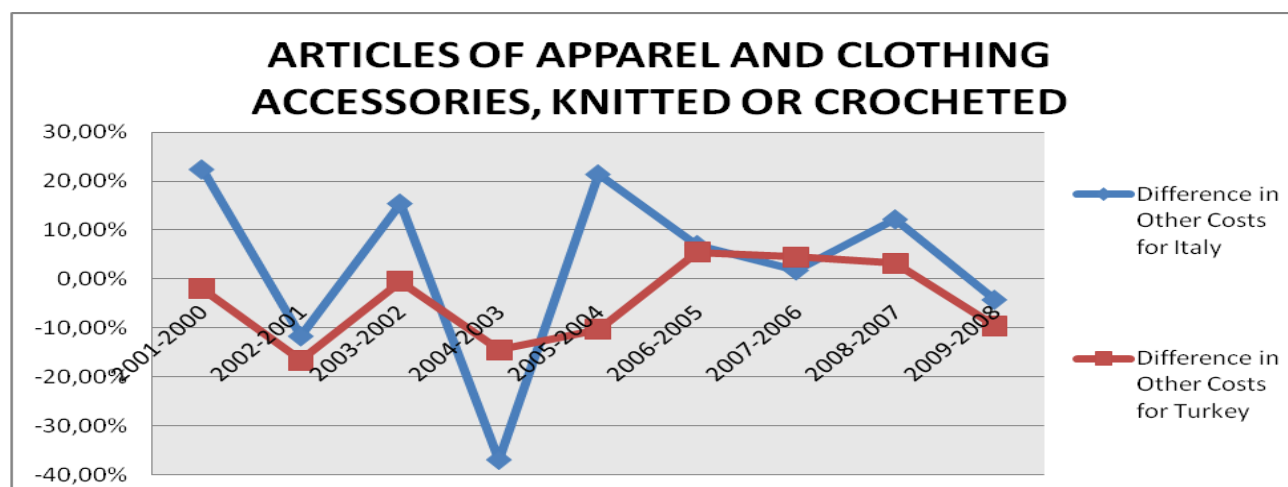


Table 23: Articles of Apparel And Clothing Accessories, Knitted or Crocheted, Price, Wages and Other Costs Comparison

ARTICLES OF APPAREL AND CLOTHING ACCESSORIES, KNITTED OR CROCHETED

YEARS	WAGES(Italy) / WAGES(Turkey)	PRICE(Italy) / PRICE(Turkey)	Δ Production (Italy / Turkey)
2000	4,8016	2,6728	
2001	4,6992	3,2441	1,4360
2002	4,4936	3,2544	0,0230
2003	4,3743	3,6660	-0,0029
2004	3,7970	2,3326	0,0625
2005	3,0312	2,4372	0,2050
2006	2,9773	2,4295	0,4683
2007	2,9696	2,3625	0,6591
2008	3,0144	2,6007	0,0836
2009	2,9551	2,6910	0,0203

Years	ARTICLES OF APPAREL AND CLOTHING ACCESSORIES, NOT KNITTED OR CROCHETED					
	Yearly Price Change for Italy	Yearly Wage Difference For Italy	Difference in Other Costs for Italy	Yearly Price Change for TURKEY	Yearly Wage Difference For TURKEY	Difference in Other Costs for Turkey
	(year (a+1)-year (a))/year a	(year (a+1)-year (a))/ year a	Price - Wage	(year (a+1)-year (a))/ year a	(year (a+1)-year (a))/year a	Price - Wage
2001-2000	18,16%	3,45%	14,71%	13,82%	5,70%	8,12%
2002-2001	-3,12%	1,65%	-4,76%	8,40%	6,30%	2,10%
2003-2002	-27,64%	2,20%	-29,84%	-1,95%	4,99%	-6,93%
2004-2003	8,08%	4,01%	4,07%	-31,46%	19,83%	-51,29%
2005-2004	14,47%	4,26%	10,21%	53,01%	30,60%	22,41%
2006-2005	7,37%	3,13%	4,24%	14,57%	5,00%	9,57%
2007-2006	43,57%	3,13%	40,44%	2,83%	3,40%	-0,57%
2008-2007	14,15%	3,13%	11,02%	8,21%	1,60%	6,61%
2009-2008	-23,09%	3,13%	-26,22%	1,27%	5,20%	-3,93%
Correlations	0,428611581			0,352904741		

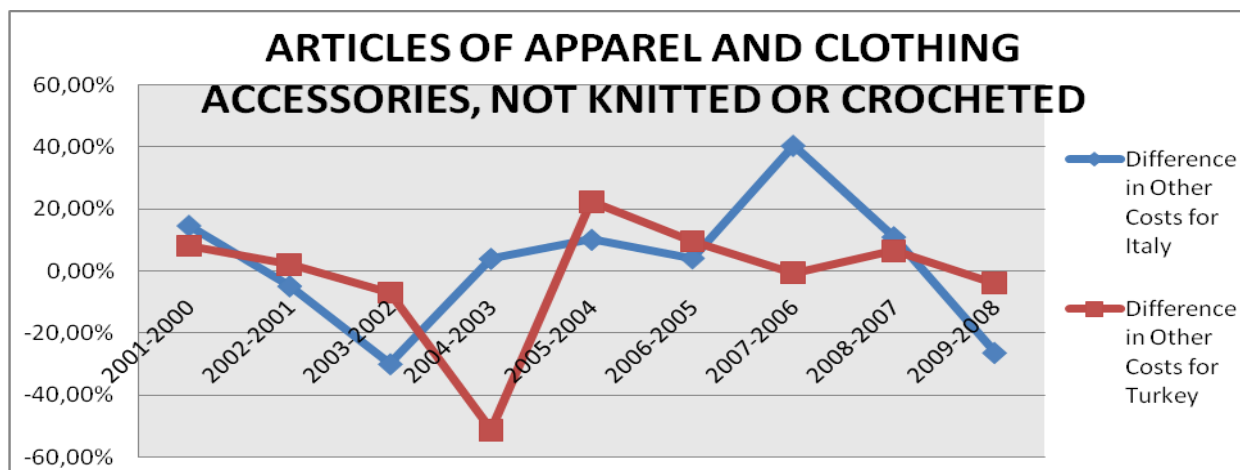


Table 24: Articles of Apparel And Clothing Accessories, Not Knitted or Crocheted, Price, Wages and Other Costs Comparison

YEARS	WAGES(Italy) / WAGES(Turkey)	PRICE(Italy) / PRICE(Turkey)	Δ Production (Italy/ Turkey)
2000	4,80	2,78	
2001	4,70	2,89	-0,24
2002	4,49	2,58	0,06
2003	4,37	1,90	-0,83
2004	3,80	3,00	0,07
2005	3,03	2,25	0,98
2006	2,98	2,10	2,10
2007	2,97	2,94	-0,18
2008	3,01	3,10	0,14
2009	2,96	2,35	0,02

CHAPTER 7: DISCUSSION AND CONCLUSION

There has been much debate about whether Turkey should be admitted to the European Union. These are some of the benefits and costs which Turkey is likely to face if it is successful in joining the EU.

7.1 Economic Changes

A major economic aspect of the accession of Turkey to the EU involves the accession to the internal market. This will affect the economies of Turkey and EU members via trade, FDI, domestic investment, and so on. The focus here is on the trade effect of the internal market.

Accession to the internal market may increase trade for at least three reasons. First, administrative barriers to trade (tariff barriers and non tariff barriers) will be eliminated or at least reduced to levels comparable to those between current EU members. Here, one can think of reduced costs of passing customs at the frontier: less time delays, less formalities etc. Anecdotic evidence suggests that there is a lot to be gained here in the case of Turkey. Therefore, it is easier for Turkish firms to export to the large EU market (nearly 0.5 billion). Turkey may have a competitive advantage because of lower labour costs.

Secondly, accession to the internal market implies a reduction in technical barriers to trade. The Single Market reduces these technical barriers by means of mutual recognition of different technical regulations, minimum requirements and harmonization of rules and regulations. Although the Customs Union between Turkey and the EU has already eliminated some of these technical barriers, it appears that substantial further advances have to be made.

Finally, risk and uncertainty will be mitigated by the Turkish accession to the EU. Especially political risks and macroeconomic instability may reduce substantially.

In case of economic implications of the possible Turkish accession to the European Union, there are three main changes associated with Turkish membership: accession to the internal European Market; institutional reforms in Turkey triggered by EU-membership; and migration in response to the free movement of workers. If Turkey joins the EU it will have the potential to benefit from higher growth and investment. Furthermore, joining the EU will

increase competitiveness. Domestic monopolies will face greater competition from EU rivals. This should help to reduce prices and increase efficiency. Another benefit from joining is that successful firms can benefit from economies of scale. As they sell to a wider EU market they can expand production and get lower costs. Membership may encourage inward investment. Western EU firms will be attracted to invest in Turkey because of the new potential markets and lower labor costs. This investment will help boost productivity and stimulate economic growth. Additionally, Turkey may benefit from EU policies such as CAP, Regional Policy and Transport Funds. Turkey is one of the poorer areas in the EU and therefore is eligible to regional funds. Over time this could make a big improvement in the structure of the Turkish economy.

However, Many Turkish firms may struggle to compete in the single market and could lose business to more efficient western firms. However, this lose of business may be most acute in the short term; in the longer term the increased competition may act as a spur to increase competitiveness. Additionally, inward investment may not increase because Turkey's infrastructure is insufficient.

Overall, the macroeconomic implications for EU countries are small but positive. It is not a priori clear, however, that the accession of Turkey will yield similar effects as is predicted by studies for Central and Eastern Europe. There are several differences between the accession of Turkey and that with the other countries. For instance, the EU and Turkey already form a Customs Union in manufacturing and services, and a number of standards and regulations have already been harmonised. (The EU and the countries of Central and Eastern Europe eliminate bilateral import tariffs in manufacturing already. However these Europe agreements implied less trade integration than the Customs Union between Turkey and the EU. For instance, a Customs Union also involves the same external tariffs with respect to third countries.) Hence, the extent to which accession of Turkey to the EU will deepen the integration differs from that of the Central and Eastern European countries. Moreover, the structure of the Turkish economy differs from that of Central and Eastern European countries, e.g. with respect to its degree of openness, its sectoral structure, and its level of welfare. These differences can affect the increase in bilateral trade and GDP of further integration with the EU. 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.

With respect to the sectoral implications, the removal of economic barriers to integration may have different implications for the labour-intensive agricultural and textile sectors than for skill-intensive sectors.

It is expected that European exports increase by around 20%. Turkey’s economic gains would be larger than the EU: consumption per capita is estimated to rise by about 4% as a result of accession to the internal market and free movement of labor. If Turkey would succeed in reforming its domestic institutions in response to EU-membership, consumption per capita in Turkey could raise by an additional 9%. These benefits would spill over to the EU.

7.2 GDP Change

Positive political and economic effects of a EU perspective on Turkey are frequently impressed. While this is an important argument, it does not necessitate unconditional full membership, which cannot substitute for Turkey’s own required efforts. Moreover, in the economic policy area the IMF is Turkey’s most important partner, even if it and the EU work, as in Central and Eastern Europe, hand in hand.

Potential Welfare Gains for Turkey through EU Integration
(in various studies – long-term steady state effects)

Study	Scope	Effect-Mechanism and/or Method	Effect-Quantification
Harrison et al (1997)	Custom Union since 1996	Elimination of tariffs and non-tariff trade barriers, harmonization etc.	1.1 % of Turkey's GDP per year
Togan (2004)	Trade Liberalisation	Gravity Model on Trade	1.5 % of per capita income per year
Lejour et al (2004)	Trade Liberalisation Institutional Reforms	Computable General Equilibrium Model of World Trade	Effects through trade: 0.8 % of GDP; 1.4% of consumption. Institutional effects 5.6% of GDP, 8.9% of consumption
Own estimates (Quaisser and Reppegather 2004)	All integration effects	Estimates based on the model calculations related to the Eastern enlargement of the EU	2.5% to 5%; With FDI: up to 10% of Turkish GDP

Figure 6: Potential Welfare Gains For Turkey through EU Integration

There should be no illusions regarding the potential scale of positive integration effects. Because of already existing trade (Customs Union) and capital liberalisation, the immediate (statistical) economic effects of Turkey's membership for the EU will be marginal: less than 0.1% of GDP. This is also related to the small size of the Turkish economy (2% of the EU-25) and its limited trade importance for the EU (2% to 3% of the trade volume). During the last decades Turkey shifted its trade remarkably towards the EU (58% share of exports) but its trade share is still below of those of the NMC's (EU share about 70%). For Turkey this will be in the region of 2.5% to 5% of GDP and may be higher if dynamic effects, primarily FDI, occur. Under favourable circumstances positive effects could be doubled (around 10% of GDP). A EU perspective would support greater political stability, which in turn encourages the flow of FDI. Notwithstanding this, national economic policy will remain decisive for successful convergence. It must also be taken into account that the above mentioned effects could also occur through an extension of the Customs Union and phased integration into the internal market – without a full EU membership being required.

7.3 Costs of EU Convergence for Turkey

The economic gains of EU entry have to be balanced against the outlays, which are difficult to quantify and evaluate, especially as they are linked to positive side-effects. Costs arise through the taking on of norms and standards. These will primarily burden Turkish small enterprises oriented to production for the local market. Then come social and environmental standards, conceived for highly developed countries, which could adversely affect the internationally competitive position of those in transition. The European model of the social welfare state and over-regulation – with huge transfers to poorer members - is in crisis and can hardly be considered as a model for progression. In fact there exists only one clear success story, Ireland, which in addition to benefiting from EU redistribution also introduced radical changes to tax rates, attracted FDI, and invested heavily in education and technology. Its population is English-speaking, which gave Ireland an advantage that others, including Turkey, do not have. On the other hand there are in the medium and long-term also positive social outcomes: among them, a ban on child labor and formal equality of men and women. Long transition periods are envisaged before the full introduction of EU environmental standards in areas that do not concern the internal market. Difficult adaptation is also certain

for competition policy. As for the internal market, Brussels enjoys extensive powers and Turkey will be forced to comply with strict rules. The possibility of a selective subsidy and protectionist policy, like those pursued by other transition countries, with varying results, will be minimal and must be approved by the Commission. As an offset, Ankara can reckon with high EU transfer payments for rural regions, though the strong pressures for migration will thereby not be stopped.

7.4 Common Agricultural Policy Admission

Admission to the CAP (Common Agricultural Policy) means advantages for Turkish consumers but disadvantages for Turkish farmers. Transfer payments from Brussels can partly alleviate this. The Turkish agricultural sector employs around 23.9 % of the total workforce, comparable with Romania. It is characterised by subsistence and semi-subsistence farming with very low productivity, hidden unemployment and low competitiveness. Of about 3 million holdings (compared to 6.8 million in the EU-15 and 6 million in the NMCs) small farms are dominant. Membership will mean that Turkey's agricultural trade with the rest of the EU will be liberalized and prices will move towards equilibrium. High Turkish subsidies, and concurrently the income of farmers, will sink. Negative effects can be expected for rural areas where income levels are already about a quarter below those of the cities. On the other hand, lower food prices will raise the welfare levels of most Turkish consumers and in particular low-income groups (in total by 0.4% of GDP). As a partial equalization for its farmers Turkey will receive EU transfer payments for rural regions (a maximum of 8.2 billion per annum). An entry scenario could mean payments of between 1 billion to 2.6 billion Euro per annum. For the EU the political repercussions of financial redistribution following a liberalisation of the agricultural produce market should be limited because of lower price and volume effects and/or because it is absorbed by a general trend of agricultural liberalisation and lower producer prices.

Turkey is currently implementing a programme to restructure the farm sector and publicly funded support. The objective of this policy change is to phase out price support and credit subsidies and to remove the state from direct involvement in the production process. A Direct Income Support system (DIS), based on land rather than inputs and outputs, is being introduced. It is estimated that 75% of Turkish farms are eligible for DIS. The basic idea of

the system corresponds to the EU income support system, which will gradually be delinked from the means of production (land and animals). The reform promises to increase the efficiency of agricultural policy but it remains to be seen how this policy shift will effect rural economies as a whole, considering that Turkey is directing a substantial 4.1% of its GDP to agricultural support.

7.5 Cost of Structural Changes

The costs of structural change will be only partly compensated through EU structural and regional policies. In the event of a Turkish accession the EU's structural and regional policies will be faced with massive challenges. Besides problems of administrative capacity (for both sides) the financial implications are disquieting. Along with the considerable development gap to the EU at the national level are regional disparities greater than in any EU country. As one of the poorest members Turkey will be eligible for the full benefits of the most important programs. In *status quo* structural policy terms virtually the entire country will qualify as an Objective 1 zone and receive up to 4% of GDP in support. This would mean 13 billion Euro.

Such a level of transfer contributions is for the initial years rather unlikely. Nonetheless, the dimensions of these potential financial receipts give some indication of the tasks facing the Turkish administrative, political and fiscal sectors in a pre-accession period. This is magnified by comparison with the present state of affairs whereby financial support is fairly modest (about 0.1 % of Turkish GDP). In the next EU financial period, if negotiations on membership begin, a yearly pre-accession assistance for Turkey of about 0.5 billion Euro (0.3% of GDP) can be expected.

7.6 High Costs

Full-integration of Turkey in EU expenditure policies would cause high costs. Reform pressure on the European Union agricultural and structural policies increases. 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 contributions to the Community budget.

In structural and cohesion policy a concentration on fewer objectives is indicated, but the debate is focused on different phasing-in (new member states) and phasing-out (old member states) schemes. Considering the enormous challenges that the enlarged EU faces in order to

promote a successful convergence process, this is a major disappointment. Against this background the EU's acceptance of Turkey is a risky venture. Projections initially indicated a moderate cost: an entry scenario of 5.2 billion per year in net transfers, but which could, with full integration into community policies in their present form, rise to 14 billion Euro yearly. Projections of this nature were previously derided as panic inducing and, simultaneously, not to be taken seriously. Moreover it is underscored that all relevant cost factors can be politically influenced. It is presently unclear precisely what EU expenditures at the time of a possible Turkey entry will be. The political decision process will involve the positing of *status quo* scenarios in order to calculate the extent of necessary reforms.

According to different analysis, the total cost of Turkey's membership are:

Cost of a EU Accession by Turkey in 2014 (€ billion; 2004 prices)

Entry Scenario (corresponding to the first enlargement round, expenditure for 2006)	
Transfers in total	10.2
Agricultural expenditure (with 35% direct payments)	2.9
Structural funds (1.4% of GDP)	4.7
Other (administration, internal policy areas)	2.6
Own contributions (0.5% of GDP)	1.7
Net transfer	8.5
Germany's financial contribution (20%)	1.7
Authors Scenario of Full Integration in EU Policies (2014) (with 100% of direct payments and 4% of GDP as absorption limit)	
Transfers in total	24.2
Agricultural expenditure (with 100% direct payments)	8.2
Structural funds (4% of GDP)	13.4
Other (administration, internal policy areas)	2.6
Own contributions (1% of GDP)	3.3
Net transfer	20.9
Germany's financial contribution (20%)	4.2
Commission Scenario of Full Integration in EU Policies (2025) (with 100% of direct payments and 4% of GDP as absorption limit)	
Transfers in total	33.2
Agricultural expenditure (with 100% direct payments)	8.2
Structural funds (4% of GDP)	22.4
Other (administration, internal policy areas)	2.6
Own contributions	5.6
Net transfer	27.6 (Reform: 16.4)
Germany's financial contribution (18%)*	5.0 (Reform: 3.0)

Note: *The German contribution is reduced according to its declining GDP share. Source: Authors calculations, European Commission (2004a)

Figure 7: Cost of Accession of Turkey

7.7 Problems of Joining the EU

A potential problem for Turkey is that labour may be attracted to move to the west, where wages are higher. In the EU there is free movement of labour and capital. This could rob the Turkish economy of young, skilled and motivated workers and lead to lower growth in the long term. Another problem may be the cost of meeting EU regulations on environment, free trade and harmonisation of regulations. The EU has a lot of bureaucracy and rules for the production of goods. Besides, Turkey may struggle with the EU's controversial Common Agricultural Policy. CAP tends to reward overproduction of goods and could lead to higher prices for some goods which have a minimum price under the CAP.

However, as the Turkish economy catches with the rest of Europe migration will occur less. There are already signs of Polish workers returning to Poland as the gap between the UK and Poland narrows. Moreover, Western Europe may place temporary limits on migration of workers. And also the emigrant workers may gain skills and knowledge and then go back to Turkey.

7.8 Income Inequality and the EU

There are various factors which will help to reduce income inequality between Turkey and the rest of the EU. Which are EU Funds Regional policy, CAP (Common Agricultural Policy), inward investment from other western European firms, easier for Turkish firms to export. Growing market and experience of countries like Ireland and Poland suggest that the EU can help reduce income inequalities.

If Turkey become a member of EU, Turkish may lose its best workers to the west and so become worse off, farmers may struggle with CAP and requirements of Western Europe, economy not sufficiently developed to have the Euro.

7.9 Main Worries of Turkey's Membership

By the Customs Union agreement, Turkey aligned its trade policies with the EU vis-à-vis third countries and started to implement common standards, rules and regulations. Despite progress in the economic integration between the EU and Turkey, a number of Europeans seem reluctant to accept Turkey as a member of the EU for a variety of reasons. Some people argue that Turkey is too different from the rest of Europe. They refer to the different culture

of the Turkish society, the Islam religion among the majority of the population, and the fact that Turkey is largely an Asian rather than a European country. The main official reason for keeping Turkey from negotiating with the EU could be the argument that the political criteria spelled out above have not yet been met. Meeting them would require, among other things, a fundamentally different role for the military in Turkey, and the recognition of individual and collective rights for minority groups. Another reason why countries are reluctant about the Turkish accession to the EU is related to its size, although this reason is often used in combination with the subjective views. In particular, population forecasts suggest that the Turkish population will exceed that of Germany by 2020, implying that Turkey would become the biggest country in the EU. Accordingly, it would obtain substantial power in EU decision making, at the cost of the powers of existing members. Countries also fear the economic implications of Turkey's accession to the EU. In particular, Turkey would become a net recipient of EU funds, which implies a net cost for existing member states. In addition, people in Western Europe fear massive immigration flows from Turkey and cheap imports at the cost of workers and producers in the EU.

The borders of Europe have always been very vaguely defined. With the expansion of Europe to include all of Christendom, new frontiers were formed, with the Eastern-most part of Europe always being considered the "periphery." This periphery was considered distinct from Asia, but at the same time, was not fully European compared with its Western counterparts. The various states of the Balkans, Greece, and Russia have this distinction, and as it is described like European Self, this distinction can generate both resentment at being viewed as a "second class". European nation and internal division in the country over whether citizens should change their behaviour in order to appear more European.

This type of distinction is divisive enough with nations that are still geographically part of continental Europe but it is even more difficult for a nation to consider itself part of Europe if it is mostly Asian, has a different majority religion and ethnicity, and has been a military adversary of Western Europe for hundreds of years. It is in this situation that Turkey seeks to join the European Union. With these vast differences, EU member states believe that Turkey's membership could fundamentally change the identity of Europe, thus it is no surprise that they are reluctant to admit Turkey as a member.

Before going into Turkey's specific circumstances, it is important to note that historically, Islamic nations and Islam itself have been considered as outsiders and even invaders in the historical conception of Europe. Europeans have historically seen the Ottoman Empire, precursor to the Modern Turkish state, as a military threat. An example is the conquest of the Istanbul by the Ottoman Sultan Mehmet II, which brought an end to the Byzantine Empire. With this conception of Muslims as both "Asian outsiders" and "hostile invaders", it is no surprise that there is resistance to Turkey joining the European Union. However, this is not the sole factor of this resistance. There are also a number of political and cultural factors working against Turkey as well.

Politically, there are several reasons that Turkey is finding it difficult to enter the European Union. They mainly have to do with the balance of power in Europe, and more importantly, a series of obligations that new member nations must satisfy, known as the "Copenhagen Criteria" (European Commission: 2010). The first criterion states that candidate countries must have achieved "stability of institutions guaranteeing democracy, the rule of law, human rights, and respect for and protection of minorities." Turkey already has difficulties with several parts of this criterion, beginning with stability.

In Turkish politics, the army has a privileged place in the state power structure, seen as heritors and defenders of the secular "Kemalist" state (referred to Mustafa Kemal Ataturk, the founder and the first President of the Turkish Republic). Historically, they have launched several coups against the government when they felt that it has been threatened by parties that were either too Islamist, or did not adequately conform to Ataturk's ideology. Their first coup occurred in 1960, with the removal of all officials of the Democratic Party. In 1971, the army acted again, forcing conservative Prime Minister Suleyman Demirel to resign and declaring martial law. Their last major intervention was in 1980, when generals took over the Turkish government among conflict between Left and Right-wing student activists (the army was worried that such infighting would start a civil war). Though there has been no major coup since 1980, the army has forced an Islamist coalition in 1997 led by Necmettin Erbakan to resign, as they felt he was leading the country toward "increasingly religious rule". The constant threat of coups by the military is not conducive to a stable democratic regime and hurts Turkey's image as a stable democracy. It is also ironic that the army is so willing to intervene in the name of Kemalist ideology, as Ataturk himself opposed any intervention by the armed forces in the affairs of the state.

In addition, there have been several complaints that Turkey is not respectful of human rights, based upon the past treatment of Armenians during end of the World War I. Based upon suspicions that they would defect to the enemy (in this case, the Russians), army officers received orders to begin relocating the Armenians to the Eastern border of modern Turkey. Several EU member nations in addition to Armenian communities in Europe and the United States have called upon Turkey to recognize this action as “genocide” of the Armenian people, due to the casualties during the relocation process. Turkey has not recognized it as such and this is viewed as unfavorable to their candidacy in the EU.

Economy also concerns member nations of the European Union. According to the second of the Copenhagen Criteria, the European Commission states that candidate countries must possess a stable market economy (European Commission 2010). For the member nations of the European Union, there is reserved apprehension of Turkey joining because of a somewhat unstable economy and fear of mass emigration, as witnessed by previous experiences in Turkish guest worker programs. Turkish guest workers began to come to Western Europe starting in 1960, as Turkey’s constitution had just guaranteed the right of its citizens to acquire a passport and travel abroad. Germany had particular interest in foreign workers, as their industries were expanding and due to construction of the Berlin Wall, the supply of East German migrants had all but dried up. In October 1961, they signed a bilateral labour agreement with Turkey, which allowed workers to come to Germany and work under one year permits. The plan was very popular in Turkey, initially attracting nine thousand workers in 1961 and rising quickly to 136,000 in 1973. This initial interest also pleased the Germans, as they would be able to get a cheap labour force to staff their industries and also keep unemployment low by having a constant rotating supply of guest workers.

The problem came with the plan’s implementation in economic recessions. It was expected for Turkish families to return to their homeland upon dismissal from their jobs, so that employment levels could be kept low. However, this turned out to go against the interests of both the workers and German factory owners. Workers did not want to return home, as by working in Germany, they would be able to earn eight to ten times the wages they could possibly receive back in Turkey. Likewise, for the factory owners, there was little incentive to force worker rotation, because they would be sending trained laborers home and be forced to find and hire untrained replacements. Thus the guest workers generally did not return home, but their numbers increased greatly due to the arrival of their families. In the original

bilateral agreement, companies could renew their guest worker permits for up to two years, which also permitted the dependent families of the guest workers to come to Germany. Furthermore, if the workers were in Germany for five years, they could switch employers and remain in Germany even if they had lost their jobs. Even after this guest program stopped, Turks continued to immigrate to Germany either under asylum, “family unification” programs, or through illegal means. Because of these various factors, the employment rate dropped dramatically among foreigners in Germany from 66% in the early '70's to a lowly 33% only twenty years later.

From the experience of the guest worker programs, Germany does not want Turkey to become part of the EU due to a fear of mass emigration, which could destabilize the economy and greatly raise the unemployment rate. This opinion is shared by other countries who worry that through such programs, their unemployment situations could get worse, and that with a foreign community of Muslims, there would be difficulties with integration and assimilation (such as is the case in France). In addition, the EU member nations worry about Turkey joining the European Union from a fiscal standpoint. According to the Organization for Economic Cooperation and Development, Turkey would be the one of the poor EU member nation, Furthermore; approximately 23,9 % of Turkey's workers are employed in agricultural sectors. If Turkey joined the EU, many of these unskilled workers could immigrate off the farms of Anatolia into Western Europe. To rich EU nations such as Germany and France, the worry is that these unskilled workers could crowd out the job market. Also, Turkey has had a very unstable economy in the past and sometimes only becoming stabilized with an emergency loan from the International Monetary Fund. With this past fluctuation in its economy, an argument can be made that if Turkey was admitted as a full member of the European Union, the overall economic welfare of EU nations could suffer. However, the fear of mass immigration into Europe is not very well founded, as it is standard procedure for new members of the European Union to have restrictions on travel between them and the rest of Europe for several years before granting full open borders.

It is noticed that there are significant differences between religious identity and role of religion in public life between the EU and Turkey. Although there is variety in religious presence in the public sphere in the EU, the EU is generally portrayed as a secular bastion of the modern world. In order to modernize Turkey, Ataturk adapted various secular principles, particularly those of France, when founding the modern Turkish Republic. However, ever

since its establishment, there has been debate over just what the role of Islam consists of in Turkish society. As discussed above, there have been several coups against the government for being too “Islamic,” restrictions placed upon free speech in order to preserve Ataturk’s legacy, and citizens and politicians have been imprisoned for anything that isn’t ardently secular.

It is discovered that while secularism is indeed a large force in Turkish politics, it does not exclude religion from Turkish life. Religion has always been important to Turks, and although not all of them are practicing Muslims, most have some form of religious belief, the majority of them Sunni Muslims. However, the influence of religious expression in public life has waxed and waned over time depending on who controlled the government. When Ataturk instituted modernizations in Turkey, he did so via a top-down enforcement model, such as abolishing the caliphate and converting many of the state-run mosques and religious orders of the Ottoman Empire into museums. Other reforms were put in place to make Turkey appear more modern in the eyes of Europe, such as banning the wearing of the Fez. However, the Turkish people did not internalize all of these reforms, but practiced them because it was the law. There are moderate secularists in Turkey now, mostly associated with the Social Democratic Party who don’t want religion formally tied to government, yet respect the rights of religious practice and don’t favour army involvement in politics. When it comes to the European Union, this shifting idea of acceptable religion in the public sphere is not really something holding Turkey back. Rather, this cultural factor contributes to the instability of the government, with tensions between the religious and the secularists, a political criterion.

The true complicating cultural factor in Turkey’s candidacy for the EU is their conception of national identity, which differs somewhat from other Western European nations. It dates back to the fall of the Ottoman Empire, which fractured due to its many different ethnic groups. The various minor ethnic and religious groups within the Empire started nationalistic movements contributing to the decline in central authority and the eventual collapse of the Ottomans. In order to avoid this fate with Turkey, Ataturk made sure to unite the people of Turkey under a single Turkish nationality (he couldn’t unite them under religion because of the smaller religious communities of Christians and Jews, as well as different Muslim sects). Ironically, if one were to immigrate to Turkey and become a citizen, they would be considered part of the Turkish nationality, even if they weren’t born of a Turkish ethnicity.

While this ethnic identification works well for giving Turks a sense of nationhood, it has caused trouble with the E.U. because of how each group defines minorities. The European Union has complained to Turkey that it does not ensure the minority rights of the non-Turks inside of its borders. For Turkey, EU is referring to the armed Kurdish nationalist militia (referred to as PKK, or the “Kurdistan Workers` Party”) launching attacks to the Turkish and Kurdish civilians mostly in the Eastern and Southeastern Turkey, in an attempt to form their own nation in a region between Turkey, Iraq and Armenia. On the other hand, the Turks do not view the Kurds as a minority group, because according to the Treaty of Lausanne (a treaty signed at the end of World War I establishing the modern Turkish Republic), minorities are defined as those who are of a minority religion, not a minority ethnic group. As a result, the Turks view this demand of minority rights for the Kurds, who to the Turks are part of the Turkish nation as Turkish citizens, as a double standard. This difference in the conception and treatment of minorities leads to criticisms by the EU that Turkey does not respect the rights of its minority citizens. The Turks respond that these independent groups are Turks and that if they were recognized as a separate minority group, they would threaten national unity. This is a response to the nationalization that occurred after the Ottoman Empire’s war in the Balkans. After the Ottomans lost on this front in the First World War, the formerly Ottoman subjects of Greeks, Armenians and etc., decided to form nation-states. In Turkey’s War for Independence, there were many migrations, voluntary and coerced, of Balkan communities to the West and Muslims to the East. Thus in Turkey’s formation, while it still retained some of these multi-ethnic groups that were present during the Ottoman Empire, their presence was greatly reduced, and Turkey became over 98% Muslim. With these historical circumstances, it is understandable why Turkey would state that these groups threaten national unity.

Since this issue of minority definition is not limited to Kurds, but can also consist of other formerly Ottoman communities living in Turkey, such as Armenians and Greeks, and there is such a difference in Europe and Turkey’s views on the subject, it seem as the biggest reason Turkey is having trouble joining the EU.

When it comes to Turkish opinions on joining the European Union, the population is almost evenly split. According to a recent poll, about 55.3% of Turks are in favor of joining the European Union. The main Turkish groups opposing entry are Secularists (who believe that the EU will provide more religious rights, therefore expanding religion’s presence in everyday life), nationalists (who are already afraid of Greeks, Armenians, and Jews living in

Turkey, and with entry in the EU, could possibly petition for their own nations), and radical Islamists (who view Europe as a Christian threat to Islam in Turkey). However, these groups only comprise about 40% of the Turkish population. The rest of the Turks are more favorable to the European Union, but public opinion shifts greatly whenever there is an important political development, such as a report by Brussels criticizing Turkey.

Overall, Turkey still has a while before it will be accepted as a member of the European Union. Europe is concerned with the ability of the Turkish government to maintain stability and protect the basic rights of its citizens and minorities. Certain nations are also somewhat apprehensive about the economic effects of Turkey joining the European Union. This is in addition to overcoming the attitude of Muslims as fundamentally outside of what it means to be European. There are signs that these factors are changing; Turkey has a “more Islamic” party in power, and the army has not interfered, and Western European nations such as France are starting to recognize that Muslims, with their ever-increasing immigration, are going to become significant parts of their population. However, this will all take time. Until then, these political and economic concerns, as well as basic concerns over identity, will hinder Turkey from being fully accepted as part of Europe. The conception of European identity must first evolve to accommodate Turkey.

8.0 If Turkey Doesn't Become a Member of EU

If Turkey would not accede to the EU, one can imagine different scenarios. Turkey could integrate economically with the EU, without becoming a full member. In that case, the Customs Union may be further deepened, without Turkey becoming part of the internal market. Alternatively, Turkey could become disappointed about its cooperation with the EU and decide to focus more on its relationship with its eastern neighbors in Asia. In that case, a process of disintegration with the EU may become real.

Turkey could take 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 of the Turkish export was absorbed by the EU countries and Turkey would have to take into account the danger of introducing by the EU some measures in response.

Turkey could preserve 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.

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