

RETHINKING THE EUROPEAN UNION-TURKEY CUSTOMS UNION  
AGREEMENT IN THE LIGHT OF NEO-FUNCTIONALIST PREMISES

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Approval of the Graduate School of Social Sciences

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## **ABSTRACT**

### **RETHINKING THE EUROPEAN UNION-TURKEY CUSTOMS UNION AGREEMENT IN THE LIGHT OF NEO-FUNCTIONALIST PREMISES**

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This thesis examines the European Union-Turkey Customs Union Agreement in the light of Neo-functionalism. Though the Customs Union Agreement is the backbone of bilateral relations between the EU and Turkey, it has been lacking to keep pace with the changes under globalization. Consequently, already existing structural asymmetries have become more visible in the light of the recent developments in world trade as well as regional and internal trade dynamics of both parties. Hence, an immediate solution is required to have a well-functioning customs union relation. Departing from this necessity, the research question of this thesis is: “How deficiencies of European Union-Turkey Customs Union Agreement can be corrected according to neo-functionalism?” In this regard, despite general tendency to use the concept of spill-over to regional integration as a theoretical framework, long forgotten concept of spill-around is preferred in this thesis, in order to be used as a glass to evaluate how deficiencies of European Union-Turkey Customs Union Agreement can be corrected. At the end, it will be argued that further trade integration between parties through a deeper and wider version of the current Customs Union Agreement, as it is envisaged

by spill-around, could brought a sustainable solution to all problems of the Parties, stemming from this Agreement.

**Keywords:** The Customs Union Agreement, The European Union – Turkey Relations, Neo-functionalism, Philippe C. Schmitter, Spill-around

## ÖZ

### AVRUPA BİRLİĞİ – TÜRKİYE GÜMRÜK BİRLİĞİ İLİŞKİSİNİN YENİ İŞLEVSELÇİLİK AKIMI KAPSAMINDA YENİDEN DEĞERLENDİRİLMESİ

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Bu tezde Avrupa Birliği-Türkiye Gümrük Birliği Anlaşması Yeni İşlevsellik kapsamında yeniden değerlendirilmektedir. Gümrük Birliği Anlaşması, AB ile Türkiye arasındaki ikili ilişkilerin belkemiğini oluşturmasına rağmen, küreselleşme altındaki değişimlere ayak uydurmaktan yoksundur. Buna ek olarak, dünya ticaretindeki son gelişmeler ve gerek Avrupa Birliği gerekse Türkiye’de yaşanan ticaret dinamiklerindeki değişiklikler söz konusu anlaşmanın mevcut yapısal asimetrilerini iyice ortaya çıkarmaktadır. Dolayısıyla, iyi işleyen bir gümrük birliği ilişkisine sahip olmak için acil bir çözüm gerekmektedir. Bu gereklilikten hareketle, bu tezin araştırma sorusu: "Avrupa Birliği-Türkiye Gümrük Birliği Anlaşması'nın eksiklikleri yeni işlevçiliğe göre nasıl düzeltilebilir?" şeklindedir. Bu bağlamda, bölgesel entegrasyonun teorik çerçevesi için genel olarak *spill-over* kavramının tercih edilmesinin aksine, bu tez çalışmasında *spill-around* kavramı kullanılacaktır. Bu tezin sonunda, *spill-around* kavramınca öngörüldüğü üzere, Avrupa Birliği-Türkiye Gümrük Birliği Anlaşması'nın taraflar arasında genişletilmiş ve derinleştirilmiş bir ticaret ilişkisi kurulması ile işlerlik kazanıp, mevcut sorunlarının çözüleceği sonucuna varılacaktır.

**Anahtar kelimeler:** Gümrük Birliği, Avrupa Birliği – Türkiye ilişkileri, Yeni İşlevselci politikalar, Philippe C. Schmitter, Spill-around



To my beloved husband Cem SÖNMEZ

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## TABLE OF CONTENTS

<b>PLAGIARISM.....</b>	<b>iii</b>
<b>ABSTRACT .....</b>	<b>iv</b>
<b>ÖZ.....</b>	<b>vi</b>
<b>DEDICATION.....</b>	<b>vii</b>
<b>ACKNOWLEDGMENTS .....</b>	<b>viii</b>
<b>TABLE OF CONTENTS.....</b>	<b>ix</b>
<b>LIST OF TABLES .....</b>	<b>xi</b>
<b>CHAPTER</b>	
<b>1. INTRODUCTION.....</b>	<b>1</b>
1.1. Research Question .....	4
1.2. Literature Review .....	4
1.3. Hypothesis of the Research .....	16
1.4. Methodology .....	17
1.5. The General Structure of the Thesis.....	18
<b>2. SETTING THE THEORETICAL CONTEXT .....</b>	<b>21</b>
<b>3. THE EUROPEAN UNION-TURKEY CUSTOMS UNION AGREEMENT. 38</b>	
3.1. Regional Integration .....	38
3.1.1. Stages of Economic Integration .....	41
3.1.1.1. Preferential Trade Area .....	41
3.1.1.2. Free Trade Area (FTA).....	42
3.1.1.3. Customs Union .....	42
3.1.1.3.1. Static Effects of Customs Union .....	43
3.1.1.3.2. Dynamic Effects of Customs Union.....	45
3.1.1.3.2.1. Scale Economies .....	45
3.1.1.3.2.2. Technology Development .....	45
3.1.1.3.2.3. Increase in Competitiveness.....	46
3.1.1.3.2.4. Increase in Investments .....	46
3.1.1.4. Common Market.....	46

3.1.1.5. Economic Union .....	47
3.2. The European Union-Turkey Customs Union Agreement .....	48
3.2.1. Developments Before Turkish Application for Association .....	48
3.2.2. Turkish Application for EEC Membership .....	56
3.2.3. The Ankara Agreement .....	58
3.2.4. The Customs Union Agreement- Decision No:1/95 of the EC-Turkey Association Council .....	69
3.2.4.1. Specific Articles of 1/95 Decision.....	73
3.2.4.1.1. Chapter I- Free Movement of Goods and Commercial Policy....	73
3.2.4.1.1.1. Section III- Commercial policy-Article 12 .....	73
3.2.4.1.1.2. Section IV-Common Customs Tariff and Preferential Tariff Policies-Article 13 .....	74
3.2.4.1.1.3. Section IV- Common Customs Tariff and Preferential Tariff Policies-Article 14 .....	74
3.2.4.1.1.4. Section IV- Common Customs Tariff and Preferential Tariff Policies-Article 16 .....	75
3.2.4.1.2. Chapter V- Institutional Provisions.....	76
3.2.4.1.2.1. Section I- The EC-Turkey Customs Union Joint Committee- Article 5	76
3.2.4.1.2.2. Section II- Consultation and Decision Procedures-Article 54	76
3.2.5. The Period After Signature of the Customs Union Agreement .....	77
3.2.6. Attempts to Modernize the Customs Union Agreement .....	90
<b>4. THE CONCEPT OF SPILL-AROUND AS A REVISION TO THE EUROPEAN UNION-TURKEY CUSTOMS UNION AGREEMENT .....</b>	<b>99</b>
4.1. The Concept of Spill-Around .....	101
4.2. Application of Spill-Around to the European Union-Turkey Customs Union	103
<b>5. CONCLUSION.....</b>	<b>121</b>
<b>REFERENCES.....</b>	<b>136</b>
<b>APPENDICES .....</b>	<b>152</b>
<b>A. TURKISH SUMMARY/TÜRKÇE ÖZET.....</b>	<b>152</b>
<b>B. TEZ FOTOKOPİSİ İZİN FORMU .....</b>	<b>165</b>

## LIST OF TABLES

Table 1. Haas-Schmitter Model of Neo-Functionalism .....	30
Table 2. Provisions of Association Council Decision 1/95.....	72
Table 3. Foreign Trade between Turkey and the European Union .....	78
Table 4. Trade Deficit of Turkey between 2011-2015.....	89
Table 5. Plot of Alternative Actor Strategies .....	102
Table 6. Turkey's Imports from the European Union .....	106
Table 7. Turkey's Exports to the European Union .....	106
Table 8. Services in Turkey and the European Union .....	109
Table 9. Trade of the European Union on Country Bases (2011 – 2016).....	111



## CHAPTER 1

### INTRODUCTION

Depending on the process of globalization, trade liberalization together with reduction in tariffs and non-tariff barriers have become main targets of the world trade. As a result, intensity and prevalence of economic integration among countries has increased to achieve these aims, especially starting from 20<sup>th</sup> century. In this manner, the European Union (EU) is the most successful implementation of theoretical assumptions about economic integration into real cases of international relations.

From one point of view, institutional structure of the EU itself is a unique success story of economic integration. It was established in 1951, just as an economic cooperation between six European countries, after the Second World War to prevent occurrence of another world war. When it comes to 2017, the EU has 28 member states, including Eastern and Central European countries besides Western European countries that accounts relatively 34% and 32% of the world exports and imports.<sup>1</sup>

From another perspective, relations of the EU with other countries provide a generous number of economic integration examples, in different stages. Actually, the EU has 45 economic integration agreements that can be divided into three groups; customs union agreements, partnership and cooperation agreements and a group of agreements that include association agreements, stabilization agreements, free trade agreements and economic partnership agreements. The customs union agreements are the most comprehensive form in all these groups and the EU has only three customs union agreements, with Andorra, San Marino and Turkey. In these three countries, Turkey has a special place for the EU, considering its economic and population dynamics as well as its geographical location.

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<sup>1</sup> TradeMap, Retrieved from [http://www.trademap.org/Country\\_SelProduct\\_TS.aspx?nvpm=1||14719||TOTAL||2|1|1|2|2|1|3|1|1](http://www.trademap.org/Country_SelProduct_TS.aspx?nvpm=1||14719||TOTAL||2|1|1|2|2|1|3|1|1), retrieved on 14.08.2017

In fact, Turkey applied for associate membership of the European Economic Community (EEC) in 1959. Following its application, the Ankara Agreement was signed in 1963, in which full membership of Turkey was seen as a final step. To achieve this final stage, Turkey was required to pass through preparatory and transitional stages. To be more specific, the preparatory stage terminated with signing the Additional Protocol in 1970 and transitional stage started. According to the Additional Protocol, all customs duties and quotas that it applies to industrial products imported from Turkey were removed. Based on the mentioned Protocol, in 1995, the EU-Turkey Customs Union (CU) was established by the 1/95 the EU-Turkey Association Council Decision that came into effect in 1996.

Despite the fact that the CU became the major driving force behind the restructuring of Turkish industrial sectors and a useful tool to integrate with global economy in the first few years of its implementation, it recently has been the major cause of Turkish trade deficit. Especially establishment of European single market for goods in 1992, increased internal integration among member states and limited nature of the CU compared to single market became one of the sources of asymmetric nature of the CU. Indeed, from Turkish perspective, the CU was accepted to be just one of the steps of Turkey's full membership to the EU, so it was perceived as temporary. That's why asymmetrical structure of the CU was not considered to cause major structural problems for Turkish economy and trade policies. In other words, despite Turkey was also aware of the fact that the CU was imperfect starting from its foundation, it has not envisaged by Turkish bureaucracy that it would affect Turkish trade policies and volumes more than twenty years.

On the other hand, developments in world economy as well as in the two parties' economies, added a new dimension to the CU relations between the EU and Turkey. Considering the world economy, there have been significant changes. As it is stated by Akman, the world experienced the volatility in energy and food prices; a constant increase in the EU's trade deficit; rising domestic pressure on environmental matters,



and changing expectations of domestic policy actors due to global circumstances starting from the first few years of 2000's<sup>2</sup>. In addition to them, World Trade Organization (WTO) experienced another problem in the multilateral trade system that affected almost all member countries' economic and trade policies. In fact, the deadlock in Doha Round of 2006 became the turning point for change in economic and trade policies of WTO members.

One of the members, which drastically affected from this breakdown was the EU. Regarding combination of failure in multilateral trade system with difficulties in growth and unemployment, the EU was required to find a feasible solution. Indeed, the EU's claim to be one of the "global actors" in the world makes the situation harder to account to its citizens and the world. Accordingly, "The Renewed Lisbon Strategy" was developed in 2005 corresponding to problems in growth and unemployment. Furthermore, "Global Europe Strategy" in 2006 and "Trade, Growth and World Affairs Strategy" in 2010 were designed by the European Commission as a response to deadlock in multilateral trade system.

Under these strategies, increasing bilateral relations have become the key intention of the EU's trade policies, in which concluding FTA is the primary tool. Especially broad scope of the FTAs and changing range of target countries from East Asia to North America are two considerable differences that came with mentioned Strategies. Consequently, it has a direct impact on Turkish trade too, which can be categorized under negative spillover. Indeed, regarding obligations of Turkey under the CU, Turkey is expected to revise its trade policies in a way to harmonize with the EU's. Related to this, Turkey is also under the commitment to sign an FTA with a country that the EU has already signed with. Moreover, due to free circulation of goods within the CU, to whom the EU has an FTA as well as scope of the FTA directly influences trade balance of Turkey. As a result, FTA policy of the EU has been the major source

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<sup>2</sup> Sait Akman, "Dynamics of European Union's Trade Strategy: Drawing Conclusions for Relations with Turkey", 2012, paper presented at the UACES Exchanging Ideas on Europe 2012 *Old Borders – New Frontiers*, 3-5 September, Passau, Germany, p. 5

of deficiencies in the CU that also led to externalization of Turkey together with the increase in asymmetric nature of the CU.

### 1.1. Research Question

In the light of the developments in world trade as well as regional and internal trade dynamics of both parties, already existing structural asymmetries have become more visible and an immediate solution is required to offer well-functioning customs union relation. Departing from this necessity, this thesis aims to provide a rethinking to the European Union-Turkey Customs Union Agreement, in which premises of neo-functionalism will be the main guidance. Therefore, the research question of this thesis is: “How deficiencies of European Union-Turkey Customs Union Agreement can be corrected according to neo-functionalism?”

### 1.2. Literature Review

According to Balassa, economic integration is the abolition of discrimination within an area.<sup>3</sup> Furthermore Appleyard et al. illustrates that there are different types of economic integration which are free trade area, customs union, common market and economic union.<sup>4</sup> For the purpose of this study especially customs union and free trade area are two key concepts. They are defined officially in the GATT agreement as follows:

"For the purposes of this Agreement:

- (a) A customs union shall be understood to mean the substitution of a single customs territory for two or more customs territories, so that
  - (i) duties and other restrictive regulations of commerce ..... are eliminated with respect to substantially all the trade between the constituent territories of the union or

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<sup>3</sup> Bela Balassa, “The Theory of Economic Integration”, 1961, Homewood, Illinois: Richard D. Irwin, p. 174

<sup>4</sup> Dennis R. Appleyard, Alfred J. Field, and Steven L. Cobb, “International Economics”, 2010, Seventh edition, Boston, MA: McGraw-Hill/Irwin.

at least with respect to substantially all the trade in products originating in such territories, and,

(ii) subject to the provisions of paragraph 9, substantially the same duties and other regulations of commerce are applied by each of the members of the union to the trade of territories not included in the union

(b) A free-trade area shall be understood to mean a group of two or more customs territories in which the duties and other restrictive regulations of commerce .... are eliminated on substantially all the trade between the constituent territories in products originating in such territories."<sup>5</sup>

Similar to general definition, Togan argues that “the EU-Turkey Customs Union requires that Turkey eliminates all customs duties, quantitative restrictions and charges with equivalent effect on their bilateral trade in trade of most industrial goods and industrial components of agricultural products with the EU as of January 1, 1996.”

<sup>6</sup> Therefore, the CU anticipates full economic integration of Turkey with the EU as well as adopting the EU’s common external tariff (CET) for the mentioned goods against third countries. Likewise, Hartler and Laird describe elimination of the customs duties on imports of the products included in the coverage of the CU, originating in the EU and the adoption of the CET for imports of these products from third countries as *a thanksgiving* offered to these countries. Their main reference in this naming is considerable tariff reduction applied to imports.<sup>7</sup>

In this manner, there is a huge literature on evaluation of economic impact of the Customs Union Agreement on the Turkish economy. One of the first studies that examine the impact of the Customs Union on Turkish Small and Medium Business

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<sup>5</sup> GATT 1947: General Agreement on Tariffs and Trade, Oct. 30, 1947, 61 Stat. A-11, T.I.A.S. 1700, 55 U.N.T.S. 194, Par.8, Art. XXIV

<sup>6</sup> Subidey Togan, “The EU-Turkey Customs Union: A Model for Future Euro-Med Integration”, 2012, MEDPRO Technical Report, No. 9, p.1

<sup>7</sup> Christina Hartler & Sam Laird, “The EU Model and Turkey. A Case for Thanksgiving?”, 1999, Journal of World Trade 33(3), p.147-165

(SMB) by using panel data analysis indicates that the CU has more severe effect on small-and medium-scale enterprises (SMSES) in comparison with large establishments. Especially, harmonizing with the acquis is the most problematic part of it.<sup>8</sup> About its general effect on Turkish economy, Diao et al. foresee a sizeable trade deficit in Turkish economy, due to growing imports more than exports and investment increases.<sup>9</sup>

Similarly, static analysis of bilateral trade in the period of 1991-1999 between the EU and Turkey reveals that there was a trade creation effect in a way benefiting the EU.<sup>10</sup> In the work of Ankara Chamber of Commerce, in 2006, it is concluded that in the ten years' period after the implementation of the CU, Turkey faced 99,8 billion dollars of trade deficit in its trade with the EU.<sup>11</sup> Correspondingly, Eşiyok blames the establishment of the CU as the direct reason of Turkish trade deficit<sup>12</sup> that is also supported with findings of Adam and Moutos. They indicate that after the CU, European exports to Turkey increased by 65 %, whereas Turkish exports to the EU only increased by 31 % between 1996 to 2004.<sup>13</sup> Furthermore, analyzing the period

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<sup>8</sup> Refik Erzan & Alpay Filiztekin, "Competitiveness of Turkish SMSEs in the Customs Union", 1997, *European Economic Review*, 41(3), p. 881-892

<sup>9</sup> Xinshen Diao, Terry L. Roe and A. Erinç Yeldan, "How Fiscal Mismanagement May Impede Trade Reform: Lessons from An Intertemporal, Multi-Sector General Equilibrium Modal For Turkey", March 1999, *The Developing Economies*, Vol. 37, No.1, pp. 59-88.

<sup>10</sup> Süleyman Uyar, "Gümrük Birliği'nin Türkiye Ekonomisi Üzerindeki Etkileri, 2000, Retrieved from: <<http://www.belgeler.com/blg/6hl/gmrk-birlii-nin-trkiye-ekonomisi-zerindeki-etkileri>>, Retrieved on 14.08.2017

<sup>11</sup> Ankara Ticaret Odası, "Gümrük Kamburu", 2007, Retrieved from <<http://www.atonet.org.tr/yeni/index.php?p=1054&l=1>>, Retrieved on 15.08.2017

<sup>12</sup> B. Ali Eşiyok, "Türkiye Ekonomisinde Üretim ve İhracatın İthalata Bağımlılığı, Dış Ticaretin Yapısı: Girdi-Çıktı Modeline Dayalı Bir Analiz", 2008, *Uluslararası Ekonomi ve Dış Ticaret Politikaları* 3(1-2)

<sup>13</sup> Antonis Adam & Thomas Moutos, "The trade effects of the EU-Turkey Customs Union", 2008, *The World Economy*, 31(5), p. 685-700

between 1992 and 2007, Temiz argues that despite an increase in the volume of trade between the EU and Turkey, there is a decrease in Turkish export in net terms.<sup>14</sup>

On the other hand, in a research analysis applied by Turkish Industry & Business Association in 2003, positive effect of the CU on Turkey's total trade volume is presented as a result of a static analysis. It is also argued that in the first six years of implementation of the CU, no detrimental effect of it seen on Turkey's trade deficit.<sup>15</sup> Parallel to this research, Neyaptı, Taskın and Üngör indicate that trade liberalization, coming with conclusion of the CU Agreement created a positive impact on Turkey's trade. According to their finding, following the CU, besides trade relations with the EU, trade volume of Turkey rose due to liberalization in rules and regulations of trade.<sup>16</sup>

In addition, the study of Kızıltan, Ersungur and Polat reveals that Turkey's trade deficit between 1985 and 2005, occurred as a result of trade with third countries, not with the European countries.<sup>17</sup> In the work of Nart, a panel data method is used to analyze 1990-2007 period that suggests a trade creation in bilateral trade relation between the EU and Turkey. Furthermore, he also point to the fact that there was no sign of trade diversion in this period of time.<sup>18</sup> One of the most recent studies that underline positive effects of the CU on Turkey is done by Bayar and Özekcioğlu. According to their study, done by using static analysis method, between 1995 and 2011 Turkey experienced trade creation effect of the CU on its trade volumes, not the trade

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<sup>14</sup> Dilek Temiz, "Gümrük Birliği ile birlikte Türkiye'nin dış ticaretinde yapısal değişimler oldu mu?", 2009, Ankara Avrupa Çalışmaları Dergisi, 8(1), p. 115-138.

<sup>15</sup> TÜSİAD, "Avrupa Birliği'ne Uyum Sürecinde Gümrük Birliği'nin Dış Ticaretimize Etkileri", 2003, İstanbul: TÜSİAD

<sup>16</sup> Bilin Neyaptı, Fatma Taskın and Murat Üngör, "Has European Customs Union Agreement really affected Turkey's trade?", 2007, Applied Economics, Volume 39, p. 2121-2122.

<sup>17</sup> Alaattin Kızıltan, Mustafa Ersungur and Özgür Polat, "Gümrük Birliğinin Türkiye'nin Avrupa Birliği ile İhracat ve İthalatına Etkisi", 2008, Atatürk Üniversitesi İktisadi ve İdari Bilimler Dergisi, 22(1)

<sup>18</sup> Ela Çolpan Nart, "Gümrük Birliği'nin Türkiye'nin dış ticareti üzerine etkileri: Panel veri analizi", 2010, Journal of Yasar University, 17(5), p. 2874-2885.

diversion. In terms of products, in 50 product clusters Turkey's comparative advantage boosted, contrary to a decrease in 17 product clusters and in 188 clusters comparative advantage is sustained.<sup>19</sup>

Besides above mentioned studies that support the idea that the CU affected Turkish trade flows either negative or positive direction, there are also some studies to articulate that there is no relation between the CU and Turkish trade flows. For instance, in gravity model analysis of Antonucci and Manzocchi the EU- Turkey trade flows are evaluated in the time period between 1967 and 2001. Accordingly, they argue that Turkey's trade volumes have no affiliation with the establishment of the CU.<sup>20</sup> Likewise, Ulusoy and Sözen's econometric study supports this argument by showing no indication of new trade volume following the CU.<sup>21</sup> Furthermore, the studies of Gökdemir & Karaman<sup>22</sup>, Karaman & Özkale<sup>23</sup> and Akın & Arı<sup>24</sup> indicate that the CU relation has not affected Turkish trade patterns, while Bilici et al. makes a time difference for this conclusion and supports their idea for long term period.<sup>25</sup>

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<sup>19</sup> Yılmaz Bayar and Halil Özekicioğlu, "Effects of European Union-Turkey customs union on Turkish foreign trade", 2014, *Studies in Business & Economics*, 9(2), p. 1-11.

<sup>20</sup> Daniele Antonuccia & Stefano Manzocchi, "Does Turkey have a special trade relation with the EU? A gravity model approach", 2006, *Economic Systems*, 30(2), p. 157-169.

<sup>21</sup> Veysel Ulusoy & Ahmet Sözen, "Trade Diversion and Trade Creation the Case of Turkey Establishing Customs Union with the European Union", 2008, *European Journal of Scientific Research*, Vol.20 No.2

<sup>22</sup> Levent Gökdemir & Elif Kahraman, "Onuncu Yılında Gümrük Birliği: Ne Beklendi?, Ne Gerçekleştirdi?", 2008, *Fırat Üniversitesi Sosyal Bilimler Dergisi*, Cilt:18, Sayı:2

<sup>23</sup> Fatma Nur Karaman and Lerzan Özkale, "Static effects of the EU-Turkey Customs Union", 2006, *Etsg Papers*

<sup>24</sup> Akın Tunçer ve Önder Arı, "Gümrük Birliği'nin Türkiye Ekonomisine Etkileri", 2007, *Journal of Soc. & Appl. Sci.*, Cilt 3, No 5

<sup>25</sup> Özgür Bilici, Erkan Erdil, & I. Hakan Yetkiner, "The determining role of EU in Turkey's trade flows: A gravity model approach", 2008, Working Paper No: 08/06, *Izmir University of Economics*.

In sector specific terms, as a result of his study, Kaya argues that Turkey has become specialised on low-value added sectors after the CU, such as textile and clothing. This also means that technological development of Turkey in industrial products, coverage of the CU, has not been in a sufficient level.<sup>26</sup> Nowak-Lehmann et al. add to this argument by using the data of period between 1988-2002 and conclude that even in these sectors, Turkey had a limited increase of exports.<sup>27</sup> Consistent with the work of Terin et al., also agricultural product exports of Turkey has been negatively affected from the CU according to statistics between 1982 and 2011. Despite non-inclusion of agricultural products in the CU, structural changes in this sector is the main reason of this observation.<sup>28</sup>

From perspective of its impact on GDP of Turkey, Mercenier and Yeldan use a general equilibrium analysis and conclude that the case, in which no further trade reforms and removal of nontariff barriers on European trade exist would be detrimental to Turkish domestic welfare.<sup>29</sup> Adding to that Bekmez uses a computable general equilibrium (CGE) model and shows that GDP of Turkey would decrease by 2%, besides 8% decrease in government revenue due to the EU favoring trade volumes after the establishment of the CU.<sup>30</sup> On the other hand, Harrison, Rutherford, and Tarr assumed a welfare gain of 1–1.5 % of its GDP in Turkey by using calculable general balance model. Their explanation for positive outcome of the CU on welfare is based on their

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<sup>26</sup> Ayten Ayşen Kaya, “İmalat sanayi ihracatında uzmanlaşma: Türkiye-Avrupa Birliği analizi (1991–2003)” 2006, Ege University Working Papers in Economics 2006. Retrieved from <<http://www.iibf.ege.edu.tr/economics/tartisma>>, Retrieved on 15.08.2017

<sup>27</sup> Felicitas Nowak-Lehmann Danzinger, Dierk Herzer, Inmaculada Martinez-Zarzoso & Sebastian Vollmer, “The Impact of a Customs Union between Turkey and the EU on Turkey’s Exports to the EU”, September 2007, Journal of Common Market Studies, Volume 45, Issue 3

<sup>28</sup> Mustafa Terin, Atilla Keskin & Seda Terin, “Gümrük Birliği’nin Türkiye-AB tarım ürünleri dış ticareti üzerine etkileri”, 2012, Atatürk Üniversitesi Ziraat Fakültesi Dergisi, 43(2), p. 133-139

<sup>29</sup> Jean Mercenier and Erinç Yeldan, “On Turkey’s Trade Policy: Is a Customs Union with Europe Enough?”, 1997, European Economic Review, Volume 41, Issues 3–5, p. 871-880

<sup>30</sup> Selahattin Bekmez, “Sectoral Impacts of Turkish Accession to the European Union: A General Equilibrium Analysis”, April 2002, Eastern European Economics, Vol. 40, No. 2, p. 57-84.

acceptance of Turkish increased market access.<sup>31</sup> Supporting this argument, Akkoyunlu-Wigley and Mihçi conclude that the CU brings substantial welfare gains to Turkey, due to the increased volume of trade with the EU in manufacturing goods.

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Apart from statistical data analysis, structural changes came with the harmonization of rules and regulations with the EU is another significant point underlined in the literature. In fact, Togan argues that the CU “has contributed to a significant increase in the contestability of domestic markets through infusing predictability, transparency and stability to trade policy as well as by liberalising market access”<sup>33</sup> In addition, Demirci and Aydın suggest that tariff liberalization, realized with the CU, and developed market structure have played an important role in Turkish trade flows.<sup>34</sup> Respectively, focusing on structural changes that affect foreign investment, Çeştepe and Mıstaçoğlu argue that the CU has the potential to have a positive effect on foreign investment.<sup>35</sup> On the other hand, Doğan and Kaya underline increased independence of Turkey to the EU imports as a result of the CU<sup>36</sup>, besides study of Lohrmann that

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<sup>31</sup> Glenn W. Harrison, Thomas F. Rutherford and David G. Tarr, “Economic Implication for Turkey of a Customs Union with the European Union”, 1997, *European Economic Review*, (41), p.861-870.

<sup>32</sup> Arzu Akkoyunlu-Wigley and Sevinç Mihci, “Effects of the Customs Union with the European Union on the Market Structure and Pricing Behaviour of the Turkish Manufacturing Industry”, 2006, *Applied Economics*, 38.

<sup>33</sup> Sübidey Togan, “Trade Policy Review, 2007”, November 2010, *World Economy*, Volume 33 Issue 11, p.1339.

<sup>34</sup> Nedret Demirci and Levent Aydın, “Long-Run effects of Customs Union between European Union and Turkey: Is It zero-sum game?”, 2011, *Modern Economy*, (2), p. 132-141.

<sup>35</sup> Hamza Çeştepe & Tuğba Mıstaçoğlu, “Gümrük Birliği’nin doğrudan yabancı yatırımlara etkisi: Avrupa Birliği’nin yeni üyeleri ve Türkiye üzerine bir panel veri analizi”, 2012, *Marmara Üniversitesi İİBF Dergisi*, 32(1)

<sup>36</sup> Seyhun Doğan and Semanur Soyyiğit Kaya, “Gümrük Birliği sonrasında (1996-2009) Türkiye’nin Avrupa Birliği ile dış ticaretinin ülke ve fasıl bazlı yoğunlaşma analizi”, 2011, *İstanbul Üniversitesi İktisat Fakültesi Ekonometri ve İstatistik Dergisi*, (14), p. 1-18.



points changed production structure of Turkey in a way affecting its economic development harmfully in the long-term.<sup>37</sup>

Though above mentioned statistical analysis and structural changes in Turkish trade patterns are noteworthy, they are not sufficient to appreciate the current problems of the CU. Therefore, there is also a need to examine the international political economy literature on the major problems of the CU. The main problem of the CU, underlined in the literature, is its asymmetric construction. In this asymmetry, the EU FTA policy is especially critical from Turkish perspective, due to several reasons. First of all, trade deflection in case of third country imports to Turkey via the EU, worsens the impact of tariff revenue losses for Turkey. In addition, “under its CU obligations Turkey applied similar trade policy instruments with the EU, including EU’s FTAs with the same countries, in order to prevent a deflection of trade, or for the sake of keeping itself within the EU integration track.”<sup>38</sup>

On the other hand, when Turkey tries to fulfill its obligation to catch up with the EU’s commercial policy and seeks to conclude FTAs with EU’s FTA partners, another problem appears. Generally, the countries that have already signed an FTA with the EU besides the ones negotiating an FTA with the EU abstain from signing FTA with Turkey. There are two arguments to explain this situation in the literature: “First, the third country already gains a preferential access into Turkish market indirectly thanks to ‘free circulation’ of its exportables into Turkey via the EU. Therefore, there is no logical reason for a sovereign country to open its domestic market to Turkish exports in return. Second, the third country may not be ready to surrender its uncompetitive domestic industries if Turkish counterparts are dominant in the relevant sectors, even it agrees to initiate a bilateral agreement.”<sup>39</sup>

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<sup>37</sup> Astrid – Marina Lohrmann, “Development Effects of the Customs Union between Turkey and the European Union: Catching-Up--Or the Heckscher-Ohlin Trap?” *Russian and East European Finance and Trade*, July-August 2000, v. 36, iss. 4, p.26.

<sup>38</sup> Sait Akman, “The European Union’s Trade Strategy And Its Reflections On Turkey: An Evaluation From the Perspective of Free Trade Agreements”, 2010, *Dokuz Eylül Üniversitesi Sosyal Bilimler Enstitüsü Dergisi*, Cilt: 12, Sayı: 2, p.19

<sup>39</sup> *Ibid*, p. 26

Actually, it is stated in Evaluation of the EU-Customs Union Report that “market access opportunities have been lost for Turkey. The main ones to date have been in Algeria, where Turkey lost market share vis-à-vis European firms, Mexico and South Africa.”<sup>40</sup> In order to solve this problem, the EU Commission initiated ‘Turkey Clause’, which was first used in the EU’s negotiations with Algeria, 2005. Although it is an initiative of the EU in order to increase functioning of the CU, it has just an advisory character and not binding for the negotiating country. As it is stated by Kabaalioglu, the EU Commission includes a clause in a prospective FTA asking that third State to conclude a similar agreement with Turkey. Since this clause has no binding effect on that country, it has not any practical effect and has not provided a solution to the problem.<sup>41</sup>

Furthermore, it is articulated by Akman that the latecomer effect is relevant for Turkey. Initially, in the best scenario, Turkey is able to complete FTA after a few years following the EU’s conclusion of the agreement. Consequently, Turkey is placed in a disadvantaged position compared to the EU due to the fact that the EU exporters have in a privileged position regarding third market access several years earlier than the Turkish ones. Thus, there is an inequitable competition condition in terms of market access.<sup>42</sup> Consequently, it is obvious that the original structure of the CU has already been asymmetrical in a way disadvantages Turkey.

Besides this initial problem, recent trade policy changes of the EU in order to respond deadlock in the multilateral trade system, by increasing bilateral trade relations, grounds a new difficulty in the EU-Turkey CU. According to Elsig, the EU trade

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<sup>40</sup> World Bank, “Evaluation of the EU-Turkey Customs Union”, 2014, Report No. 85830-TR, p. 25

<sup>41</sup> Haluk Kabaalioglu, “Turkey and The European Union-Different Dimensions”, 2012, in P. Demaret, et al. eds., Germany: Nomos Verlagsgesellschaft

<sup>42</sup> Sait Akman, “Dynamics of European Union’s Trade Strategy: Drawing Conclusions for Relations with Turkey”, 2012, paper presented at the UACES Exchanging Ideas on Europe 2012, ‘Old Borders – New Frontiers’, 3-5 September, Passau, Germany

strategy has always been based on the mixture of multilateral and bilateral approaches to international trade negotiations. However, following the suspension of Doha negotiations in 2006, the EU has tried to compensate this failure in multilateral trade negotiations by overweighting bilateral relations.<sup>43</sup>

Despite the continuing significance of the Doha Development Agenda for the EU and the ongoing attempts of the Commission to restart the Doha negotiations, the official view of the EU can be exemplified as: “However, FTAs can build on WTO and other international rules by going further and faster in promoting openness and integration, by tackling issues which are not ready for multilateral discussion and by preparing the ground for the next level of multilateral liberalization. Many key issues, including investment, public procurement, competition, other regulatory issues and IPR enforcement, which remain outside the WTO at this time can be addressed through FTAs.”<sup>44</sup>

Under the Global Europe Strategy (GES), the Commission states that it has a new approach towards FTA’s. Indeed it articulates that “the key economic criteria for new FTA partners should be market potential (economic size and growth) and the level of protection against EU export interests (tariffs and non-tariff barriers). In terms of content, the new competitiveness-driven FTAs would need to be comprehensive and ambitious in coverage, aiming at the highest possible degree of trade liberalization including far-reaching liberalization of services and investment. A new, ambitious model EU investment agreement should be developed in close coordination with Member States.”<sup>45</sup>

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<sup>43</sup> Manfred Elsig, “The EU’s Choice of Regulatory Venues for Trade Negotiations: A Tale of Agency Power?”, 2007, *Journal of Common Market Studies*, 45(4), p. 927-948

<sup>44</sup> European Commission, “Global Europe: Competing in the World: a contribution to the EU’s growth and jobs strategy.”, 2006, Brussels: European Commission (Commission Staff Working Document/Annex to The Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions/SEC 2006 1230), p. 10 accessed 16. 08. 2017, available at [http://trade.ec.europa.eu/doclib/docs/2006/october/tradoc\\_130370.pdf](http://trade.ec.europa.eu/doclib/docs/2006/october/tradoc_130370.pdf)

<sup>45</sup> *Ibid*, p.11

Following the GES, “Trade, Growth and World Affairs” strategy was published in 2010, in which The Commission stated that: “The bilateral is not the enemy of the multilateral. The opposite may hold true: liberalization fuels liberalization. That is why a large part of our energy will be spent on delivering balanced free trade agreements put forward as priorities by the Commission in its Global Europe strategy. Once all the FTAs have been approved that are under negotiation or under consideration, the EU will have preferential trade agreements with the large majority of WTO members. Together they account for only half our trade, however. It is equally important to deepen our trade and investment links with the other big economies in the world: the US, China, Japan, and Russia.”<sup>46</sup>

Although individual interests of the member states, besides common interests, are highly regarded in the formulation of FTA policies under the GES and 2010 Strategy of the EU, the position and interest of Turkey stemming from the CU has not been duly regarded. Accordingly, the EU FTA policy contradicts with what have been suggested by the World Bank, “the impacts of new EU FTAs will be much more important for Turkey than when the CU was first concluded because there will be more and deeper agreements. With the current impasse in the Doha Round of WTO negotiations, interest in regionalism has increased especially with large trading partners such as the US, India, Japan and China. This means that the asymmetry problem for Turkey could get worse as the number of EU FTAs increases. Furthermore, an EU Communication released in 2006 proposed to have FTAs much deeper than covering just trade in goods to also include disciplines in other areas will have important implications for Turkey and the future of the CU.”<sup>47</sup>

Nonetheless, European Parliament argues that “the issue of 3rd party raises here when EU forms FTAs with third countries in the absence of Turkey in its decision chamber. Most Turkish economists believe that this part of the Customs Union works against

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<sup>46</sup> European Commission, “Trade, Growth and World Affairs Strategy” , 2010, p. 5, Retrieved from [http://trade.ec.europa.eu/doclib/docs/2010/november/tradoc\\_146955.pdf](http://trade.ec.europa.eu/doclib/docs/2010/november/tradoc_146955.pdf) , Retrieved on 16.08.2017

<sup>47</sup> World Bank, “Evaluation of the EU-Turkey Customs Union”, 2014, Report No. 85830-TR, p. 28

Turkey. Hence there is a growing trade deficit, which encourages the Euro skepticisms and the objections to the Customs Union deal rising in Turkey. Statistics also appeared to confirm their argument. It is true that since 1996, when the CU started, the deficit is increasing dramatically. They argued further that perhaps not surprisingly, the customs union has proved to be extremely harmful to Turkey's balance of trade. It was after all bound to be the net loser, given that it was mostly Turkey which undertook the additional duties envisaged envisioned by the customs union."<sup>48</sup>

On the other hand, according to studies of Balkır, Eylemer and Tas<sup>49</sup> as well as Derviş, Emerson, Gros and Ülgen,<sup>50</sup> challenges stemming from the CU is acceptable, considering it as a step forward full membership to the EU. Indeed, "the challenge for the next years is to make the asymmetry in the Customs Union politically acceptable until accession takes place."<sup>51</sup> Önis asserts that the CU has important positive dimensions such as the acceleration of trade liberalization and domestic economic reforms concerning competition and regulation policy. Likewise, Önis underlines the Turkish mindset of signing the CU, which is more political than economic, as a reason to continue this relation.<sup>52</sup> Indeed, he argues that it is "the first and necessary step in a transitional period on the path to full EU membership."<sup>53</sup>

Having reviewed all of these studies, it can be suggested that there is a gap in the literature on the European Union-Turkey Customs Union Agreement, in terms of applying International Relations theories. In general, this agreement and its impact on

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<sup>48</sup> European Parliament, "Trade and Economic Relations With Turkey", 2010, Brussels, p. 13

<sup>49</sup> Canan Balkır, Sedef Eylemer and İlkey Tas, "Customs Union: An end in itself or a step towards Accession?", <http://www.ikv.org.tr/images/upload/file/balk%20C3%84%C2%B1r-eylem-tastebilig.pdf> , p.22 (Accessed on 22.06.2011).

<sup>50</sup> Kemal Dervis, Michael Emerson, Daniel Gros, Sinan Ülgen, "The European Transformation of Modern Turkey", September 2004, EU Neighbourhood Policy, CEPS Paperbacks

<sup>51</sup> Ibid, p. 76

<sup>52</sup> Ziya Önis, "Turkey, Europe, and Paradoxes of Identity: Perspectives on the International Context of Democratization", 1999, Mediterranean Quarterly 10.3

<sup>53</sup> Ibid.,p.124

Turkey is evaluated through using econometric models and from the perspective of economics. In addition, other studies that develop qualitative interpretation of the Agreements lack in theoretical perspective. There are some master and doctoral thesis in the literature that try to apply international relations theories to the EU-Turkey relations. However, their focal point is generally Turkish accession process to the full membership. They do not focus on the CU, yet they only mention this Agreement as a step towards membership. Even in the limited number of thesis that apply international relations theories to the CU, general trend is using neo-liberal premises.<sup>54</sup>

Consequently, there is a need to analyze the CU relation and how a remedy can be developed to its existing problems from a different perspective. Therefore, neither economic models nor neoliberalism is preferred to be implemented in this thesis. Nonetheless, a new approach is developed to analyze current form of the CU, in order to provide a more sustainable cure to its problems.

### 1.3. Hypothesis of the Research

In this manner, throughout the thesis, the CU relation between Turkey and the EU will be revisited through neo-functionalist perspective. However, not the original form, but Schmitter form of neofunctionalism is found appropriate to evaluate the current CU and how to improve it. Specifically, spill-around is a specific concept in this form of neofunctionalism that has been overlooked in the literature on the CU, yet it is quite applicable to develop a solution to current problems of the CU. In fact, the concept of spill-around foresees to increase the scope of authority by keeping level of authority constant. Hence, it is a suitable tool to be applied to integration models that lack unity in motivations to increase the level of authority, or stage of integration.

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-Murat Pesteli, "Reproduction of Dependency: The Customs Union between Turkey and the European Union", 2013, Master's Thesis submitted to Hacettepe University Graduate School of Social Sciences Department of International Relations

- Feyza Öz, "The EU- Turkey Customs Union: A fairy Tale About Turkish Europeanization", 2012, Master's Thesis submitted to the Graduate School of Social Sciences of Middle East Technical University

Therefore, considering highly politicized nature of the CU and diverging motivations of the Parties, it is hard to increase level of authority to remedy its deficiencies. In this regard, the best possible alternative is to increase scope of authority by widening and deepening the coverage of the Agreement, yet keep level of authority constant. Consequently, the hypothesis of this research is that deepening and widening the scope of current Customs Union Agreement, as it is envisaged by spill-around, can bring a sustainable solution to all problems of the Agreement.

#### 1.4. Methodology

In order to prove the hypothesis of this paper, an applied research will be conducted, in terms of its application. This paper does aim to apply the research findings to actual intergovernmental policies and provide a solution to existing problems of the CU. Furthermore, a qualitative type of information is sought for at the end of research. In other words, the research is interested in the quality analysis of the representative sample, not the quantity of it. Hence, the research will provide a better understanding about the reasons of dissatisfaction of the Parties with the current form of the Customs Union and ways to solve problems. Moreover, the objective of this research is to explain why both Turkey and the European Union are dissatisfied with the current form of the Customs Union Agreement. Consequently, an explanatory research will be conducted, in terms research objective.

In terms of research methods, using only one kind of research method is not sufficient for this thesis, since it should provide an analysis of both “numerical data” and “the political behaviors and attitudes”<sup>55</sup> For this reason, quantitative and qualitative research methods are tried to use together to minimize the disadvantages of employing only one of them. In addition, archival research and document analysis will be conducted in order to find out what mindset of the European Union and Turkey are as well as to evaluate chronological development of their bilateral relation. While primary resources are aimed to be analyzed in archival research, secondary resources

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<sup>55</sup> Lisa Harrison, “Political Research: An Introduction. London”, 2001, England: Routledge, p. 74

will be the instruments of document analysis. Besides qualitative data collected through archival research and document analysis, some quantitative data will be collected, such as trade statistics extracted from national statistics institutions and from international and regional institutions, such as European Commission-Directorate General for Trade, International Trade Center (ITC), World Bank etc.

Additionally, various source materials are utilized in accordance with topic of the chapters in the thesis. In addition to data obtained through secondary sources such as books, scientific journal articles and research papers that are dealing with the specific issues of each chapter, this study relies upon the key official documents on the EU's evolving trade policy, selected examples of the FTAs that the EU and Turkey has concluded with third countries, parts dealing with Turkey's prospective membership in EU Summit Declarations and EU Commission Progress Reports on Turkey as the primary sources.

In addition to all these sources and methods, three years spent in Turkish Republic Ministry of Economy as trade assistant contributed a lot to the formulation of this thesis. Throughout these three years, there had been several opportunities to attend into free trade agreement negotiations with a number of countries, meetings of the Customs Union Joint Committee and the Customs Cooperation Committee as well as other bilateral and multilateral negotiations with the EU representatives. These first hand experiences gained through these meetings have been considerably useful and effective in creating this thesis.

#### 1.5. The General Structure of the Thesis

The second chapter of the thesis will provide a theoretical background to this thesis. Since the topic, research question and hypothesis of the thesis is strictly related with neo-functionalism, its development and main concepts, it is extremely significant to have a deep knowledge about neo-functional premises. In this chapter, it will be underlined that original form of neo-functionalism is not sufficient to provide a revision to the CU Agreement. It is due to pre-assumption of this original form that



interdependence is the way to complete integration, through linear spillover process. Consequently, it will be argued that spill-around concept of neo-neo version of functionalism, developed by Schmitter is the best possible alternative to overcome its problems.

Despite the fact that neo-neo functionalism is a political approach to regional integration, there is also a need to determine what a regional integration is from economic perspective. In other words, contrary to political motivations driving the conclusion of the CU Agreement, it is actually a form of regional economic integration. Hence, in order to provide a proposal for a better functioning customs union relation, firstly it should be clearly defined what a regional economic integration is and where exactly a customs union stands in the big picture of integration model. Consequently, in the third chapter, definition and different approach towards regional integration as well as stages of it will be introduced to effectively evaluate the framework of the European Union (EU)-Turkey Customs Union (CU) Agreement. Based on the theoretical examination of regional integration, how the European Union-Turkey Customs Union Agreement has evolved will be explained through different levels of analysis. After indicating the context of the Agreement, the content of it will be laid down, with a special emphasis on some Articles. Therefore, the third chapter will start with an economic approach that will continue with an international political economy approach, consistent with the general approach of the thesis.

The fourth chapter constitutes the main part of this thesis, in which what spill-around is introduced in detail, based on the information about neo-functionalism in general in the second chapter. After indicating main features of spill-around and specifying the areas, where it can be utilized, it will be implemented to the EU-Turkey Customs Union. Indeed, this implementation includes widening and deepening as two complementary ways. Namely, implementation of spill-around suggests widening the scope of the CU to agriculture and service sectors, besides industrial products. In addition, it develops some suggestions about deepening commitments in the formulation and implementation of trade policies, such as FTA policies, road quotas

and visa requirements. Hence, through widening and deepening, scope of authority is increased in the CU, yet the level of authority is kept constant. Through this way, permanent solutions are developed to the long-lasting problems of the CU, without causing any reaction due to divergent aims and motivations of the parties.

## CHAPTER 2

### SETTING THE THEORETICAL CONTEXT

In order to effectively answer the research question of this thesis, it is necessary to well-understand neo-functionalism and how it approaches to regional integration. Indeed, neo-functionalism is the phenomenon of the late 1950s and early 1960s, whose founding father is generally accepted as Ernst Haas, together with Leon Lindberg. Niemann and Schmitter argue that “Haas and Lindberg combined functionalist mechanisms with federalist goals. Like functionalism, neo-functionalism emphasizes the mechanisms of technocratic decision-making, incremental change and learning processes...Neo-functionalists attached considerable importance to the autonomous influence of supranational institutions and the emerging role of organized interests”.<sup>56</sup> In other words, neo-functionalism differs from functionalism with its specific emphasis on regional European integration, rather than being a general integration theory. Haas’s vision was actually a pragmatic use of functionalist tools in order to provide a theoretical background to the formation and evolution of European Communities structure. By using these functionalist tools, neo-functionalists aimed to achieve a “political integration...whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities toward a new centre, whose institutions possess or demand jurisdiction over the pre-existing national states”<sup>57</sup>

Accordingly, how pragmatic Jean Monnet approaches to European integration became an inspiration for neo-functionalists that adds political goals to the usage of functionalist tools. The political goal in here is to create a supranational institution to which nation states delegate the authority of decision-making. The significant point is

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<sup>56</sup> Arne Niemann and Philippe C. Schmitter, “Neofunctionalism”, 2009, in *European Integration Theory*, Second Edition, by Antje Wiener and Thomas Diez, Oxford University Press, p. 45-46

<sup>57</sup> Ernst Haas, “The Uniting of Europe”, 1958, Stanford University Press, p.16

the replacement of national authority with the supranational one, according to neo-functionalism. However, perceiving the difficulty of this transformation in a quick period of time, they foresee a process of “spillover” to achieve this end. Therefore, the desired political integration for neo-functionalists is a progressive one that can be achieved through starting with limited economic cooperation and expecting it to evolve a deeper and larger political one. Positive outcomes retrieved from early limited cooperation will help to provide positive feedback to create larger cooperation areas. Likewise, Haas states that “sector integration is merely a first step toward full integration and a living laboratory of the measures necessary for achieving it. The ‘spillover’ effect in sector integration is believed to lead inevitably to full economic and political unity.”<sup>58</sup>

Thus, sector integration is believed to constitute the starting point for neo-functionalists to achieve the full integration. To exemplify this claim, European common market established for coal and steel can be named that is aimed to lead a fully integrated European economy. The final goal following full economic integration will be the political integration institutionalized by supranational thinking. Followingly, the idea of transferring a large amount of power from member states to institutional body higher than state, like in the European Parliament and the Council of European Union, goes hand in hand with spillover.

Accordingly, spillover is accepted as an automatic process for early neo-functionalists that was explained by Harrison as “ultimately, the expectation is that as the tasks and powers of the central institutions are increased through the operation of the spillover process, integration will gradually encroach on that politically sensitive area where vital interests are at stake. So, an embryonic political community will emerge and grow.”<sup>59</sup> Therefore, the spillover process is perceived to occur automatically firstly within economic sectors and then turn into political realm. As in the words of

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<sup>58</sup> Ibid, p.283

<sup>59</sup> Reginald J. Harrison, “Europe in Question”, 1974, London: Allen and Unwin, p. 77

Lindberg, spillover “refers to a situation in which a given action, related to a specific goal, creates a situation in which the original goal can be assured only by taking further actions, which in turn create a further condition and a need for more action, and so forth.”<sup>60</sup> As a result, the early neo-functionalist idea suggests that integration through spillover is rational, technical and self-sustaining that constitutes its automaticity leading the same conclusions under the same conditions.

Another significant point highlighted by neo-functionalists about spillover is the role of elites in this process. Indeed, Haas argues that “Regional integration can go forward smoothly if, as in the case of the heroic statesman-leader, there is a shared political commitment between him and the major elites in society in favor of union.”<sup>61</sup> Therefore, Haas attaches great importance to support of non-governmental elites to the integration process for its success, by transferring their loyalty and expectations to new supranational entity. Contrary to Haas, Lindberg believes in the impact of governmental elites on integration process<sup>62</sup>. Governmental elites’ habit of working together under the supranational institutions of new political center is believed to create a mutual understanding and apprehension that will faster integration process.

In terms of classifying spillover, the work of Tranholm-Mikkelsen<sup>63</sup> is the main source of reference in the literature on neo-functionalism. According to this article, there are three aspects of spillover, which are functional, political and cultivated spillover. Functional spillover is based on the ideas of Jean Monnet by claiming that “some sectors are so interdependent that it is impossible to treat them in isolation. Attempts

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<sup>60</sup> Leon Lindberg, “The Political Dynamics of European Economic Integration”, 1963, Stanford University Press, p.10

<sup>61</sup> Ibid, p. Xxiv

<sup>62</sup> Leon Lindberg, “The Political Dynamics of European Economic Integration”, 1963, Stanford University Press, Chapter 4

<sup>63</sup> Jeppe Tranholm-Mikkelsen, “Neofunctionalism: Obstinate or Obsolete? A Reappraisal in the Light of the New Dynamism of the European Community”, 1991, *Millennium: Journal of International Studies*, 20(1), 1-22

to integrate certain functional tasks will inevitably lead to problems that can be solved by integrating yet more tasks.”<sup>64</sup> In other words, functional spillover is related to economic context, in which codependence of several economic areas will directly affect integration process. Integration in one issue-area will lead to an automatic spilling over into other connected economic sectors. General example used in literature about functional spillover is about how integration in the coal and steel leads to further integration in other related areas such as transportation and exchange rates.<sup>65</sup>

Under political spillover idea, national elites, combining with interest groups, are believed to “undergo a learning process, developing the perception that their interests are better served by seeking supranational rather than national solutions. They will therefore refocus their activities, expectations and perhaps their loyalties to the new center. Such reorientation will lead to calls for further integration, hence providing the process with political impetus.”<sup>66</sup> Actually, political spillover is the term related with what have been suggested by Lindberg about the role of elites in integration process that explained above. The idea of political spillover is in the strong relation with newly created supranational center under neo-functionalist thinking. National political actors believe in the reliability of supranational level institutionalization as the reference point to solve their problems and to serve to their interests. Therefore, they shift their commitment to this new entity that at the end helps to intimate the process of further integration.

In terms of cultivated spillover, Tranholm-Mikkelsen argues that “Haas and Lindberg placed much emphasis on the role of central institutions, especially the Commission. Such institutions were to embody the common interest and hence function as midwives for the integration process.”<sup>67</sup> Accordingly, the Commission is believed to increase

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<sup>64</sup>Ibid, p. 4-5

<sup>65</sup> Pierre Gerbet, “La genèse du plan Schuman. Des origines à la déclaration du 9 mai 1950”, 1956, *Revue française de science politique*, Volume 6 Issue 3 pp. 542

<sup>66</sup> Ibid, pp. 5

<sup>67</sup>Ibid, pp. 6

cooperation by acting as more than just a common denominator. Reliable institutionalization of the Commission, besides its independent character is to accelerate the integration process. To exemplify this argument, it was stated in 1985 White Paper that “the Commission will be asking the European Council to pledge itself to completion of a fully unified internal market by 1992 and to approve the necessary programme together with a realistic and binding timetable.”<sup>68</sup> Upon this Paper of the Commission, in the end of 1985 the Single European Act was agreed and signed in 1986. As a result, a concrete step was taken in the route of European integration, upon the calling of the Commission. Although this calling was not deterministic, it acted as the accelerator to get this immense step in the integration process.

One of the historical developments, which demonstrate the popularity of neo-functionalism premises, was transformation of the European Coal and Steel Community (ECSC) in 1957 to the European Economic Community (EEC) and European Atomic Energy Community (Euratom). Together with this transformation, one of the main premises of neo-functionalism- spillover- became exemplified and the theory increased its persuasiveness. Within the EEC, one of the newly introduced common policies was Common Agricultural Policy (CAP), in addition to coal and steel. When it comes to 1962, CAP began to be realized, which aimed to “provide affordable food for EU citizens and a fair standard of living for farmers”<sup>69</sup> With this development, neo-functionalism arguments gained a pace, in a manner that limited integration in the area of coal and steel had been “spillover” to a larger integration.

However, this positive environment for neo-functionalism premises did not continue longer. The period between 1960 and 1970 was hard for neo-functionalists, due to several developments that challenge its main premises. President Charles de Gaulle

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<sup>68</sup> Commission of the European Communities, *Completing the Internal Market: White Paper from the Commission to the European Council*, COM (85) 310 Final (June 1985) [hereinafter White Paper], p.4

<sup>69</sup> European Commission, “The Common Agricultural Policy, A story to be continued”, 2012, Luxembourg: Publications Office of the European Union, p. 3

was the most preeminent actor of the time that causes trouble for neo-functionalists, by his actions. Actually, his veto of British membership to the Community in 1963 and “Empty Chair Crisis” in 1965 that prevents the Community from working can be named as critical to against what neo-functionalists argue. Besides these two, in Luxembourg Compromise of 1966 states gained veto power on the base of ‘very important national interest(s)’, CAP was revised, the power of the Commission was reduced and qualified majority voting (QMV) became relevant in voting, all of which at the end empowered intergovernmentalist ideas, instead of neo-functionalist ones in practice of European integration process. In other words, in all of these cases, national interests of member states gained prominence over EU institutions that is not compatible with neo-functionalist premises.

Therefore, such examples of the period between 1960 and 1970 created obstacles to neo-functionalist thinking. Developments of these period resulted in questioning the main assumptions of neo-functionalism, such as spillover and the prevalence of supranationalism over nation state interest. These criticisms have come from two main sources that are intergovernmentalists and neo-functionalists itself. In terms of intergovernmentalists, what Hoffman argues is significant to be mentioned. He firstly criticizes neo-functionalist overemphasize in spillover and he makes a distinction between high and low politics. He believes that European nation states may vote for integration in low politics, yet they do not act that willingly in transferring their power to supranational institutions in the realm high politics.<sup>70</sup> Consequently, Hoffman makes a distinction between high and low politics and believes that high politics serve to the national interest of states more than low politics. In this regard, he argues that states are nor willingly to give up their power realm when it clashes with national interest.

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<sup>70</sup> Stanley Hoffmann, “Obstinate or Obsolete? The Fate of the Nation-State and the Case of Western Europe”, 1966, ‘Daedalus, Vol. 95, No. 3, Tradition and Change, p. 862-915



The other criticism of Hoffman, related to the first one, is about the prominence of the interest of nation states in giving a shape to European integration over supranational thinking. In this regard, he argues that "... the kind of supranational integration which would leave decisions on vital issues to majority votes or to executive organs independent of the states is out of the question...Extensive cooperation...will benefit all participants as long as it corresponds to and enhances mutual interests."<sup>71</sup> Therefore, intergovernmentalists critique is mainly based on their belief that nation states have decisive authority on integration and they are capable of resisting it, if it does not fit state interest.

Another source of critique towards neo-functionalism actually comes from inside circles. Later coming scholars of neo-functionalist thinking indulged in revising the original assumptions of the theory with regard to the developments of 1960's and 1970's. With the historical facts of the regional integration example of Europe, it became a necessity to reconsider what had been suggested by Haas and Lindberg. Therefore new scholars within neo-functionalists developed different suggestions to fit neo-functionalism to the international realities of Western Europe. One of the considerable people in this attempt of self-adjustment is Philippe C. Schmitter.

He summarizes the early conceptualizing of integration by neo-functionalism as "integration is an intrinsically sporadic and conflictual process, but one in which, under conditions of democracy and pluralistic representation, national governments will find themselves increasingly entangled in regional pressures and end up resolving their conflicts by conceding a wider scope and devolving more authority to the regional organizations they have created. Eventually, their citizens will begin shifting more and more of their expectations to the region and satisfying them will increase the likelihood that economic-social integration will 'spill-over' into political integration."<sup>72</sup>

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<sup>71</sup> Ibid, p. 896

<sup>72</sup> Philippe Schmitter, "Ernst B. Haas and the Legacy of Neo-functionalism", 2005, *Journal of European Public Policy*, 12:2, P. 257

In this summary, it is easy to detect which points of early theory he does not agree with. First of all, he does not accept that spillover is an automatic process that will occur in a planned linear order through interdependence of functional issue arenas in addition to the role of elites, who are capable of leading the integration. Instead, he opts for more dynamic assumptions for integration process by suggesting alternative actor strategies, which overthrow the supremacy of spillover as the only actor strategy. In this work, Schmitter lists seven different alternatives that are<sup>73</sup>:

- 1) Spillover: To increase both the scope and level of his commitment concomitantly;
- 2) Spill-around: To increase only the scope while holding the level of authority constant or within the zone of indifference;
- 3) Buildup: To agree to increase the decisional autonomy or capacity of joint institutions but deny them entrance into new issue areas;
- 4) Retrench: To increase the level of joint deliberation but withdraw the institutions(s) from certain areas;
- 5) Muddle-about: To let the regional bureaucrats debate, suggest, and expostulate on a wider variety of issues but decrease their actual capacity to allocate values;
- 6) Spill-back: To retreat on both dimensions, possibly returning to the status quo ante initiation;
- 7) Encapsulate: To respond to crisis by marginal modifications within the zone of indifference.

Within these alternatives, Schmitter emphasizes that spillover is the “most direct route to political community”, however in the long term other alternatives are less prone to end with problems stemming from national interests. As in the words of Schmitter, “inconspicuous spill-around may avoid reaction-formation for some time, until a crisis forces a consolidation of disparate authorities; "built-up" institutions with an

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<sup>73</sup> Philippe C. Schmitter, “A Revised Theory of Regional Integration”, Autumn, 1970, *International Organization*, Vol. 24, No. 4, *Regional Integration: Theory and Research*, p. 846

established reputation for efficiency and equity may be called upon suddenly to take over other, crisis-ridden domains.”<sup>74</sup>

Depending on his rejection of automaticity and uniqueness of spillover in the process of integration, Schmitter redefines spillover as: “the process whereby members of an integration scheme-agreed on some collective goals for a variety of motives but unequally satisfied with their attainment of these goals-attempt to resolve their dissatisfaction either by resorting to collaboration in another, related sector (expanding the scope of the mutual commitment) or by intensifying their commitment to the original sector (increasing the level of mutual commitment) or both.”<sup>75</sup> Together with this definition, neo-functionalism became closer to intergovernmentalism in a manner considering subsequent perceptions and cost benefit assessments of states in the integration process. Consequently, Schmitter believes in the role of actors, especially nation states, in the integration process rather than the pre-determined fate of the integration. These actors use spillover functionally to fulfill their aims, in which the scope and level have significant place.

Another scholar that revises neo-functionalism is Joseph Nye, who argues that in the early forms of neo-functionalism, it was too Europe centric and far from creating a general theory of understanding regional integration. Therefore, he emphasizes the need for revising neo-functionalism in the form: “1) the dependent variable is stated less ambiguously, 2) the idea of a single path from quasi-technical tasks to political union by means of spillover is dropped and other potential process forces and paths are included; 3) more political actors are added; and 4) the list of integration conditions is reformulated in the light of comparative work that has been done on integration processes in less developed area.”<sup>76</sup>

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<sup>74</sup> Ibid, p. 846

<sup>75</sup> Philippe C. Schmitter, “Three Neo-Functional Hypotheses about International Integration”, Winter 1969, *International Organization*, Vol. 23, No. 1 p. 162

<sup>76</sup> Joseph S. Nye, “Comparing Common Markets: A Revised Neo-Functionalist Model”, Autumn 1970, *International Organization*, Vol. 24, No. 4, *Regional Integration: Theory and Research*, p. 797

In the formulation of Nye, the primacy of spillover that starts with an economic sector and ends with political integration is criticized, as being the only dependent variable. In other words, likewise Schmitter, Nye rejects the automaticity of spillover and argues that there is a need for more dynamic explanation for integration to provide a sustainable neo-functional argument. By insisting on the idea that spillover is the only explanation of regional integration, neo-functionalism limits itself to be a case specific theory and became distant from to developing a general explanation of integration worldwide. Nye goes further and argues that with the early assumptions of neo-functionalism, it is impossible for neo-functionalism to even explain European integration in mid-1960's and early 1970's.

Another significant contribution of Nye to neo-functionalism is his re-categorization of Haas-Schmitter classification of conditions that lead to integration. To be more specific, in Haas- Schmitter formulation there are three categories, which are background conditions, conditions at the time of economic union and process conditions, which can be seen in the table below.<sup>77</sup>

**Table 1. Haas-Schmitter Model of Neo-Functionalism**

<i>Background conditions</i>	<i>Conditions at the time of economic union</i>	<i>Process conditions</i>
<ul style="list-style-type: none"> <li>● size of unit</li> <li>● rate of transactions</li> <li>● pluralism</li> <li>● elite complementarity</li> </ul>	<ul style="list-style-type: none"> <li>● possible governmental purposes</li> <li>● powers and functions of new region-level institutions</li> </ul>	<ul style="list-style-type: none"> <li>● decision-making style</li> <li>● rate of growth of transactions</li> <li>● adaptability of governmental/private actors</li> </ul>

Source: Ben Rosamond, "Theories of European Integration", 2000, St. Martin's Press, New York, p. 71

<sup>77</sup> Ben Rosamond, "Theories of European Integration", 2000, St. Martin's Press, New York, p. 71

Actually, they used this type of categorization to indicate that it is impossible for a group of countries to create an integration unless they have “industrialized economies, full political mobilization via strong interest groups and political parties, leadership by political elites competing for political dominance under rules of constitutional democracy accepted by leaders and followers.”<sup>78</sup>, such as Latin American integration.

On the other hand, Nye argues that certain omissions, additions, and restatements are needed to this list of Haas and Schmitter, due to changing conditions. He, accordingly, changes the classification made according to the stages of integration and develops ‘structural conditions’ and ‘perceptual conditions’ for his new scheme. Structural conditions refer to the ones affected by factors so that they are comparatively stable, while perceptual conditions are the ones directly affected from integration process itself that makes them more unstable. Nye lists, ‘symmetry or economic equality of units’, ‘elite value complementarity’ and ‘pluralism (modern associational groups)’ under structural conditions; in addition to ‘perceived equity of distribution of benefits’, ‘perceptions of external cogency’ and ‘low (or exportable) visible costs’ as the perceptual ones.<sup>79</sup> Hence, he believes that similarities in economic and social structures affect how states approach to committing themselves to integration, whereas subjective interpretations of states based on cost-benefit analysis are affected by the process of integration. The combination of these two constitutes how states evaluate the process of integration and determines their decision to take part or not.

One other significant figure that works on revising neo-functionalism is Arne Niemann. According to him, his approach to neo-functionalism is different than early forms of it depending on four main points. First of all, “the ontological scope is slightly broadened – somewhat beyond...‘soft rational choice’ for the original neo-

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<sup>78</sup> Ernst Haas, “Does constructivism subsume neo-functionalism?”, 2001, in T. Christiansen, K.E. Jørgensen and A. Wiener (eds), *The Social Construction of Europe*, London: Sage, p. 29–30

<sup>79</sup> Joseph S. Nye, “Comparing Common Markets: A Revised Neo-Functionalist Model”, Autumn 1970, *International Organization*, Vol. 24, No. 4, *Regional Integration: Theory and Research*, p. 812-821

functionalist account...”<sup>80</sup> In other words, Niemann accepts the power of material structure besides emphasizing the capacity of agents to shape this material structure. In this manner, Niemann shares the view that actors are rational, yet he also argues that their ideas and preferences are not stable due to the fact that they are open to learn and have capacity to change the material structure encircles them. “This account places more explicit emphasis on socialization, deliberation and learning than did Haas’s early neo-functionalism for explaining EU decision outcomes.”<sup>81</sup>

The other revision of Niemann, related to the first one, is the argument that “structure and agency mutually constitute each other.”<sup>82</sup> Consequently, he argues that agent oriented world view of early neo-functionalism forms is outdated and one should consider the interdependence between the social, political and economic structure and the agent while explaining the integration process. Both of them have power to mutually shape the other.

Thirdly, he argues that “departing from early neofunctionalists’ grand theoretical ambitions and the automaticity of spillover, the revised approach should be understood as a wide-ranging, but partial, theory that is only intended to account for part of the process of regional integration in Europe, namely that of explaining EU decisions and their impact upon integration.”<sup>83</sup> Accordingly, he approaches to neo-functionalism different than Nye, who criticizes it for not generating a theory of integration worldwide. However, his perception to spillover is similar to Schmitter’s, in a way rejecting its automaticity and suggesting that neo-functionalism is the theory of disintegration besides integration. Niemann, therefore, argues that “through such a

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<sup>80</sup> Arne Niemann, “EU External Trade and the Treaty of Lisbon: A Revised Neofunctionalist Approach”, 2013, *Journal of Contemporary European Research*. 9 (4), p. 637

<sup>81</sup> *Ibid*, p. 637

<sup>82</sup> *Ibid*, p. 638

<sup>83</sup> *Ibid*, p. 638

dialectical account the non-linear, stop-and-go nature of the European integration process is thought to be conceptualized more adequately.”<sup>84</sup>

Lastly, he revises the early forms of spillover, in which “functional spillover is broadened in scope to go beyond merely economic linkages and is freed from its deterministic ontology..., cultivated spillover...is (also) widened to include the integrative roles played by the Council Presidency, the European Parliament and the European Court of Justice. Furthermore, the newly termed notion of ‘social’ spillover is separated from what had been called ‘political spillover’...for a more clear-cut explanation of reflexive (elite) learning and socialization processes.”<sup>85</sup> In other words, how Tranholm-Mikkelsen had categorized spillovers, explained above, have been changed by Niemann as expanding the scope of the existing ones and adding a new one called social spillover.

In terms of functional spillover, the interdependence between the goal aimed to be achieved and further functional step to be taken should exist. The lack of taking this further step should avoid reaching the original integrative objective. From the perspective of cultivated spillover, the reason why Niemann adds institutions like Council Presidency, the European Parliament and the European Court of Justice to the side of the Commission is their shared characteristics. Indeed, their relatively supranational character and independent institutionalization, besides their potential to change how decision makers think are main reasons lying behind this amendment. When it comes to brand new category of spillover, social spillover, the context of political spillover is narrowed down to elites taking part in negotiation of supranational decision making process. Niemann actually argues that “social spillover processes work as an interface between structure and agency.”<sup>86</sup> Hence, how elites decide during

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<sup>84</sup> Ibid, p. 638

<sup>85</sup> Ibid, p. 638

<sup>86</sup> Ibid, p. 641

the negotiations is determined due to both external and internal structures surrounding them with the help of socialization.

It is also significant to analyze how Haas responded all these criticisms and revisions on his original idea of neo-functionalism. What Haas states in introduction part of the 2004 edition of 'The Uniting Europe' is enlightening in terms of understanding how he revises his own ideas within time. Haas' conclusion that "regional integration theory has a new lease on life; it is no longer obsolescent" is the best way to summarize how his views on regional integration changed since the original formulation of neo-functionalism.<sup>87</sup> Actually, he accepts that original idea of neo-functionalism was proved to be wrong in several points in its formulation of main assumptions. For instance, it neglected to recognize that Europe is nested in a global set of interdependencies as well as to consider the institutions. In addition, it exaggerated the degree at which national governments transfer their sovereignty to supranational institutions.<sup>88</sup>

In order to evaluate how Haas approaches to the spillover concept in his revised perspective, it is significant to make a time differentiation. He firstly refers to his 1975 self-critique, in which he accepted that "there is no automaticity and no reliable spillover process in the march of European integration, making the original theory obsolescent...".<sup>89</sup> The reason leading Haas to conclude like that was early mentioned 1970's developments, witnessed by European integration and challenged what he had argued about spillover process. Nevertheless, he continues and argues that "events since 1985 now suggest that this diagnosis was wrong. The phoenix-like evolution of the European Communities into the European Union has triggered a modest renaissance of NF-type analyses...However, they contain several important

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<sup>87</sup> Ernst Haas, "Introduction: Institutionalism or constructivism?", 2004, in *The Uniting Europe: Politics, Social and Economic Forces, 1950-1957*, 3rd edn, Notre Dame, IN: University of Notre Dame Press, p. liii

<sup>88</sup> *Ibid*, p. xvi

<sup>89</sup> *Ibid*, p. xix



amendments to NF that I wish to acknowledge and endorse.”<sup>90</sup> As a result, Haas was willingly to review his original theory of spillover again in the light of recent developments and what Sandholtz, Stone Sweet, and Fligstein, he refers as Sandholtz et al. suggested.

First of all, Haas accepts that new version of neo-functionalism can suggest a more open-ended dependent variable than the original version.<sup>91</sup> Indeed, even starting from its foundation, neo-functionalism has become a theory that is highly affected from what happened in the structure of European integration. Therefore, Haas felt the need to be more flexible in terms of theoretical assumption, so that he could catch up with the current developments. In addition, strict relation of spillover process to start with economic sectors was changed in the new assumptions of Haas, in a way extending the concept “to deal with the unintended growth of any kind of EU institution, whether related to economic activity and policy or riot. It also covers the growth of administrative and judicial rules and organs.”<sup>92</sup>

Furthermore, the role and impact of institutions gained importance in the new version of Haas neo-functionalism, since he states that “in so far as this feature was neglected, its prominent inclusion in the list of variables whether dependent or intervening is welcome.”<sup>93</sup> Lastly, Haas took into account the impact of character and aims of domestic interest groups in the conduct of supranational policies that was assumed as the given parameter in the original version of neo-functionalism.<sup>94</sup>

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<sup>90</sup> Ibid, p. xix

<sup>91</sup> Ibid, p.xx

<sup>92</sup> Ibid, p. xx

<sup>93</sup> Ibid, p. xx

<sup>94</sup> Ibid, p. xxi

Besides accepting all of these points suggested by Sandholtz et al, Haas further contributes to the neo-functionalist thinking by criticizing some ideas of them. In fact, Haas condemns the acceptance of spillover as an irreversible process, automatically leading to the transfer of authority to supranational institutions. Consequently, he appreciates the work of Schmitter, as explained above, in which alternatives to spillover were set forth. In addition, Haas does not accept the idea that integration process is governed by rules and procedures rather than actors. Haas underlines the fact that actors have power to change the rules through their interests, objectives, and values; hence it is senseless to privilege rules over actors. Nevertheless, Sandholtz et al. also argue that there is interdependence between rules and actors, in which they mutually shape each other. Consequently, Haas criticizes them and states that “if that is so, the logic of structuration does not hold. They can't have it both ways.”<sup>95</sup>

As a conclusion, throughout this chapter, firstly, the original idea of neo-functionalism was introduced together with a special emphasis on its assumptions on the spillover process. Following, how the developments within time period challenged its main premises and what are the new approaches towards neo-functionalism was put forward. Lastly, the way Haas, as the father of theory, responded these criticisms and revised the original theory were examined. In this manner, not the original but the revised version of neo-functionalism will be the reference point to answer the research question how deficiencies of European Union-Turkey Customs Union Agreement can be corrected according to neo-functionalism. Actually, spillover process will be the key parameter to provide this answer. However, the original idea of spillover is not applicable to long lasting relation of Turkey and the European Union in the form of customs union.

Indeed, the main weakness of original form of neo-functionalism is its pre-assumption that interdependence is the way to complete integration, through linear spillover process. In other words, integration in one economic sector will lead to integration in other economic sectors, which will be completed with political integration. However,

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<sup>95</sup> Ibid, p. xxi-xxii

in the relation between Turkey and the European Union there is strong trade interdependence in some economic sectors, yet this relation is far from ending with political integration. In other words, over fifty years this relation was restricted to economic terms and it is not likely to turn into a political union in the near future. Even in the economic terms, there are various problems stemming from the original formulation of the Customs Union Agreement. Besides already existing structural problems of the Agreement; domestic, regional and international developments further deteriorated this relation. Therefore, interdependence in some economic sectors has led neither to integration in other economic sectors nor to political integration in this case. By contrast, since 1999, bilateral relations have increasingly politicized, due to a variety of factors. For instance, political conditions for membership, such as good neighbourhood, besides technical criteria; changes in the EU external economic relations together with successive enlargements as well as political instability in Turkey. Accordingly, spillover concept cannot be the way to provide a solution to these problems, since it is too rationalist and functionalist in nature.

Consequently, taking the fact that Turkey-the European Union relation has become more and more politically driven over time into account, there is a need to offer more pragmatic concept to overcome deficiencies of European Union-Turkey Customs Union Agreement. Actually, deficits of this agreement can only be overcome through further trade integration between parties by creating a deeper and wider version of the current agreement. From neo-functional perspective this refers to “spill-around” concept, developed by Schmitter. Therefore, in the coming chapter, the European Union-Turkey Customs Union Agreement will be deeply analyzed and the major problems of it will be listed in order to provide necessary information to apply spill-around concept as a solution to these existing problems.

## CHAPTER 3

### THE EUROPEAN UNION-TURKEY CUSTOMS UNION AGREEMENT

Within this chapter, firstly what a regional integration will be introduced to effectively evaluate the framework of the European Union (EU)-Turkey Customs Union (CU) Agreement. On the basis of the theoretical examination of regional integration, how the European Union-Turkey Customs Union Agreement has evolved will be explained through different levels of analysis. After indicating the context of the Agreement, the content of it will be laid down, with a special emphasis on some Articles. With the help of all these background information, then, it will be more convenient to list the contemporary problems of the European Union-Turkey Customs Union Agreement.

#### 3.1.Regional Integration

For different international relations schools, integration means different ways of bringing states together with different aims. For instance, for Ernst Haas, as it was mentioned in the previous chapter, regional integration is a process of achieving political integration, in which “political integration is the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities to a new centre, whose institutions possess or demand jurisdiction over pre-existing national states. The end result is a new political community, superimposed over the pre-existing ones.”<sup>96</sup> Consequently, it is expected from a regional integration that a new center of authority will be established and sovereignty will be transferred to there through shifting loyalty, expectations and political decision-making power.

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<sup>96</sup> Ernst Haas, “The Uniting of Europe”, 1958, Stanford University Press, p.16

From functionalist perspective, David Mitrany argues that: “To build up a cohesive loyalty national movements have often had to disinter or invent all sorts of historical, social and emotional affinities, above all to keep alive the fear of some common external danger. Regionalism, starting with more differences than affinities, would have to go even further in that.”<sup>97</sup> Therefore, the view of Mitrany exceeds the borders of regional cooperation and global patterns of cooperation is tried to be achieved. It is believed to be realized firstly through nonpolitical basis and politics should follow it.

Different from Mitrany and Haas, Deutsch for the first time mentioned the importance of the concepts of transaction, communication in the integration process, which is much more restricted to elite-led process instead of citizens coming together. Hence, transactionalism approaches to regional integration as “a relationship among units in which they are mutually interdependent and jointly produce system properties which they would separately lack.”<sup>98</sup> Therefore, in this type of integration model, there is no necessity for a new center of decision making, like it is in neo-functionalism and functionalism.

So far, the final aim of regional integration has been accepted to be political. However, political integration has a progressive nature, whose first step is an economic integration. Indeed, economic integration is the abolishment of economic boundaries, which prevent the potential mobility of production factors, commodities and services between two or more economic structures.<sup>99</sup> A step forward, in the mind of Balasa, economic integration is the combination of a process and state of affairs. “Regarded as a process, it encompasses measures designed to abolish discrimination between economic units belonging to different national states; viewed as a state of affairs, it can be represented by the absence of various forms of discrimination between national

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<sup>97</sup> David Mitrany, “The Prospect Of Integration: Federal or Functional”, 1965, Journal of Common Market Studies, Volume 4, Issue 2, p.125

<sup>98</sup> Karl W Deutsch, “The Analysis of International Relations”, 1968, Prentice-Hall, Englewood Cliffs, p.192

<sup>99</sup> Jaques Pelkmans, “European Integration Methods and Economic Analysis “, 2006, Third Edition, Essex, Pearson, p.3-4

economies.”<sup>100</sup> Consequently, economic integration is removal of trade barriers and restrictions between national economies in order to form a bigger and more competitive economical structure, in which production factors move without restraint from one to another.

Besides defining it, two farthest ideals towards the concept should also be underlined, which are liberalist and dirigist views. Based on liberalist view, regional integration is a reoccurrence of ideal world of free-trade, as it was before First World War. Under this point of view, economic integration is characterized market forces, with no role of movement of production factors. For instance, Allais argues that “practically, the only mutually acceptable rule for close economic cooperation between democratic societies is the rule of free market.”<sup>101</sup> On the other hand, dirigist view considers that economic integration can be realized through state trading and administrative regulations, giving no place to market means. As Philip states: “there is no alternative to a directed economy since the market can be extended not by liberalizing but by organizing.”<sup>102</sup> According to Weber and Hartmann, the liberal approach uses the market and the dirigistic approach uses the plan to achieve a higher degree of integration. In the liberal approach to regional integration of sovereign states, the intracommunity market forces, after the removal of tariffs and other barriers, allocates, via a convertible currency, the resources between countries and economic sectors. In the dirigistic approach, a supranational planning body has to allocate national resources to reach production goals.<sup>103</sup>

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<sup>100</sup> Bela Balassa, “The Theory of Economic Integration”, 1961, Richard Irwin, inc., Homewood, p. 174

<sup>101</sup> Ibid, p. 8

<sup>102</sup> Ibid, p. 9

<sup>103</sup> Adolph Weber and Thomas T Hartmann, “A Comparative Study of Economic Integration with Special Reference to Agricultural Policy in the East African Community” , 1976, Festschrift Fuer Auslaendische Landwirtschaft 15 no.2, p. 390

Based on the general information on regional integration provided above, it is necessary to explain further what the stages of economic integration are and what a customs union is. In other words, a well understanding of economic integration types, specifically customs union, will be helpful to appreciate the current problems of economic integration between Turkey and the European Union as well as contextual and technical reasons preventing a spillover from economic to political integration.

### 3.1.1. Stages of Economic Integration

There are various different categorizations of economic integration by different scholars. According to Berry, Conling and Ray, economic integration is investigated under the heading of preferential trade agreements.<sup>104</sup> However, Jovanovic argues that there are seven categories of it, which are preferential tariff agreement, partial customs union, free trade area, customs union, economic union, total economic union<sup>105</sup>. From another point of view, Balassa suggests that free-trade area, customs union, common market, economic union and complete economic integration are five stages of economic integration.<sup>106</sup> For the purpose of this thesis, economic integrations will be examined in five phases that are preferential trade area, free trade area, customs union, common market and economic union.

#### 3.1.1.1. Preferential Trade Area

Preferential trade area is established through a preferential trade agreement, in which countries agree to apply lower tariff schedules to the Party compared to third countries. It is the lowest stage of economic integration and the Parties are not under obligation to implement the same trade policy to the third countries. Their integration is limited to lower tariff application only on the agreed goods of trade. According to Panagariya, preferential trade area is an arrangement between two or more countries, in which

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<sup>104</sup> Brian J. L. Berry, Edgar C. Conkling, D. Michael Ray, "The global economy: Resource use, locational choice, and international trade", 1993, Englewood Cliffs, N.J., Prentice-Hall

<sup>105</sup> Miroslav N. Jovanovic, "International Handbook on the Economics of Integration", 2011, Elgar Publication, p. 581-582

<sup>106</sup> Bela Balassa, "The Theory of Economic Integration", 1961, Richard Irwin, inc., Homewood, p. 174

goods produced within the union are subject to lower trade barriers than the goods produced outside the union.<sup>107</sup><sup>108</sup> Turkey-Iran preferential trade area that was established through Turkey Iran Preferential Trade Agreement, signed in 2014 and came in force in 2015, can be given as an example.

### 3.1.1.2.Free Trade Area (FTA)

According to Paragraph 8 of Article XXIV of the GATT, “a free-trade area shall be understood to mean a group of two or more customs territories in which the duties and other restrictive regulations of commerce .... are eliminated on substantially all the trade between the constituent territories in products originating in such territories.”<sup>109</sup> In other words, a Free Trade Agreement is actually a preferential trade agreement, in which each nation continues to apply regular tariff barriers in trade with third countries, yet they abolish all quantitative restrictions and apply no tariffs on goods produced within the area. A strict rule of origin control is an integral part of this system, in order to prevent trade deflection. Free trade areas of Turkey with EFTA, Georgia, Palestine, Bosnia-Herzegovina, Albania, Israel, Macedonia, Egypt, Serbia, Chile, Morocco, Tunisia, Jordan, Mauritius, Montenegro, Malaysia and South Korea can be some examples to this stage of economic integration.

### 3.1.1.3.Customs Union

In line with GATT Article XXIV paragraph 8, “a customs union shall be understood to mean the substitution of a single customs territory for two or more customs territories, so that:

(i) duties and other restrictive regulations of commerce ... are eliminated with respect to substantially all the trade between the constituent territories of the union or at least

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<sup>107</sup> Arvind Panagariya, “The regionalism debate: An overview”, 1998, University of Maryland, p.2

<sup>108</sup> Arvind Panagariya, “Preferential trade liberalization: The traditional theory and new developments.”, 2000, Journal of Economic Literature 38 (2): p. 288

<sup>109</sup> Text of General Agreement on Tariffs and Trade, 1986, p.43, Retrieved from [http://www.wto.org/english/docs\\_e/legal\\_e/gatt47\\_e.pdf](http://www.wto.org/english/docs_e/legal_e/gatt47_e.pdf), Retrieved on 18.08.2017



with respect to substantially all the trade in products originating in such territories, and,

(ii) substantially the same duties and other regulations of commerce are applied by each of the members of the union to the trade of territories not included in the union.”<sup>110</sup>

Actually customs union is a free trade agreement, where member countries apply a common external tariff to third countries besides removing all barriers to trade among themselves. As it is stated by Viner, creation of customs union depends on three basic conditions: Removal of tariffs and trade barriers among member countries, application of common external tariff in imports from third countries, and one common administration of customs revenue and allocation of it according to pre-determined rules.<sup>111</sup> There are two sided effects of a customs union on trade, which are traditional economic integration theories (static effects) and new economic integration theories (dynamic effects).

#### 3.1.1.3.1. Static Effects of Customs Union

Researchers before Viner assumed that customs union, as an effort towards free trade, reduces tariffs and increase welfare of the world.<sup>112</sup> Upon this assumption, Viner published a study in 1950, named ‘The Customs Union Issue’ that is accepted as a pioneer in economic integration literature. According to this study, there are trade creation and trade diversion effects of customs union, which are called as static effects.

<sup>113</sup> Actually, static effects of customs union is summarized well in the following

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<sup>110</sup> Ibid

<sup>111</sup> Ramazan Kılıç, ”Türkiye Avrupa Birliği ve Gümrük Birliği-Ekonomik Entegrasyon Teorisi, Gümrük Birlikleri Teorisi”, 2002, Ankara, Siyasal Kitabevi, p.13

<sup>112</sup> Friedrich Kahnert, P. Richards, E. Stoutjesdijk, P. Thomopoulos, “Economic Integration among Developing Countries.”, 1969, OECD Development Centre Studies, Paris, p. 15-16

<sup>113</sup> Jacob Viner, “The Customs Union Issue.” 1950, New York: Carnegie Endowment for International Peace.

sentence: “Trade creation occurs whenever trade shifts from higher to lower cost sources of goods, while trade diversion implies the opposite movement.”<sup>114</sup>

To start with, it is natural to expect an increase in trade volume within a customs union area, considering elimination of impediments to trade within this area. Besides removal of trade barriers, economies of scale and concentration on producing certain products can be considered as two main reasons of this outcome. The mentioned increase in trade is called as trade creation. To explain it with an example, country A imports a good from country B with paying a customs duty before creation of customs union. Following the establishment of customs union, the same country will not have to pay customs duty to import that good, which reduces the cost. Following the same logic, if country A produces a good with high production cost, it will choose to import that good from country B, which has lower production cost, instead of producing itself considering zero customs duty within customs union. In both of these situations, trade will shift in a way that favors lower cost sources of goods. Having any good in a cheaper way will increase wealth of countries as well as increasing trade among customs union partners. Accordingly, volume of trade will increase, which is called as trade creation effect.

From another point of view, if import of a country shifts from low cost third country to high cost customs union partner trade diversion occurs. According to this assumption, implementation of common tariff to third countries and non-tariff implementation among customs union partners will sideline the most efficient low cost third country supplier. Consequently, a country within the union will choose to import from less efficient partner country instead of more efficient non-member country that ends in trade diversion.

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<sup>114</sup> Ricardo Argüello, “Economic Integration. An Overview of Basic Economic Theory and other Related Issues”, 2000, Centro Editorial Universidad del Rosario, Bogotá, D.C. Calle 14 No. 6-25, p.16

### 3.1.1.3.2. Dynamic Effects of Customs Union

Besides static effects, customs union may also be the source of structural developments that constitutes dynamic effects of customs union. Actually, Cherunilam states that dynamic effects of customs union are scale economies, technology development, increase in competitiveness, and increase in investments.<sup>115</sup> Accordingly, member states are evaluated in terms of economic construction, ability to produce and efficiency in production factors to examine dynamic effects of customs union.

#### 3.1.1.3.2.1. Scale Economies

In general, a customs union means gathering national economies together that ends in a larger economy. Accordingly, it is expected to have advantages of larger economies, one of which is economies of scale. As Cherunilam argues, in case of establishment of a customs union, sectors will be able to engage trade without tariff costs and also be able to make mass production in a protected market by a common external tariff.<sup>116</sup> Consequently, as long as economies get larger production cost will reduce, efficiency will increase that will also enlarge production volume. Besides the quantity, the quality of production will also boost, due to transferring savings from other production factors to human resources. In addition to this, having larger market potential will help economies to use their idle capacity to diversify their production variety.

#### 3.1.1.3.2.2. Technology Development

One of the dynamic effects of a customs union is technology development. Together with creation of customs union, number of firms in the market raises that also becomes the reason of augmented competition in the market to have the largest market share. Consequently, they need to develop their production technology in order to increase the quantity and quality of their products. One of the most common ways to increase

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<sup>115</sup> Francis Cherunilam, "International Economics", 2008, 5th edition, The McGraw-Hill Companies, New Delhi, p.303

<sup>116</sup> Ibid, p. 304

technological development is making research and development activities, through which products can be diversified and production costs can be reduced.

#### 3.1.1.3.2.3. Increase in Competitiveness

According to Cherunilam, when a customs union is established effectively, with the elimination of trade barriers, only the efficient corporations can survive and monopol firms in the sectors have to compete with other monopol and/or big firms which basically eliminate monopoly itself<sup>117</sup>. In other words, customs union enables firms to encounter some new and powerful rivalries, which at the end causes an increase in competition with motivation of survival in the market.

#### 3.1.1.3.2.4. Increase in Investments

Considering the incentives behind investment, it can be understood that rise in investments is one of the natural outcomes of customs union. As it is explained above, savings, technology and competition enhance together with formation of a customs union, which grounds additional resources. Accordingly, firms use their additional resources for additional investments to get benefit of this new situation.

#### 3.1.1.4. Common Market

As it was stated by Argüello, common markets are arrangements that comprise all the characteristics that define a customs union, but also allow for full mobility of factors of production. The member countries within a common market define common policies regulating factor flows with third countries.<sup>118</sup> In this case, the need for domestic policy harmonization is more compelling than in the Customs Unions case. However, there is no formal obligation for member countries to move in this direction. In this type of economic integration, tariff barriers and quotas are eliminated besides implementation of a common tariff to imports from third countries, like in the customs union. The main difference between customs union and common market is free

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<sup>117</sup> Ibid

<sup>118</sup> Ricardo Argüello, "Economic Integration. An Overview of Basic Economic Theory and other Related Issues", 2000, Centro Editorial Universidad del Rosario, Bogotá, D.C. Calle 14 No. 6-25, p.5

movement of production factors in common market, which does not exist in a customs union.

### 3.1.1.5. Economic Union

The final phase of economic integration is economic union. One can find all type of characteristics of other forms of economic integration in this type, besides harmonization of national policies such as economic, financial, industrial and regional policies. According to Karluk, single monetary and financial systems with a Central Bank, besides a common foreign trade policy are integral parts of an economic union. Together with economic union, member countries will delegate their economic authority to a supreme authority of union.<sup>119</sup>

Following economic union, neo-functionalist understanding of regional integration expects to see a political integration through functional spill-over. They also believe that functional spill-over process will be driven by rational actors, who take place within supranational institutions and/or producer groups.<sup>120</sup> In line with this approach, Haas defines regional integration as a concept “concerned with explaining how and why states cease to be wholly sovereign, how and why they voluntarily mingle, merge and mix with their neighbors so as to lose the factual attributes of sovereignty while acquiring new techniques for resolving conflict between themselves.”<sup>121</sup> Consequently, the focal point of regional integration in here is directly related with security problems. It is believed that states opt to lose their degree of sovereignty for the sake of their well-being in the international and regional system. Therefore, the concept of regional integration in the sense of neo-functionalist understanding is a result of what have been experienced internationally and for the region of Europe both interwar years and after Second World War.

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<sup>119</sup> Rıdvan Karluk, “Uluslararası Ekonomi”, 1991, İstanbul, Bilim ve Teknik Yayınevi, p. 237

<sup>120</sup> Shaun Breslin & Richard Higgott, “Studying regions: learning from the old, constructing the new”, 2000, *New Political Economy*, 5, 3, p. 168

<sup>121</sup> Ernst Haas, “The study of regional integration: reflections on the joy and anguish of pretheorizing”, 1971, in L. Lindberg and S. Scheingold (eds) *Regional Integration: Theory and Research*, Cambridge, MA: Harvard University Press, p. 6

## 3.2.The European Union-Turkey Customs Union Agreement

### 3.2.1. Developments Before Turkish Application for Association

The Europe-centric perspective of neo-functionalist regional integration, sometimes referred as ‘old regionalism’<sup>122</sup>, is to change following the Cold-War period and this will be explained in the coming chapter. However, this perspective is the most useful point of view to analyze how integration has developed among the European states and between the European Union and Turkey. Indeed, economic integration constitutes the first step of European regional integration, which accepted as an example for integration between Turkey and the European Union. Though it could be accepted as successful in the example of Europe, despite many criticisms, it has not worked well in the example of the European Union-Turkey relations. Almost sixty years has passed since the beginning of this relation, yet it has not shown any sign of turning into a political integration among parties. Consequently, evaluating how this relation had started and developed within years from different levels of analysis will reveal the reasons for the failure of possible classical neo-functionalist explanation towards this relation.

From systemic level of analysis, which “encompasses the totality of interactions which take place within the system and its environment”<sup>123</sup>, the roots of both inter-European and the European- Turkey integration could be traced back to the end of the First World War, since the devastating effects of the War made states look for ways of constructing perpetual peace. Actually, failure of the attempts for peace construction in the interwar years as well as far more ruinous effects of Second World War than the first one were helpful for nation states that they will never be secure, unless they form

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<sup>122</sup> Alex Warleigh-Lack, Nick Robinson and Ben Rosamond, “New Regionalism and the European Union Dialogues, comparisons and new research directions”, 2011, Routledge, p. 8

<sup>123</sup> J. David Singer, “The Level-of-Analysis Problem in International Relations”, 1961, World Politics, Vol. 14, No. 1, The International System: Theoretical Essays (Oct., 1961), p. 80

a strong system of interdependence. Any of the states were ready for another world war, so regionalism became a phenomenon globally.

Indeed, Telò argues that during twentieth century there had been three waves of regionalism, in which the first one is ‘imperial regionalism’ that was preeminent during interwar period. The problems of international economy, failure of League of Nations and rise of fascist threatening states leading to Second World War were significant determinants of this regionalism that was characterized by aggressive nationalism, discriminatory and regionalist imperialisms. The second wave of regionalism, for Telò, is ‘economic regionalism’ that identifies the period after Second World War, especially 1950’s and 1960’s. This international trend is strongly linked with the American hegemony in the system and its policies for multilateralism.<sup>124</sup>

At that point, what happened in the international system between 1944 and 1947 is noteworthy to appreciate this shift in regionalism. Post-War American dominance in multilateral political and economic structure is the main reason of this axis shift. American persistence on implementing ideas of market economy and free trade constitutes the required reasoning for the formation of the General Agreement on Tariffs and Trade (GATT), the International Monetary Fund (IMF) and the World Bank. Besides that, the United Nations was formed in order to implement the principle of democracy. As a result, looking from systemic level perspective, international interdependence and cooperation both in economic and political terms was on the rise when the initiative for European integration started as well as Turkey applied for association the European Economic Community.

Likewise, Joffé argues that the role of European Union is primordial to indicate the international perspective on regionalism, since it was a vehicle in which many of the ideas that inform modern economic regionalism were first tested, it also becoming an

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<sup>124</sup> Mario Telò, “Introduction: Globalization, New Regionalism and the Role of the European Union”, in *European Union and New Regionalism : Competing Regionalism and Global Governance in a Post-Hegemonic Era*, edited by Mario Telò, 2014, Ed.: 3rd ed. Farnham : Routledge, p. 2-5

experiment in new forms of political cooperation.<sup>125</sup> Besides perceiving Europe as an actor following the international systemic trend, one can approach European integration from regional level, which is in-between systemic and state level of analysis. In this level, regional dynamics play a substantial degree of autonomy different from the patterns set by the global powers.<sup>126</sup> Similarly, Friedberg argues that “most states historically have been concerned primarily with the capabilities and intentions of their neighbors”.<sup>127</sup> Besides competition among each other, the intention of cooperation against the rest of the world could be a parameter for regional level of analysis. Therefore, security concerns of major European states having lessons from their previous failures of preventing their neighbors from acting as security threats as well as their collective desire to challenge American domination could be named as core reasons for European integration process from regional level analysis.

According to Borchardt, the first motivation of Europe for regional integration was realization of its own weakness. Through conflict and war its age-old place at the center of the world stage was lost. The second motivation can be summed as 'never again', that the possibility of renewed military conflict must be banished forever. After the terrible experience of two world wars, both of which had begun as European civil wars and in which Europe had been the main battlefield and principal sufferer, this became the mainspring of all political action. Lastly, there was the earnest desire to create a better, freer and more just world in which international relations would be conducted in a more orderly way.<sup>128</sup> Despite agreeing wholly on first and second arguments of Borchardt, there is a need to revise his third reasoning. We could argue that the European desire was a better, freer and more just world, in which the

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<sup>125</sup> George Joffé, “Foreword to the Third Edition Regionalism- A New Paradigm” in *European Union and New Regionalism : Competing Regionalism and Global Governance in a Post-Hegemonic Era*, edited by Mario Telò, 2014, Ed.: 3rd ed. Farnham : Routledge, p. xvi

<sup>126</sup> Barry Buzan & Ole Wæver, “Regions and Powers The Structure of International Security”, 2003, Cambridge University Press, p.45

<sup>127</sup> Aaron L. Friedberg, “Ripe for Rivalry: Prospects for Peace in a Multipolar Asia”, 1993-1994, *International Security* 18 (3),p. 5

<sup>128</sup> Klaus-Dieter Borchardt, “European Integration: The origins and growth of the European Union”, 1995, Office for official publications of the European Communities, Brussels, p. 5-6



international relations would be designed by European states and the systemic decisions will be governed in line with European interests.

In line with regional concerns, explained above, establishment of Benelux as a customs union in 1944 by Belgium, Holland and Luxembourg could be accepted as a first step towards European integration. However, regional level of analysis cannot provide the full picture of the environment preceding the establishment of European integration without taking individual characteristics of European nation states. Actually, from state level analysis perspective to European integration, France and Germany are two major countries that should be focus on. Usage of state level analysis permits significant differentiation among international state actors and allows examination of the foreign policy behavior of states in terms of their internal characteristics.<sup>129</sup> In fact, the European integration process has involved “great leaps forward, barely perceptible shuffles, and even steps back; unexpected bargains and the incremental consolidation of institutional relationships”.<sup>130</sup> Especially, interests and concerns of France and Germany played a great role in formulation of European integration according to state level analysis.

To start with France, it played various roles in the integration process such as; initiation of European Coal and Steel Community (ECSC), acceleration of it to a customs union, cooperation especially with Germany, obstructions over its institutional structure and opposition to a fully federal project.<sup>131</sup> The substantial consideration of a researcher at that point should be what motivated France to act that actively for an integration process within Europe. The simplest way to articulate it would be cost-benefit analysis from the lenses of France in 1950’s.

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<sup>129</sup> J. David Singer, “The Level-of-Analysis Problem in International Relations”, 1961, *World Politics*, Vol. 14, No. 1, *The International System: Theoretical Essays* (Oct., 1961), p. 82-83

<sup>130</sup> Andrew Knapp & Vincent Wright, “Chapter 14: France and Europe”, 2006, in *The Government and Politics of France*, Fifth edition, Routledge, p. 423

<sup>131</sup> *Ibid*, p.434

According to Knapp and Wright, there were four motivations of France; two geopolitical and two economic. The first geographical concern for France was about its relation with Germany and namely to render another Franco-German war materially impracticable. The second one is, its desire to regain its past ‘leader’ status through economic and diplomatic strengthen of the future European regional institution. Indeed, “the French ambition of a strong European diplomatic and military identity, friendly towards but independent from the United States and with France playing a – indeed *the* – leading role, has punctuated the development of Europe and won a new lease of life with the end of the Cold War.”<sup>132</sup> In terms of its economic motivations, formulation of the Common Agricultural Policy (CAP) is the major one, since France was Europe’s biggest agricultural producer and would be the CAP’s principal beneficiary. The other economic intention was to lever economic modernization within France with placing economic liberalism to the heart of European integration through projecting the broader free-trade thrust. <sup>133</sup>

Consequently, the ideological background of European integration was prepared by Jean Monnet, who was the head of French State Planning Organization, when he defended the idea that for perpetual peace in Europe, strategic materials such as coal and steel should be under the control of a collective authority under a supranational institution. He was actually successful to affect Robert Schumann, French Foreign Affairs Minister, to implement his ideas on the real world. On 9 May 1950, ‘Schuman Declaration’ was delivered by the French government, in which placing all German-French production of coal and steel under one High Authority was proposed. <sup>134</sup>

Through creation of this institutional structure France aimed to realize all geographical and economic interests such as preventing any future war, foreseeable German-French neighbor relations, improving its economic and political level in the world etc. The

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<sup>132</sup> Ibid, p.436

<sup>133</sup> Ibid, p. 435-436

<sup>134</sup> European Commission, Retrieved from [https://europa.eu/european-union/sites/europaeu/files/docs/body/jean\\_monnet\\_en.pdf](https://europa.eu/european-union/sites/europaeu/files/docs/body/jean_monnet_en.pdf), Retrieved on 16.08.2017

dream of France became true in 1951 with positive approaches of Germany and Italy, besides adding already integrated countries of the Netherlands, Belgium and Luxembourg under Benelux. As a result, the European Coal and Steel Community was established in 1951 that is the ancestor of today's European Union.

Besides having a look at France, it is also necessary to evaluate what were the reasons for Germany in accepting France proposal of creating a supranational institution or more generally. Actually, after its defeat in Second World War, Germany was divided and lost its substantial territories. Post war situation in Germany with "the weakness of central institutions, defeat and national humiliation and the scale of economic challenge of reconstruction seemed to suggest a reprise of Weimar."<sup>135</sup> In order to prevent the same misery again, Germany was well aware of the fact that post-war discriminatory provisions towards it should be lifted.

However, taking previous experiences into consideration, it was hard to accept this lifting for any country, especially for France. Under these circumstances, Germany should indulge in a rapprochement with France in order to rebuild its economy and eliminate discrimination. The best opportunity at the time being was to create mutual trust by engaging in cooperation. "Focused initially on reconciliation, the Franco-German relationship became a vehicle for collective action bilaterally and in multilateral fora which made growth in German economic capacity acceptable."<sup>136</sup> Since without participation of Germany, any European integration attempt will be null and invalid, these considerations of Germany played a great role in existence of European integration.

Besides France and Germany, the support of Britain to integrated Europe initiative had also a supporting effect from state level perspective. Initially he made a speech in 1946 in Zurich, in which he stated that "if Europe were once united in the sharing of its

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<sup>135</sup> Charlie Jeffery & William Paterson, "Germany and European Integration: A shifting of tectonic plates", 2003, *West European Politics*, 26:4, p. 59

<sup>136</sup> *Ibid*, p. 60

common inheritance there would be no limit to the happiness, prosperity and glory which its 300 million or 400 million people would enjoy... We must build a kind of United States of Europe. In this way only will hundreds of millions of toilers be able to regain the simple joys and hopes which make life worth living. The process is simple. All that is needed is the resolve of hundreds of millions of men and women to do right instead of wrong and to gain as their reward blessing instead of cursing.”<sup>137</sup> Therefore, like France and Germany, national interest of Britain was to recover its economy and wellbeing as quick as possible, besides retrieving its international big player role. In line with these, an initiative that is bore to support European interdependence and reduce risk of another war was something that could serve British interest.

Accordingly, combining what have been indicated from international, regional and state perspective, every condition was ready for the formation of integration among European states. Following establishment of ECSC in 1951, in June 1955 another initiative was started and called as ‘the creation of a united Europe’. Under this initiative, the aim was to expand what had been established with ECSC. In fact, in March 1957 it became real by signature of the Treaties establishing the European Atomic Energy Community (Euratom) and the European Economic Community (EEC) and its entrance into force on 1 January 1958. Therefore, the main structure of today’s European Union was established in those days and perceived as a big success from many countries in the world.

One of the countries that appreciate this initiative was Turkey, who applied for association to the EEC just one year later the establishment of it. Why Turkey was so willingly to be a part of EEC could only be understood through an analysis of combination of international and regional developments of pre-1959 period. From international perspective, the Cold War environment was in effect, therefore America was in a rivalry with Soviet Union to gain dominance in international affairs. The

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<sup>137</sup> “Churchill's ‘United States of Europe’ Speech, in Zurich.”, 31 Dec. 1969, CFR.org. Council on Foreign Relations, Web. 22 Mar. 2017

geographical proximity of Turkey to Soviet Union made America establish close bonds with Turkey due to the fact that it was prone to fall in Communist ideology. From regional perspective, developments in the region surrounding north of Turkey created major security problems, besides threats coming from the Middle East due to decolonization process. The most striking regional development actually was, in line with international perspective, expansionist policy of the Soviet Union following the end of Second World War. Due to this close threat directed towards Turkey, the initial approach of Turkey towards the Europe became more security oriented compared to previous equalization of modernization with Westernization.

Actually Turkey was not wrong to be suspicious about the Soviet intention towards Turkey considering its attitude especially after Yalta Conference of February 1945. The first sign of it was a Soviet note given to Turkey in March 1945 about not renewing the Turkish-Soviet Treaty on Friendship and Non-Aggression.<sup>138</sup> In addition, in June 1945, “Molotov told Selim Sarper, the Turkish ambassador in Moscow, that in return for renewing the treaty the USSR would demand a new straits convention, negotiated solely between Turkey and the Soviet Union. This would provide for the free passage of Soviet warships through the straits and their closure to non-Black Sea states, the establishment of Soviet bases at the straits, and the retrocession to Russia of the eastern provinces of Kars and Ardahan that had been returned to Turkey in 1921<sup>139</sup>

Besides these demands, Soviet threat started to materialized in March 1946, upon military presence of it in Iranian Azerbaijan. This act was interpreted as a threat to both Turkey that intensified Turkey’s need to form a Western alliance towards Soviet Union. Due to this immediate security threat, the Cold War conjecture required America as well as Europe and to stand by Turkey against the Soviet Union. Therefore, benefiting from Marshall Aid and membership to Organization for European

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<sup>138</sup> Oral Sander, “Siyasi Tarih 1918-1994”, 2002, Ankara, İmge, p. 252

<sup>139</sup> William Hale, “Turkish Foreign Policy since 1774, 2013, Routledge, p. 80

Economic Co-operation (OEEC, later OECD) in 1948 became first steps of Turkey-Western alliance that was followed by membership to Council of Europe in 1949 and North Atlantic Treaty Organization (NATO) in 1952.<sup>140</sup>

### 3.2.2. Turkish Application for EEC Membership

Based on the information provided so far, it is convenient to suggest that Turkey's desire to be a part of EEC is mainly due to political and security interests, rather than economic interests. From security perspective, above listed developments in the region and international arena became corner stones in the way to association application to EEC. Despite the fact that with the death of Stalin in 1953 immediate Soviet threat lessened, Turkey's paranoia about Soviet invasion was still there in the mind of Turkish public and leaders. Consequently, being allied with the West was still the best option against any possible security threat coming from surrounding region. This being said the Turkish government of the time sought for EEC financial assistance too.

From broader political perspective, Turkey embraced Western oriented conjuncture since Tanzimat Period. Furthermore, political bureaucracy and executive team of the Republic followed Tanzimat path and they believed that they can avoid repeating mistakes of Ottoman Empire in its late decades through involving all Western founded organizations. It was a direct consequence of Turkish mindset that being recognized as a part of Western world should be the number one priority of Turkish Republic. In addition, being a part of EEC was a natural consequence of membership to OEEC in 1948, Council of Europe in 1949 and NATO in 1952.

Another political concern of Turkey was a regional competition with Greece. Actually, Turkey submitted its application for membership one month after Greek application to EEC membership. Accordingly, Hale suggests that "the need to avoid being outflanked by Greece was also an important motive and almost certainly hastened the

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<sup>140</sup> Ibid, p.83-87

Turkish decision.”<sup>141</sup> The fear from Turkish perspective was the potential of Greece to alter European view against Turkey through its membership to EEC and to gain upper hand in their regional competition.

Though security and political concerns were overriding economic ones, it would be mistake to totally disregard economic interests. In fact, % 40 of total exports and %30 of total imports of Turkey were with member countries of the European Community at that time.<sup>142</sup> In addition, benefiting from positive static and dynamic effects of establishing a customs union as well as investment funds, besides having a new and large market for its exports could also be named under economic explanation of Turkish application to EEC.<sup>143</sup> Adding the Democrat Party’s perspective that integration with the West would solve all problems through economic development with foreign debt and aids, economic reasons of application can be concluded.<sup>144</sup> Nevertheless, to note that “until 1980 no Turkish government was able to adopt an economic strategy compatible with the EC's free-market approach.”<sup>145</sup>

As a result of all these security, political and economic intentions, Turkey was applied for membership to EEC in 1959 that was concluded with an Association Agreement on 12 September 1963, known as Ankara Agreement. Besides having a look from Turkish side, what were the reasons of the Community to accept this application and sign an Association Agreement with Turkey is also crucial. Actually, the intention from the side of Brussel was similar to Turkish one, as being largely political rather

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<sup>141</sup> Ibid, p. 128

<sup>142</sup> Gül Göl, “Gümrük Birliğine Geçişte Rekabet Gücünün Belirlenmesi ve Rekabetçi Pazarlama Stratejileri”, 1995, İstanbul, Genç işadamları Derneği Yayınları, Simge Matbaacılık, p.11

<sup>143</sup> Cihan Dura ve Hayriye Atik, “Avrupa Birliği, Gümrük Birliği ve Türkiye”, 2003, 2. Basım, Ankara, Nobel Yayın Dağıtım, p. 346

<sup>144</sup> Emre Kongar, “21. Yüzyılda Türkiye-2000’li Yıllarda Türkiye’nin Toplumsal Yapısı”, 1998, İstanbul, Remzi Kitabevi, p. 150

<sup>145</sup> Sevilay Elgün Kahraman, “Rethinking Turkey-European union relations in the light of enlargement”, 2000, Turkish Studies, 1:1, p. 3

than economic. Likewise, Ilkin argues that the application of Turkey and Greece “coincided with the heating up of the competition between EC and EFTA.

The acceptance of these applications would expand the sphere of influence of the EC and would demonstrate that the EC was open to developments in other areas as well. It would also provide support to the view of de Gaulle, one of the main ideologies of the EC, of ‘Europe from the Atlantic to the Urals’. Moreover, in this way, it would be demonstrate that the EC was not a ‘rich men’s club’ and was sensitive to the problems of its neighbors.”<sup>146</sup>

Consequently, newly established EEC tried to show that it is open to diversity and acting in consistency with its founding principles, through accepting application of Turkey and Greece. From the EEC side the image of an open EEC to be accomplished either through association or accession was quite important as well as its contribution to Europeanization of the Southern periphery. Adding what Ilkin states the necessities of the Cold War would complete the political picture from the side of the Community. In other words, strategic role of Turkey in the Cold War period was also a significant parameter for Brussels in a way encountering any possible Soviet military and ideological threat directed towards the Europe. Besides the preeminence of political motivations, Turkey’s cheap and young labor force, convenient climate conditions for agricultural product diversity, natural resources and market potential were some of economic motivations from the Community side.

### 3.2.3. The Ankara Agreement

Within four years after its start, the relation between Turkey and EEC gained official status with an association agreement signed in 1963 and entered into force in 1964. The Ankara Agreement shows characteristics of a framework agreement and consists of 33 articles. In Article 28 its final aim is stated like: “As soon as the operation of this

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<sup>146</sup> Selim Ilkin, “A History of Turkey’s Association with the European Community”, 1990, in Ahmet Evin and Geoffrey Denton (eds), *Turkey and the European Community*, Opladen: Leske and Budrich, p.36



Agreement has advanced far enough to justify envisaging full acceptance by Turkey of the obligations arising out of the Treaty establishing the Community, the Contracting Parties shall examine the possibility of the accession of Turkey to the Community.” In other words, the Ankara Agreement foresees full membership of Turkey to EEC when objectives and stages explained in Article 2 completed. In this manner, promise of membership was conditional and unautomatic.

Actually, it is stated in Article 2 that “the aim of this Agreement is to promote the continuous and balanced strengthening of trade and economic relations between the Parties, while taking full account of the need to ensure an accelerated development of the Turkish economy and to improve the level of employment and living conditions of the Turkish people. In order to attain the objectives set out in paragraph 1, a customs union shall be progressively established in accordance with Article 3, 4 and 5. In addition, Association shall comprise a preparatory stage, a transitional stage, a final stage.” Therefore, the Agreement emphasizes the improvement of Turkey to the standards of EEC in order to be considered as a candidate for association. In other words, as it was stated above, the main aim of the two parties were more political than economic. However, the content of the Agreement is practically economic, which showed itself in the form of customs union that would be completed in three stages.

The first stage is preparatory stage, which started in December 1964 and finalized in January 1973. Requirements and details of preparatory stage, explained in Article 3.<sup>147</sup> Consistent with it, Turkey is expected to get aid from the Community in that stage, so that it would strengthen its economy in order to fulfill transitional and final stages obligations. Although this stage was agreed to be completed in five years, it lasted in nine years. The most significant feature of preparatory stage is unilateral concessions given by the Community to Turkey. In this regard, in Article 2 of the First Financial Protocol 175 million units of account credit envisaged to be provided to Turkey in

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<sup>147</sup> Ibid

preparatory stage.<sup>148</sup> Furthermore, following the date Association Agreement was in force, tariff quotas were provided in tobacco, raisin, dry fig and hazelnut that are four fundamental agricultural exports of Turkey. Moreover, starting in 1967 Turkey was allowed to export its some agricultural products, such as quality wines, some seafood, grapes and citrus, and a list of industrial products with no tariff or lower tariff within a quota.<sup>149</sup>

The next stage was a transition stage, in which the EEC was not the only one under requirements, yet Turkey was also obligated to eliminate tariff and other trade barriers on a mutual basis in order to form a customs union. Transition period of integration started with signature of the Additional Protocol in 1970 and its enforcement in 1973 that continued until establishment of Customs Union in 1995. As it is stated in Article 1 of the Additional Protocol, the aim of its signature is to lay down the conditions, arrangements and timetables for implementing the transitional stage. Hence, it is a kind of implementation agreement that regulates how to implement transition period and what will be the principles and procedures of the customs union that will be created at the end of that period.

As the dynamics of pre-1963 period were evaluated above, the dynamics of pre-1970 should also be indicated both from Turkish and the Community side. Actually, the continuation through time was political intentions of the both sides rather than economic ones. Though they had utilized economic tools within preparatory stage and envisaged to use them also within transition period, their main concern remained political. Considering Turkish side, Prime Minister Süleyman Demirel was a significant figure to push for starting negotiations for the transition period in order to complete customs union as soon as possible.

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<sup>148</sup> Ibid

<sup>149</sup> Halil Seyidođlu, “Uluslararası İktisat Teori, Politika ve Uygulama”, 2003, 15.baskı, İstanbul, Güzem Can, p. 268-269

The reasons for this pressure were listed by Birand as:

- a) Britain, Ireland, Denmark and Norway were on the threshold of EEC membership, and Turkey thought that it would be easier to obtain concessions before the enlargement of the Community,
- b) The Community had 'frozen' its agreement with Greece in response to the overthrow of the Greek Government by a military junta: the EC might well be more forthcoming towards a 'democratic' Turkey, so that the existing gap between the Ankara and Athens Agreements could be bridged,
- c) Last but not least, it would be a further step towards enabling Turkey to take its true place in Europe,
- d) The agricultural concessions obtained under the Ankara Agreement had proved to be insufficient,
- e) New markets were needed for the products of small and medium sized Turkish industries,
- f) Loans required for new investment might be obtained by a new financial protocol,
- g) The flow of Turkish migrant workers to Europe could be stepped up in response to German requests and in order to increase foreign-exchange earnings. Attempts could also be made to improve conditions of migrant workers in Europe.<sup>150</sup>

Therefore, being recognized as a European state and having an upper hand to Greece within their regional competition kept its place within political motivations of Turkey. A change was the institutional development of the EEC within years and its desire for enlargement. Due to this enlargement process, Turkey was afraid of being kept in the shadow of other European states, far more ready than Turkey for membership. From economic perspective, actually, Turkey desired to develop what it had gained with the Ankara Agreement and utilized in preparatory period. Besides keeping political intensions upper hand, it also started to realize that economic benefits gained through association process could be beneficial for Turkey, which should be kept incremental.

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<sup>150</sup> Mehmet Ali Birand, "Turkey and the European Community", 1978, *The World Today*, vol. 34, No.2, Royal Institute of International Affairs, p. 55

Despite eagerness of the government, there were some internal debates on processing to transitional period. Indeed, Islamist party governed by Necmettin Erbakan, were one of the opponents due to their ideological and protectionist worldview. It was also interesting that Bülent Ecevit who shared totally different ideological perspective than Erbakan also shared his concerns in economic terms; since he was disagree on reducing tariff and other trade barriers.<sup>151</sup> The signing of the Additional Protocol was therefore a disputed and politicized issue in Turkish party and bureaucratic politics as can be seen in the contestation between Ministry of Foreign Affairs and State Planning Organization of Turkey. Actually, the time supported these opponents and Turkey failed to complete economic requirements of the Community that was based on free-market principles, due to its import substituted economy until 1980's.

From the side of the Community, it was not convinced that Turkey was ready to pass through transition period and take necessary economic measures that were required by this stage. Actually, Ilkin suggests that "...the Ankara Agreement was almost totally forgotten after its ratification. It is difficult to find any comprehensive study or discussion on the problem prior to 16 May 1967, when Turkey expressed its desire to enter second phase of the Agreement."<sup>152</sup> Accordingly, it can be argued that political concerns were overriding economic realities of the Parties at the time of the Ankara Agreement, hence the EEC were not prepared to real implementation of economic tools serving to these political aims. In addition, the 1970s saw a gradual erosion of Turkey's privileged position in the Community's external economic relations and pyramid of trade preferences.

Despite this reduction of Turkey in importance as well as the fact that Turkey was not economically and politically ready for transition period, the EC accepted to sign the

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<sup>151</sup> William Hale, "Turkish Foreign Policy since 1774, 2013, Routledge, p. 129

<sup>152</sup>Selim Ilkin, "A History of Turkey's Association with the European Community", 1990, in Ahmet Evin and Geoffrey Denton (eds), Turkey and the European Community, Opladen: Leske and Budrich, p.39

Additional Protocol, again due to political concerns. In this manner, it is significant to refer to the European Commission report to the EC Council dated 1968, suggesting that the continuation of the preparatory period was more to the advantage of Turkey and that in the event of a Turkish economic crisis the EC could not be held responsible. However, due to the insistence of Turkish government and the fear of the EC to be labeled as a rich man's club, it was unable to say 'No' to a NATO partner and associate member.<sup>153</sup>

Since this relation had been governed by political concerns even from the beginning, the period aftermath the signature the Additional Protocol was problematic due to changes in political concerns of the both sides. From Turkish side, this period was ruled by political chaos resulted from military coups and from the EEC side, intensity of enlargement and deepening process. Adding Turkish economic hardship of the time and the EEC fight with unemployment and inflation created by the oil embargo, the relation between these two partners worsened.

Indeed, 1980 military coup in Turkey provoked many criticisms in the EEC, partially due to changing association criteria following Birkelbach Report. In other words, together with this report, a political dimension was added to the Article 238 of Rome Treaty, which previously had a flexible interpretation of accession process. In the report, it was declared that only those states guarantee democracy and respect for fundamental rights and freedoms can become full members of the Community.<sup>154</sup> Therefore, interruption of democracy in Turkey with 1960, 1971 and finally 1980 military coups made the Community question eligibility of Turkey for accession with regard increase of the importance of political and institutional facets of association. Actually, until 1983 the relation between Parties was stuck in the sphere of Turkey's

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<sup>153</sup>Mehmet Ali Birand, "Turkey and the European Community", 1978, *The World Today*, vol. 34, No.2, Royal Institute of International Affairs, p. 55

<sup>154</sup>Sevilay Elgün Kahraman, "Rethinking Turkey-European Union Relations In the Light of Enlargement", 2000, *Turkish Studies*, Vol.1 No.1, p. 2

lack of democracy as well as non-implementation of required economic reforms in the road to the customs union. However, “a powerful aspiration toward freedom, democracy, respect of human rights, prosperity, social justice and peace” have been gaining preeminence in the eyes of the EEC.<sup>155</sup>

Having analyzed the period aftermath of the signature of the Additional Protocol from the perspective of the Community, an intense process of enlargement is witnessed. While first enlargement came in 1973 with integration of Britain, Denmark and Ireland; the second one was integration of Mediterranean countries, Greece in 1981, Portugal and Spain in 1986. Therefore, adding internal process of accommodating these countries to chaos in Turkish political life, a retrogression process was experienced in Turkey-the EEC relations after the Additional Protocol. Indeed, regarding the fact that the countries within the First Enlargement Period were economically and politically similar to founding members of the EEC, their integration process was smooth. However, this was not relevant for the second wave of enlargement since these countries were in transition to both democracy and liberal economy.

Likewise Kahraman argues, the southern enlargement would certainly have intensified the prevailing economic imbalances and regional diversities in the Community.<sup>156</sup> In this manner, the Community turned into its internal problems and necessary measures to lead new members as well as to reform its policies and institutions. This were to lead to relaunching of European integration process under the SEA/SEM reform package of 1986.

Besides enlargement process, the years coming after the Additional Protocol were also the years of the EEC deepening. It ambitiously indulged in strengthening its

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<sup>155</sup> European Council, Conclusions of the Presidency European Council, 8 and 9 December 1989, Strasbourg, p.14

<sup>156</sup> Sevilay Elgün Kahraman, “Rethinking Turkey-European Union Relations In the Light of Enlargement”, 2000, Turkish Studies, Vol.1 No.1, p. 5

institutional structure in order to move from economic to political integration, as it is foreseen by neo-functional perspective. In this regard, in 1985 White Paper was released to set the program and timetable of how to take the "action to achieve a single market by 1992 thereby creating a more favorable environment for stimulating enterprise, competition and trade."<sup>157</sup> In order to achieve this single market; physical, financial and technical barriers to trade within the Community were to be eliminated. Consistent with this aim, in 1987 the Single European Act was accepted.

According to this Act, a new momentum was added to European integration by amending and revising the Treaties of Rome in order to and to complete the internal market. In this amendment, the rules governing the operation of the European institutions took place and the powers of the Community was expanded, notably in the field of research and development, the environment and common foreign policy.<sup>158</sup> Moreover, Europe was ambitious to get integrated in financial terms too. They tried to develop a single European currency, based on the fundamentals of the European Monetary System (EMS) established in 1979, and experience of Delors Packages initiated in 1988. In a combination of these attempts, the Community took some concrete steps in the road of a fully integrated Europe.

As a result, the priorities of the EEC changed from 1960's to 1980's that was missed by Turkish side. Actually, acceptance of Greece, Spain and Portugal was an open declaration of this priority change, since their membership was due to political concerns rather than economic ones, as supporting newly consolidated democracies in these countries. In fact, in the line with second wave of enlargement, "rather than being primarily an economic club of northern industrialized countries, the EC came to represent shared norms, values and codes of behavior among its members."<sup>159</sup>

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<sup>157</sup> European Commission, "Completing the Internal Market. White Paper from the Commission to the European Council (Milan, 28-29 June 1985).", COM (85) 310 final, 14 June 1985, p.4

<sup>158</sup> Single European Act, 1987 O.J. L 169/1,[hereinafter SEA] (amending Treaty Establishing the European Economic Community, Mar. 25, 1957, 298 U.N.T.S. 11 [hereinafter EEC Treaty])

<sup>159</sup> Sevilay Elgün Kahraman, "Rethinking Turkey-European Union Relations In the Light of Enlargement", 2000, Turkish Studies, Vol.1 No.1, p. 5

However, Turkey was slow to realize that the EC was no longer an economic entity, accession to which is based on economic criteria. With the lack of this realization, Turkish government under the rule of Turgut Özal started economic liberalization efforts, with the aim of facilitating Turkish integration into the European Community as a full member, as explained by Özal.<sup>160</sup> Nonetheless, the European Community had started to develop into a political union, by defining itself through shared European norms and values that also changed conditions for the accession from economic to political ones.

Another significant development in the period following the signature of the Additional Protocol was The Turkish intervention in Cyprus in 1974. Actually, the relations between Turkey and Greece had been an integral part of Turkey-Europe relations, yet the Cyprus problem took this matter further to a deadlock. Already chaotic environment of Cyprus became worsen upon new 1974 Greek coup d'etat and the following Turkish invasion of the island. In fact, this act was based on rights of Turkey stemming from 1960 Guarantee Agreement. Therefore, Turkish explanation of this intervention was based on the claim that “if Turkey had not invaded, then Cyprus would probably have been united with Greece, the Turkish Cypriots massacred or expelled, and the colonels’ regime consolidated in Greece.”<sup>161</sup> However, this intervention was encountered by the EC with a strong criticism. It became one of the focal points, through which Turkey’s respect for democracy and other values such as good neighbourliness shared by European states were questioned. This tense relation was deteriorated with membership of Greece to the EC in 1981 that has still been one of the barriers to full membership of Turkey.

Combining all of these developments in 1970’s and 1980’s, Turkey’s application for full membership in 1987 was an expected and tactical step for Turkish side aiming at bypassing the long standing impasse in bilateral relations, yet it was surprising for the

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<sup>160</sup> Meltem Müftüleri, “Turkish Economic Liberalization and European Integration”, January 1995, *Middle Eastern Studies*, Vol. 31, No. 1, p. 85

<sup>161</sup> William Hale, “Turkish Foreign Policy since 1774, 2013, Routledge, p. 133



Community side. Özal government was in a belief that economic liberalization efforts would be met with appreciation by the EC and there would be a quick process of evaluating Turkey's application. Within two years, he would realize that it was not the case and Turkey had to wait until 1995 to sign a Customs Union Agreement and until 1999 to be recognized as a candidate for full membership. In fact, 'Commission Opinion on Turkey's Request for Accession to the Community' was delivered in 1989, in which two major conclusions were "it would be inappropriate for the Community - which is itself undergoing major changes while the whole of Europe is in a state of flux - to become involved in new accession negotiations at this stage" and "the political and economic situation in Turkey leads the Commission to believe that it would not be useful to open accession negotiations with Turkey straight away."<sup>162</sup>

Analyzing the opinion of the Commission in more details, some significant points should be underlined. First of all, there are different sections for economic and political considerations about Turkey. This division of consideration is actually in a way supporting the above stated argument that economic development alone is no more meaningful as an accession criterion for the Community, without political developments. Furthermore, appreciation of economic liberalization efforts and economic growth in Turkey, within the opinion paper, did not lead the Community to start accession negotiations with Turkey, especially due to its failure to meet political expectations.

Another significant point in the paper is that the EC repeatedly emphasized its internal deepening and enlarging process and tried to prevent another pressure from Turkey for full membership until 1993. The year is meaningful in here, since the EC aimed to turn into a European Union in 1992 and until this time it explicitly stated that Turkey should concentrate on its economic and political development to get ready for full membership negotiations. It is also consistent with above mentioned differentiation of immediate concerns of Turkey and the EC, following the Additional Protocol. Despite

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<sup>162</sup>Commission of the European Communities, "Commission Opinion on Turkey's Request for Accession to the Community", 1989, SEC (89) 2290 final/2, Brussels, p.8

the rejection of Turkey's full membership application, the Commission underlined that the road going to a customs union between Turkey and the EC should continue and foreseen reductions in custom duties should remain strict to the calendar.

These developments actually manifested that Article 28 of the Ankara Agreement did not promise an automatic full membership to Turkey, as it had interpreted by Turkish bureaucracy. It, indeed suggested that parties would "examine the possibility of the accession of Turkey to the Community."<sup>163</sup> Accordingly, the reaction of the Community to Turkish application for full membership proved that Turkey should complete its requirements under the Ankara Agreement, as well as revising its political perspective in the line with the Community. In order to appeal disappointment of Turkey in its efforts for membership, the EC prepared a proposal that was designed to "assist Turkey in its modernization with an aim of reducing the gap in development which separates it from the Community and better integrating the country into economic, social and political fabric of Europe."<sup>164</sup>

This proposal, known as 'Matutes Package', also proposed the completion of the customs union by 1995 that directed the attention of Turkey from full membership to completing customs union first as a step forward towards membership, as it was foreseen in the Ankara Agreement. Although this proposal is criticized for bringing nothing new to what had been stated in Ankara Agreement as well as not providing funds agreed on within Fourth Financial Protocol of 1981 due to Greek veto, its main function was being a motivation for completing customs union agreement in 1995.

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<sup>163</sup> The Agreement Establishing an Association Between the European Economic Community and Turkey (Association Agreement), 1963, Official Journal No 217 of 29.12.1964

<sup>164</sup> The European Commission, "Communication to the Council on Relations with Turkey ", 1990, SEC (90) 1017/final, Brussels, p.3

#### 3.2.4. The Customs Union Agreement- Decision No:1/95 of the EC-Turkey Association Council

“Just as the main objective of the application for full membership in 1987 was to resuscitate Turkey’s moribund relations with the EU by means of shock treatment, so the Customs Union was regarded as a means to attain a more advantageous position for Turkey after the prospect of accession was pushed into the background following the emergence of the countries of Central and Eastern Europe”<sup>165</sup>

Adding what happened in regional and state level, the period before the signature of the Customs Union Agreement was also the period of international turning point. Indeed, the collapse of the Soviet Union was a historical moment for the Europe and the European integration effort, considering the future of newly independent Central and Eastern European states. The EC aim to integrate these states to the European system created unrest in Turkish perspective, due to the belief that their special place in the eyes of Europe would diminish. Actually, Turkey was not wrong in its fear that the EC started to add cultural dimension to the definition of ‘Europeaness’ in addition to geography and politics. <sup>166</sup>

At that point, 1990-1991 Gulf War was seen as an opportunity by Turkey in its accession to the European Community, in a similar way Korean War used to be accepted to North Atlantic Treaty Organization (NATO). Actually, Turkey aimed to benefit from security concerns of the EC in the Middle East through usage of its geographical position. In his speech at a meeting of the Western European Union (WEU) in Paris, Turkish President Turgut Özal emphasized the role of Turkey during the Gulf Crisis and linked this role to the perception that Turkey should be considered

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<sup>165</sup> Baskın Oran, “Turkish Foreign Policy, 1919–2006. Facts and Analyses with Documents”, 2010, Salt Lake City: The University of Utah Press, in *the Europeanization of Turkey and the Economic Crisis: new direction in national foreign policy* by Alessia Chiriatti, p. 3

<sup>166</sup>Sevilay Elgün Kahraman, “Rethinking Turkey-European Union Relations In the Light of Enlargement”, 2000, Turkish Studies, Vol.1 No.1, p. 6

as a natural member of the EC, likewise other Western international organizations established since 1945.<sup>167</sup>

However, considering the results of two public opinion surveys, the situation was far more different in the side of Europe. First of all, in a public opinion survey on possible membership of some countries to the EC, Turkey was chosen the last one to be accepted to the Community, within the group of Austria, Sweden, Finland, Norway, Iceland, Switzerland, Malta and Cyprus.<sup>168</sup> Moreover, in another survey on racism and xenophobia, Turks was the second ‘the other’ coming after North Africans. The approach to Turkey was similar in the categories of different culture and race as well as to Islam in the religion category.<sup>169</sup>

As a result, European unwillingness to accept Turkey as a full member was understood by Turkey when it comes to the government of Süleyman Demirel. He acted pragmatically and announced that Turkey’s dedication to European ideals had not changed over years and Turkey had been ready to contribute more to the Community’s efforts for stronger and more integrated Europe. This announcement actually was a part of Turkey’s acceptance that Turkey’s full membership to the Community would not be realized in a short period of time. Consequently, Turkey was looking for a support from the Community in order to show that the relations with Turkey was still significant to the Community, even it was not a full membership option.<sup>170</sup>

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<sup>167</sup> Şaban Halis Çalış, “Türkiye Avrupa Birliği İlişkileri. Kimlik Arayışı, Politik Aktörler ve Değişim”, 2016, 5. Basım, Nobel Yayın Dağıtım, Ankara, p. 229

<sup>168</sup> Commission of the European Communities, “Eurobarometer: Public Opinion in the European Community, No. 39”, 1993, Brussels, Office for Official Public Publications, p. A38

<sup>169</sup> Commission of the European Communities, “Eurobarometer: Public Opinion in the European Community, Special, Racism and Xenophobia”, 1989, Brussels, Office for Official Public Publications, p. 37-40

<sup>170</sup> Şaban Halis Çalış, “Türkiye Avrupa Birliği İlişkileri. Kimlik Arayışı, Politik Aktörler ve Değişim”, 2016, 5. Basım, Nobel Yayın Dağıtım, Ankara, p. 232

Taking Turkey's acceptance of other alternatives to full membership in a way to develop relations into consideration, in 1992 Lisbon meeting of the EC it was agreed that "the Turkish role in the present European political situation is of the greatest importance and there is every reason to intensify co-operation and develop relations with Turkey in the line with the prospect laid down in the Association Agreement of 1964 including a political dialogue at the highest level."<sup>171</sup> Upon this agreement, November 1992 meeting of the Association Council signified the agreement on opening of negotiations to establish the customs union and which type of modalities would be used to complete it. At the end of negotiations took place between 1993 and 1995, The European Union-Turkey Customs Union was established on 6 March 1995, through adoption of Association Council Decision 1/95, and it came into force on 1 January 1996.

In order to briefly describe the context of the Decision 1/95 of the Association Council, the table below presented will be helpful. In the line with the Ankara Agreement Article 5, the Decision entails closer coordination of the economic policies among the Parties. Furthermore, essential conditions and principles of customs union were decided in this Decision as well as its modalities.

As it can be seen in the table below, the Decision has six chapters that include provisions from free movement of goods to structure of laws and institutions. Actually, the first chapter regulates decisions on industrial goods and processed agricultural goods that are subject to free movement in the customs union. The second chapter is about agricultural goods, which are not in free movement but subject to special regulations. According to the third chapter, customs provisions of the goods in free circulation are regulated. In the fourth chapter, almost all kinds of laws regulating trade are to align with the EU laws. The fifth chapter is about institutional framework of the customs union and bodies that created for its implementation. Lastly, general comments and final provisions are stated in the sixth chapter.

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<sup>171</sup> European Council, "Lisbon European Council", 1992, Bulletin of the European Communities, No. 6/1992, p.10

**Table 2. Provisions of Association Council Decision 1/95**

<b><u>CHAPTER I- FREE MOVEMENT OF GOODS AND COMMERCIAL POLICY</u></b>
SECTION I- Elimination of customs duties and charges having equivalent effect
SECTION II- Elimination of quantitative restrictions or measures having equivalent effect
SECTION III- Commercial policy
SECTION IV- Common Customs Tariff and preferential tariff policies
SECTION V- Processed agricultural products
<b><u>CHAPTER II- AGRICULTURAL PRODUCTS</u></b>
<b><u>CHAPTER III- CUSTOMS PROVISIONS</u></b>
<b><u>CHAPTER IV- APPROXIMATION OF LAWS</u></b>
SECTION I- Protection of intellectual, industrial and commercial property
SECTION II- Competition
SECTION III- Trade Protection Instruments
SECTION IV- Government procurement
SECTION V- Direct taxation and Indirect taxation
<b><u>CHAPTER V- INSTITUTIONAL PROVISIONS</u></b>
SECTION I- The EC-Turkey Customs Union Joint Committee
SECTION II- Consultation and decision procedures
SECTION III- Settlement of disputes
SECTION IV- Safeguard measures
<b><u>CHAPTER VI- GENERAL AND FINAL PROVISIONS</u></b>

Source: Text of Decision 1/95 of the EC-Turkey Association Council (Customs Union Decision)

Indeed, the CU covers the rules in industrial goods trades as well as industrial components of processed agricultural products. Therefore, basic agricultural goods, services and public procurement are not in the coverage of the Agreement. Considering its essence, Turkey's requirements were much more than the European side, since Turkey was expected to align its laws and rules with the ones used in the European Union, besides removing barriers to trade. In other words, both parties were

to remove their technical, administrative and barriers to trade in order to provide an environment for free movement of goods envisioned under the CU Agreement.

Besides that, Turkey should adopt ‘the *acquis communautaire*’ of the EU. In line with these requirements, Turkey and the EU steadily removed tariffs and quantitative restrictions imports and exports, until 2001. Furthermore, Turkey fulfilled its obligation to align its trade policies with the EU in relation to third countries. Hence, standards, rules and regulations in trade became alike between Turkey and the EU.

For the purpose of this thesis, some specific articles of the CU Agreement should be analyzed in detail. Their significance is due to their determinacy in nature to shape the future of implementation of the CU. Their asymmetric formulation and the way of envisioned implementation are main reasons of today’s problems witnessed in the CU.

#### 3.2.4.1. Specific Articles of 1/95 Decision

##### 3.2.4.1.1. Chapter I- Free Movement of Goods and Commercial Policy

###### 3.2.4.1.1.1. Section III- Commercial policy- Article 12

According to Article 12, Turkey shall apply substantially similar provisions and implementing measures to the Community's commercial policy in relation to third countries. In addition, Turkey will apply substantially the same commercial policy as the Community in the textile sector including the agreements or arrangements on trade in textile and clothing. Furthermore, it is emphasized that in the absence of such modalities, the Community reserves the right to take, in respect of imports into its territory, any measure rendered necessary by the application of the said Arrangement.

In this regard, Turkey is obliged to internalize the EU commercial policies and to adapt the same measures in its trade with third countries. This obligation in fact brings two significant policy implementations for Turkey, which will be also openly stated in the following Articles. First of all, Turkey has to apply the same customs tariff with the

EU in trade of industrial goods and processed agricultural goods with third countries. In other words, it has to apply the Common External Tariff. Furthermore, FTAs are another branch of the EU commercial policy, which also to be adopted by Turkey. Therefore, Turkey should construct its policy on FTAs with third countries in the same line with the EU.

#### 3.2.4.1.1.2. Section IV- Common Customs Tariff and Preferential Tariff Policies- Article 13

In Article 13 it is stated that Turkey shall, in relation to countries which are not members of the Community, align itself on the Common Customs Tariff. Turkey shall also adjust its customs tariff whenever necessary to take account of changes in the Common Customs Tariff and the newly established Customs Cooperation Committee is to proper organ to determine what measures are appropriate to implement these obligations.

Therefore, it is clearly seen that Turkey is not allowed to assess its customs duties independently, yet it is required to adopt tariffs determined by the EU. Its import regime, consequently, is just a copy of the EU tariff schedule implemented in trade with third countries. Even the changes made in the Common Customs Tariff should be followed by Turkey and its import regime should be adjusted accordingly.

#### 3.2.4.1.1.3. Section IV- Common Customs Tariff and Preferential Tariff Policies- Article 14

According to Article 14, paragraph 2, in the case that the Turkish customs tariff cannot be aligned simultaneously on the Common Customs Tariff, the newly established Customs Union Joint Committee may decide to grant a period of time for this to be undertaken. However, under no circumstances may the Customs Union Joint Committee authorize Turkey to apply a customs tariff which is lower than the Common Customs Tariff for any product.



Therefore, Article 14 does not allow Turkey to apply lower tariff schedule than the Community under any circumstances. In this regard, it can be argued that conducting a FTA with a country that does not have a FTA with the EU is not allowed for Turkey. In other words, Turkey is expected to follow an FTA policy that is bearing an FTA with the EU's trade partners, rather than choosing a partner according to its economic benefits.

#### 3.2.4.1.1.4. Section IV- Common Customs Tariff and Preferential Tariff Policies- Article 16

Article 16 paragraph 1 of 1/95 decision states that Turkey shall align itself progressively with the preferential customs regime of the Community within five years as from the date of entry into force of this Decision. This alignment will concern both the autonomous regimes and preferential agreements with third countries. To this end, Turkey will take the necessary measures and negotiate agreements on mutually advantageous basis with the countries concerned. The Association Council shall periodically review the progress made. In addition, paragraph 2 of the same Article articulates that in each of the cases referred to in paragraph 1 the granting of these tariff preferences shall be conditional on compliance with provisions relating to the origin of products identical to those governing the granting of such preferences by the Community.

Therefore, depending on this Article, Turkey assumes the EU's preferential trade system under the general framework of assuming the EU's Common Commercial Policy towards third countries. As a requirement of this commitment, Turkey concludes individual FTAs with third countries, which the EU signed FTA with. The general provisions of these agreements should be in parallel to provisions of EU FTAs as well as based on their mutual interests.

### 3.2.4.1.2. Chapter V- Institutional Provisions

#### 3.2.4.1.2.1. Section I- The EC-Turkey Customs Union Joint Committee-Article 5

In Article 52 it is stated that EC-Turkey Customs Union Joint Committee shall carry out exchange of views and information, formulate recommendations to the Association Council and deliver opinions with a view to ensuring the proper functioning of the Customs Union. In fact, this Committee was established in accordance with Article 24 of the Association Agreement. Accordingly, institutional structure of the Turkey-EU Institutional Structure consist of Association Council Decision, Association Committee, Turkey-EU Joint Parliamentary Committee, Turkey-EU Joint Consultative Committee, Customs Cooperation Committee and Customs Union Joint Committee. The significant part of this institutional structure is their lack of efficiency in consultation and decision making process that causes asymmetric relationship.

#### 3.2.4.1.2.2. Section II- Consultation and Decision Procedures-Article 54

In Article 54 paragraph 1, it is agreed that in areas of direct relevance to the operations of the Customs Union, and without prejudice to the other obligations deriving from Chapters I to IV Turkish legislation shall be harmonized as far as possible with Community legislation. Furthermore, second paragraph of the same Article states that areas of direct relevance to the operation of the Customs Union shall be commercial policy and agreements with third countries comprising a commercial dimension for industrial products, legislation on the abolition of technical barriers to trade in industrial products, competition and industrial and intellectual property law and customs legislation.

In this regard, Article 54 foresees harmonization of Turkish legislation with the Community legislation in the same line with other articles of the 1/95 Decision. Parallel to Article 16, trade policy of the Community and its preferential agreements with third countries comprising a commercial dimension for industrial products are

named openly to be harmonized by Turkey with the Community acquis implementations.

Therefore, World Bank argues that Turkey's import regime for industrial goods is more open than the Common External Tariff (CET) might suggest as it has had to align its preferences for third countries, including its General Scheme of Preferences (GSP) scheme, with the EU's regime of FTAs. The EU sets the CET in line with its priorities and in many cases applies lower duties in the framework of FTAs. This has led to a progressive liberalization of Turkish tariffs on most industrial products, and selective liberalization of agricultural ones, from third countries with which the EU has negotiated FTAs.<sup>172</sup>

Indeed, considering the articles of the 1/95 Decision described in detail above, it can be clearly seen that there is an asymmetry. In other words, obligations of Turkey in all above listed articles of 1/95 Decision prove that Turkey is expected to adopt almost all trade policy implementation of the EU, without having any voice in decision making process. When Turkey's rights and obligations under 1/95 Decision are placed on a scale, it is obvious that outweigh the liabilities. This is the main reason of mentioned asymmetry.

### 3.2.5. The Period After Signature of the Customs Union Agreement

In order to assess how trade between Turkey and the EU was affected from the establishment of the CU, trade statistics belong to two year before and two year after the enforcement of the CU is provided below. According to it, when foreign trade deficit of Turkey was approximately 2.3 billion US dollar in 1994, it raised to 10.5 billion US dollar in 1998. In the same manner, Turkey's imports from the EU increased more than twice within four years, since it was 11.6 billion US dollar in 1994 and 25.3 billion US dollar in 1998. From another perspective, exports of Turkey to the EU increased by 57 per cent, between 1994 and 1998, while imports from the

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<sup>172</sup>World Bank, "Evaluation of the EU-Turkey Customs Union", 2014, Report No. 85830-TR, p.24

EU increased by 117 per cent. It actually shows that there is an asymmetry in the formulation of the CU that advantages the EU more than Turkey.

**Table 3. Foreign Trade between Turkey and the European Union**

Value: Million US \$					
1994			1998		
Exports	Imports	Balance	Exports	Imports	Balance
9.388	11.642	-2.255	14.807	25.282	-10.475

Source: Turkish Statistical Institute

Besides negative impact of customs union on Turkish trade balance, showed in the table above, trade deflection caused by FTA partners of the EU is also harmful for Turkish foreign trade. Indeed, Article 12, 13, 14, 16 and 54 of 1/95 Decision require Turkey to a liberalize tariffs on most industrial and some agricultural products, from third countries with which the EU has FTAs. However, in these articles there is no reciprocity foreseen for Turkish firms’ market access, which creates a disadvantage for trade balance of Turkey. Though Turkey has attempted to conclude FTA with these countries to overcome this problem, it generally encountered with reluctance.

Another problem stemming from FTA provisions of the 1/95 Decision was Turkey’s loss of market share. It actually has two sides. In the one side, Turkey has lost its market share in the EU, vis-à-vis its competitors that signed FTA with the EU, such as Morocco. From another perspective, it has lost its markets in the other countries to the EU and its bigger FTA partners.

About these two problems of the CU, the report of the World Bank supports the idea that Turkish firms have not received automatic reciprocal access to some of those markets with which the EU has negotiated FTAs, leaving them at a competitive disadvantage to EU exporters, weakening Turkey’s trade negotiating position with these countries and causing trade deflection that risks the imposition of origin controls that could undermine the benefits of the CU. According to figures stated by the World Bank in 2012, Turkey purchased US\$1.3 billion worth of goods from South Africa

while selling US\$382 million. It imported US\$867 million worth of products from Mexico during the same period, but exported US\$206 million there. It exported US\$1.8 million worth of non-energy goods to Algeria while importing US\$2.6 billion.<sup>173</sup>

Consequently, it is obvious that the CU is not a perfect design from the beginning, especially its Articles about FTA policies. Furthermore, since the establishment of Customs Union between the EU and Turkey, both in state level and international level much has changed that left the CU more vulnerable against the contemporary challenges of trade integration. World Bank lists five of these changes that affect the CU, in which the first one is high growth, diversified and emerging Turkish economy that is increasingly looking to exploit new markets. Another change is much lower global average tariffs compared to the 1990s and disappearance of quantitative import restrictions together with the fact that countries have fewer incentives to close their markets as the world has become more interdependent with global supply chains. Fourthly, high economic growth rates experienced in emerging markets have created tectonic shifts in the world economy placing these countries much more important as markets and as sources of competition. Lastly, there has been a global proliferation of FTAs, which is increasingly covering areas of ‘deep’ integration such as services, government procurement, and provisions on minimum environmental and labor standards.<sup>174</sup>

Actually, the last point of the World Bank list is the most challenging issue of the CU, similar to the initial design of the CU. In order words, already problematic and asymmetric formulation of FTA policy under the CU has further worsened with changing content and motivational factors of FTA’s in international arena as well as within the EU. Indeed, increased number and depth of the Agreements as well as the economic structure of preferred countries caused this outcome in the EU-Turkey

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<sup>173</sup> World Bank, “Evaluation of the EU-Turkey Customs Union”, 2014, Report No. 85830-TR, p.25

<sup>174</sup> Ibid, p.3

Customs Union. In this manner, changing profile of FTA partners can be accepted as the main source of problem for Turkey. Since Turkey has been under obligation to follow trade policies of the EU within the CU framework, it would be convenient to start with how the EU trade policy has changed since mid-1990s.

As a quick reminder for the period till mid-1990's, in the 1960s and 1970s external commercial policy was focused upon tariffs and other border measures and trade in goods. In addition, during this period the EU embraced both multilateral and bilateral liberalisation. Having significantly reduced tariff protection during the 1970s and 1980s the EU from that time on substantially alleviated the incidence of quantitative trade restrictions.<sup>175</sup> Starting from the mid-1990's, multilateralism oriented trade policy of the EU has changed in a way favoring bilateral Free Trade Agreements over agreements in the system of World Trade Organization (WTO).

Indeed, before mid-1990, it was a Community policy to give priority to global trade system and multilateralism even at a point that during the Prodi Commission, the Directorate General Trade Commission held to the moratorium on bilateral efforts, because new bilateral negotiations would have weakened the EU's position in pushing for a comprehensive multilateral round.<sup>176</sup> In particular, the Lamy Doctrine was the main guideline for the EU trade policies in that period of time. According to this doctrine, the EU would not engage in the negotiation of any new Regional Trade Agreements (RTAs), while the Doha Round was taking place. Hence, the EU's priority was the finalizing of the Doha Development Round, which was launched in November 2001.<sup>177</sup>

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<sup>175</sup> Paul Brenton, "The Changing Nature and Determinants of EU Trade Policies", October 2000, CEPS Working Document No. 150

<sup>176</sup> Stephen Woolcock, "European Union Policy Towards Free Trade Agreements", 2007, ECIPE Working Paper No. 3, p.3

<sup>177</sup> European Union Center of North Carolina, "EU Briefings: The Demise of Doha: The end of the multilateral trading system?", May 2007, p. 5, Retrieved from <http://europe.unc.edu/wp-content/uploads/2013/08/Brief0705-doha.pdf>, Retrieved on 4. 05. 2017

In fact, within multilateral trade system, from Bretton Woods to GATT and then to WTO, the Doha Development Round has its unique place. It is the first multilateral trade negotiation that approaches development issues as a priority. In 2001, countries met in Doha to solve what had left from 1994 Uruguay Round such as liberalization of agriculture and services. However, a little progress had been made on the talks until 2006. In addition, when it comes to 2006 Geneva Summit, negotiations on agricultural liberalization caused deadlock and all further negotiations were suspended.

Overly ambitious aims of negotiations were the prime reasons of deadlock, such as a reduce in non-tariff barriers, minimization of agricultural and industrial goods tariffs and removal of subsidies in agricultural production<sup>178</sup> On these sensitive issues for national economies the developed and developing countries could not manage to find a common agreements besides problems stemming from the EU insistence on so-called Singapore issues, namely investment protection, competition policy, transparency in government procurement and trade facilitation and the insistence of the US on adding market access for non-agricultural products (NAMA) to the agenda. Besides disagreement on priority of the negotiations, decision making procedure of the Round was problematic too. Indeed, it has been agreed that with some minor exceptions talks would not be concluded until an agreement will be found on all issues – i.e. nothing is agreed until everything is agreed.<sup>179</sup>

Subsequently, a global trend emerged to create a commercial and investment relationship between countries and regional entities through bilateral/regional and cross-regional approaches. Since then, number of free trade arrangements and economic partnership agreements between regional organizations and countries increased. Based on the statistical data from the WTO, there have been increasing

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<sup>178</sup> World Trade Organization, "Doha WTO Ministerial 2001: Ministerial Declaration", 2001, Geneva: WTO, p.1, Retrieved from [https://www.wto.org/english/thewto\\_e/minist\\_e/min01\\_e/mindecl\\_e.htm](https://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm), Retrieved on 4 May 2017

<sup>179</sup> European Union Center of North Carolina, "EU Briefings: The Demise of Doha: The end of the multilateral trading system?", May 2007, p.3, Retrieved from <http://europe.unc.edu/wp-content/uploads/2013/08/Brief0705-doha.pdf>, Retrieved on 4 May 2017

amounts of regional trade arrangements (RTA) since 2000. From 1958 to 1999, there were 75 RTAs which have notified to the WTO. As of 10 March 2017, 270 RTAs are in force. Similar to global trend, a shift in trade from multilateralism to bilateral has been experienced in the EU, since 2006. However, the change in the EU trade policy is not only a result of what happened in the multilateral trade system.

Definitely, there are some other reasons leading this change, such as developments in US trade policy. During the 1990's US was considering FTAs as a means of showing other countries how to carry the trade agenda forward. Consequently, FTAs were regarded as a bilateral means to the end of multilateral liberalization and rule making. However, starting from 2000's the US trade policy underwent a radical shift of seeing FTAs more as an alternative to multilateral liberalization. Hence, it started to use FTA as a trade policy more and more actively, which at the end leaves only option to the EU that is using FTA's actively too, in order not to get behind in competition. In addition, Asian economic growth increased the EU interest to that region to construct necessary ground for the EU firms to take benefit from this economic growth by concluding FTAs with them. Furthermore, a change in the person of Commissioner from Lamy to Mandelson created a new era in trade policies, the Commission now more willingly to enter into bilateral relations via FTA's.<sup>180</sup>

In the light of all these factors, the EU launched a strategy in 2006, called "Global Europe: Competing in the World". It is explained in the Strategy that its purpose is to set out the contribution of trade policy to stimulating growth and creating jobs in Europe. It also sets out how, in a rapidly changing global economy, the EU can build a more comprehensive, integrated and forward looking external trade policy that makes a stronger contribution to Europe's global competitiveness. Furthermore, it stresses the need to adapt the tools of EU trade policy to new challenges, to engage

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<sup>180</sup> European Union Center of North Carolina, "EU Briefings: The Demise of Doha: The end of the multilateral trading system?", May 2007, p.5, Retrieved from <http://europe.unc.edu/wp-content/uploads/2013/08/Brief0705-doha.pdf>, Retrieved on 4 May 2017



new partners, to ensure Europe remains open to the world and other markets open to it.<sup>181</sup>

Therefore, this strategy contains both external and internal measures to obtain above listed objectives, since the EU believes that distinction between domestic and international policies have dissolved. In the analysis section of Global Europe Communication, these measures named under two headings. Firstly, they should have the right internal policies, which reflect the external competitive challenge and maintain openness to trade and investment. Secondly, they should ensure greater openness and fair rules in other markets, in particular their future major trading partners. Moreover, all of them must be underpinned by transparent and effective rules – domestic, bilateral and multilateral.<sup>182</sup>

Consistent with the Action Plan for the EU External Competitiveness, the EU plans to introduce a series of FTA negotiations with certain partners. Despite this ambitious agenda of bilateralism, the EU also underlines its commitment to multilateralism in the same plan. In fact, the priority of the EU is determined as ensuring that any new FTAs, including its own, serve as a stepping stone, not a stumbling block for multilateral liberalization.<sup>183</sup> However, considering time period in multilateral trade from 2006 to 2017, the only concrete development is conclusion of Trade Facilitation Agreement negotiations in December 2013 and adoption of “Protocol of Amendment” to add new Agreement into Annex 1A of the WTO Agreement in November 2014. Accordingly, current state of play in multilateralism is not promising. Therefore, the EU's commitment that multilateralism is still their priority has not been implemented and FTA negotiations of the EU have gained pace year by year.

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<sup>181</sup> European Commission, “The Global Europe Communication”, 13 November 2006, p.2, Retrieved from [http://trade.ec.europa.eu/doclib/docs/2006/october/tradoc\\_130376.pdf](http://trade.ec.europa.eu/doclib/docs/2006/october/tradoc_130376.pdf), Retrieved on 5 May 2017

<sup>182</sup> Ibid, p.4

<sup>183</sup> Ibid, p.9

Focusing on new FTA's of the EU Global Europe Strategy, the key economic criteria for partners are expressed as market potential measured with economic size and growth and the level of protection against EU export interests by evaluating tariffs and nontariff barriers. Based on these criteria, ASEAN, Korea and Mercosur (with whom negotiations are ongoing) emerge as priorities.<sup>184</sup> Consequently, growing economies of ASEAN, Korea and Mercosur provide large market potential for the EU firms that will contribute to new jobs and economic growth in the EU. In addition, their ongoing negotiations with competitors of the EU meet the second criteria of high level of protection against market entry of the EU.

Moreover, new competitiveness-driven FTAs would need to be comprehensive and ambitious in coverage, aiming at the highest possible degree of trade liberalization including far-reaching liberalization of services and investment. FTAs should also include stronger provisions for IPR and competition, including for example provisions on enforcement of IP rights along the lines of the EC Enforcement Directive. Furthermore, including provisions on good governance in financial, tax and judicial areas will help to reach sustainable development aim by FTAs.<sup>185</sup> Therefore, following Global Europe Strategy, meaning of free trade agreements in the EU overall trade policy has changed. Besides their traditional role of increasing trade volume, these agreements have increasingly been seen as tools to support sustainable development, good governance and respect for human rights.<sup>186</sup>

Following initiation of Global Europe Strategy in 2006, ratification of Lisbon Treaty in 2009 has been another consequence of above listed developments. In terms of the EU external trade policy, this Treaty has relatively noteworthy implications. Under this Treaty, some new areas such as services, intellectual property rights, and foreign direct investment etc. were added to the objectives of the EU trade policy. Namely, in

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<sup>184</sup> Ibid, p.11

<sup>185</sup>Ibid, p.11-12

<sup>186</sup> Roberto Bendini, "The European Union's trade policy, five years after the Lisbon Treaty", March 2014, DG EXPO/B/PolDep/Note/2014\_76

the first paragraph of Article 207 of this Treaty it is stated that “the common commercial policy shall be based on uniform principles, particularly with regard to changes in tariff rates, the conclusion of tariff and trade agreements relating to trade in goods and services, and the commercial aspects of intellectual property, foreign direct investment, the achievement of uniformity in measures of liberalisation, export policy and measures to protect trade such as those to be taken in the event of dumping or subsidies.”<sup>187</sup> In other words, the Union’s exclusive competence increased in conducting trade policy through inclusion of these new areas under Lisbon Treaty.

Taking the period after establishment of the CU into hand from the perspective of Turkey, it has been affected from what has been going on in its relations with the EU and in international arena. To start with the relations with the EU, starting the implementation period of the CU actually did not change the perspective differences of the parties towards the CU. Accepting to establish an economic arrangement with Turkey does not mean that Turkey would be accepted to the Union as a full member in the mind of the EU officials, whereas Turkey was expecting a quick accession process due to the success of Customs Union. Especially political instability experienced in Turkey between 1996 and 1997 and Necmettin Erbakan’s anti-EU proclaims worsen the already tense political climate between parties, reaching a point that the EU leaders said that “the European Union is a civilization project and within this civilization project Turkey has no place”.<sup>188</sup>

When it comes to 1997 Luxembourg Summit, Turkey became the only country excluded from the enlargement process, planned through ‘Agenda 2000’. Despite the fact that a title included in the Summit called ‘European Strategy for Turkey’ that asks for supporting Turkey to reach a level of candidate country, the result of Luxembourg Summit for Turkey was a disappointment. Therefore, a statement was announced by

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<sup>187</sup>European Union, “Treaty of Lisbon Amending the Treaty on European Union and the Treaty Establishing the European Community”, 13 December 2007, 2007/C 306/01, Retrieved from <http://www.refworld.org/docid/476258d32.html>, Retrieved on 8 May 2017

<sup>188</sup>Meltem Müftüleri Baç, “The Never-Ending Story: Turkey and the European Union”, 1998, Middle Eastern Studies, Vol. 34, no 4, p.240

Turkish government that “the EU’s position is far from constituting for us a sound and credible basis. Turkey’s future and its relation with the EU cannot be built on such an uncertain ground. In the light of the foregoing, our government will maintain our existing association relations with the EU. Nevertheless, the development of these relations is dependent on the EU’s fulfilment of its commitments.”<sup>189</sup> Consequently, Turkey suspended its political dialogue with the EU following Luxembourg Summit decisions about Turkey.

Even Turkey’s acceptance as a candidate country in 1999 Helsinki Summit could not provide a full release in relations, since two additional criteria about Cyprus conflict were foreseen for Turkey to allow accession talks to begin that is different than the procedure applied to other candidate states. Firstly, Turkey was required to support the efforts of the UN Secretary-General to reach a settlement, although no such obligation was placed on the Cypriot side. In addition, the Council conceded that if no inter-communal settlement had been reached by the time accession negotiations had been concluded, then the Council’s decision on accession will be made without the above being a precondition. In this the Council will take account of all relevant factors, what these might be was left entirely vague.<sup>190</sup> Hence, Turkey’s reliance on the EU promise that the same objective conditions would be implemented for all candidate countries was demolished. This loss of confidence in the EU still in effect due to the lack of progress within 12 years in accession negotiations, which officially began in 2005.

Besides negative developments in political relations with the EU, global challenges stemming from deadlock in the multilateral trade system affected also Turkey, like the EU. Turkey started to develop some strategies to increase its exports in a world that is mostly governed by bilateral agreements. In this manner, Akman refers to three main

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<sup>189</sup> “Statement by the Turkish Government on 14 December 1997, Concerning the Presidency Conclusions of the European Council Held on 12–13 December 1997 in Luxembourg”, December 1997-February 1998, *Perceptions* (Ankara) vol 2, no 4, Retrieved from <http://sam.gov.tr/wp-content/uploads/2012/01/STATEMENT-OF-GOVERNMENT.pdf>, Retrieved on 8 May 2017

<sup>190</sup> William Hale, “Turkish Foreign Policy since 1774, 2013, Routledge, p. 180

export strategies developed by Turkey. The first one is 2004-2006 Turkish Export Strategic Plan with a general aim of “building up of an export structure conducive towards sustainable exports increase” and strategic objectives like promotion and marketing of high quality Turkish products in foreign markets and improving exporters’ market access opportunities, providing inputs to the exporters at internationally competitive prices and developing necessary structures and functions for better coordination among public and private sectors.

This is significant by being an attempt to develop an assertive trade policy, rather independent than the EU, which was updated for 2007-2009 period. The second one is The Strategic Plan (2009-2013) that has similar objectives to the first Plan, besides its emphasis on producing higher value-added products through more R&D and innovative work. The last and more comprehensive one is The Export Strategy of Turkey for 2023, with an ultimate purpose to reach 500 billion dollars of exports volume by 2023, to become one of world’s 10 largest economies, and taking 1.5 % share from the world’s trade as well as to reach 80% export/import ratio by the target date of 2023.<sup>191</sup>

Consequently, though Turkey is expected to adopt *acquis communautaire* under the CU, starting from mid-2000’s Turkish trade policy seems to become more proactive in nature, if not totally independent from the EU perspective. Turkish policy-makers preferred an assertive foreign economic policy approach within its broader understanding of strategic relations with the rest of the world, partly induced by regional political developments in its geographical neighborhood, and partly as a direct consequence of its increasing self-confidence, in order to encounter its own way of handling international relations.<sup>192</sup>

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<sup>191</sup>Sait Akman, “Dynamics of European Union’s Trade Strategy: Drawing Conclusions for Relations with Turkey”, 2012, paper presented at the UACES Exchanging Ideas on Europe 2012 “Old Borders – New Frontiers”, 3-5 September, Passau, Germany, p. 15

<sup>192</sup>Ibid, p. 6

However, all of these attempts put forward by Turkey to deal with challenges posed by accession negotiations with the EU and developments in international trade have not proven the expected success. The main reason for this is the fact that the structure of the CU prevents Turkey to implement major changes to the trade policy that are not compatible with the EU trade policy. Indeed, its customs duties and basics of import regime have been determined by the relevant EU legislation. Nevertheless, the most problematic part of Turkish obligation to follow the EU trade policy is seen in FTA policies. According to 1/95 Decision Articles 12, 13, 14, 16 and 54, whenever the EU starts a negotiation and concludes an FTA with a country, Turkey is under obligation to start an initiative separate from the EU in order to conclude an FTA with the same country. Therefore, Turkey's FTA policy is legally based on the above mentioned Articles of 1/95 Decision. Although, Turkey does not have to accept the same content of the EU FTAs and have opportunity to change it, it has no say in deciding with which country it will sign an FTA.

Following 2006 the Global Europe Strategy, the influence of the EU FTAs on Turkish foreign trade has amplified. Under new strategy of the EU, partners started to be chosen from countries such as South Korea, China, India, Japan, Canada and USA, whose economic size and structure are huge, compared to partners before 2006. Therefore, the asymmetry problem for Turkey, stemming from customs union, would be worsening together with the increased number of EU FTAs with this type of countries. In fact, the first ten countries to which Turkey's trade is in deficit can be found in the following table:

**Table 4. Trade Deficit of Turkey between 2011-2015**

Value: Million US \$						
<b>Partners</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Share in 2015</b>
<b>World</b>	<b>105.924</b>	<b>84.008</b>	<b>99.859</b>	<b>84.509</b>	<b>63.268</b>	<b>100%</b>
<b>China</b>	<b>19.226</b>	<b>18.462</b>	<b>21.085</b>	<b>22.056</b>	<b>22.450</b>	<b>35%</b>
Russian Federation	17.960	19.942	18.100	19.348	16.807	27%
Area Nes	8.778	12.584	13.407	13.541	9.773	15%
Germany	9.034	8.268	10.480	7.213	7.926	13%
<b>Reb. of Korea</b>	<b>5.771</b>	<b>5.132</b>	<b>5.628</b>	<b>7.078</b>	<b>6.489</b>	<b>10%</b>
<b>India</b>	<b>5.743</b>	<b>5.052</b>	<b>5.781</b>	<b>6.312</b>	<b>4.963</b>	<b>8%</b>
<b>USA</b>	<b>11.457</b>	<b>8.517</b>	<b>6.955</b>	<b>6.382</b>	<b>4.729</b>	<b>7%</b>
Italy	5.598	6.970	6.168	4.914	3.752	6%
<b>Japan</b>	<b>3.967</b>	<b>3.269</b>	<b>3.044</b>	<b>2.824</b>	<b>2.805</b>	<b>4%</b>
Iran, Islamic Republic	8.872	2.042	6.191	5.945	2.431	4%

Source: Trade Map

This table is significant to understand how the EU's new FTA partners has affected and could affect Turkish foreign trade. Indeed, five of these ten countries (namely: China, South Korea, India, USA and Japan) are the ones the EU either concluded an FTA or continues negotiations. To have a better understanding, China has 35 per cent, South Korea has 10 per cent, India has 8 per cent, USA has 7 per cent and Japan has 4 per cent share in 66,3 billion US \$ trade deficit of Turkey. Therefore, it is obvious that Turkish economy is neither in a position to encounter any trade deflection caused

by these countries nor to sign an agreement with them. Consequently, the EU's successful completion of FTAs with them would cause dramatic destruction in Turkish trade balance, which is already in the disadvantage of Turkey. The EU's reduced or eliminated tariffs in industrial and processed agricultural goods to these countries could leave Turkey open to trade deflection.

Besides the effect of new generation FTAs on Turkey, the new design of common commercial policy foreseen under Lisbon Treaty left the CU in a narrow frame compared to the new external trade policy of the EU. Since Turkey is under obligation to adopt the EU acquis, it would be an increase already existing asymmetry in the system of the CU. In other words, the agreements negotiated and agreed in the line with Lisbon Treaty in a competence with new generation of FTAs, would be obviously more comprehensive and deeper than the CU itself. Consequently, new FTA countries would achieve the most benefit with the least obligation, whereas Turkey is under quite strict trade policy obligations with lesser benefit than these countries. That would also increase the level of unwillingness on behalf of these countries to sit to FTA negotiation table with Turkey, which is already a commonly experienced situation.

### 3.2.6. Attempts to Modernize the Customs Union Agreement

Having realized all of above stated problems stemming from the CU, an initiative has started in early 2014 between Turkey and the EU, in order to negotiate a possible revision to the Customs Union. Indeed, it is not the first attempt to update the CU. In late 1990's and early 2000's there were attempts to widen the CU with the inclusion of services sector and public procurement. However, the negotiations on this issue ended in 2002, without any success, mainly due to focus on accession negotiations rather than expansion of the CU Agreement.

Similarly in 2011, the EU made some significant statements under Enlargement Strategy and Main Challenges 2011-2012 that "This agenda should cover a broad range of areas, including intensified dialogue and cooperation on political reforms, visa, mobility and migration, energy, the fight against terrorism, the further



participation of Turkey in Community programmes such as "Europe for citizens", town twinning, as well as trade and the Customs Union with the aims of eliminating ongoing trade irritants, seeking closer coordination in the negotiations on free trade agreements and exploring new avenues to make full use of the EU's and Turkey's joint economic potential. <sup>193</sup> To put it differently, European Commission proposed a widening and deepening in bilateral relations with Turkey in order to remove obstacles in trade. One of the ways foreseen to this end is harmonization in the process of FTA negotiations that is the most complained issue from the Turkish side.

In its Enlargement Report of 2013, the European Commission indicated that it looked forward to the World Bank evaluation report of the EU-Turkey Customs Union, which would make recommendations on the improvement of its functionality and the possible widening of its scope.<sup>194</sup> Also in the same Enlargement Report, the Commission reasserted its interest in revision of the CU by stating that “the ongoing survey on the functioning of the EU-Turkey Customs Union provides an important opportunity to reflect on and discuss the necessary modernisation of this key instrument in EU-Turkey relations, with a view to re-energising trade performance on both sides and economic integration. Given Turkey’s further development potential as an energy hub and the common energy challenges it shares with the EU, it is important that the enhanced dialogue develops on all issues of joint interest.” <sup>195</sup>

2014 was a significant year for process of the CU update, since the expected report of the World Bank released and based on its recommendations, negotiations between Turkey and the EU started in early 2014. Due to the fact that relevant parts and recommendations of this report have been evaluated in detail throughout this thesis, it

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<sup>193</sup>European Commission, “Communication From The Commission To The European Parliament And The Council- Enlargement Strategy and Main Challenges 2011-2012”, 12.10.2011, COM(2011) 666 final, Brussels, p. 19

<sup>194</sup>Ibid, p. 6

<sup>195</sup>European Commission, “Communication From The Commission To The European Parliament And The Council- Enlargement Strategy and Main Challenges 2013-2014”, 16.10.2013, COM(2013) 700 final, Brussels, p. 44

is worth stressing here that general conclusions of this report are in line with what has been complained by Turkey for years, such as FTA policies of the EU, visa requirement, road permits, decision making mechanisms etc. The general recommendation of the World Bank; the need for an update in the CU through both widening and deepening were actually, satisfactory for Turkey and were considered by the EU.

Subsequently, it is stated in 2014 Enlargement Report of the EU that “with its large, dynamic economy, Turkey is also an important trading partner for the EU and a valuable component of EU competitiveness through the Customs Union. It is time to work towards unleashing the full potential of the Customs Union. The EU should engage with Turkey on broadening and modernizing mutual trade relations for the benefit of both sides. A number of issues related to the functioning of the Customs Union, on the basis of the evaluation completed in 2014, should also be addressed. It is also crucial to develop an active and far-reaching economic dialogue. Further strengthening of EU-Turkey energy cooperation and progress in the accession negotiations would facilitate the interconnection and integration of energy markets. Economic cooperation would be greatly enhanced by the opening of negotiations of Chapter 5 (public procurement), Chapter 8 (Competition) and Chapter 19 (Employment and Social policy), as soon as the necessary benchmarks are met by Turkey.”<sup>196</sup> Accordingly, it is clear that the EU also is willingly to implement what have been suggested by the World Bank to the benefit of Turkey. Together with this statement of the EU, necessary conditions to start modernization/update/revision of the CU are met.

The European Commission also underlined the significance of modernization process of the CU in the report by stating that “upon request of the Commission, the World Bank carried out an evaluation of the EU-Turkey Customs Union and published its

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<sup>196</sup>European Commission, “Communication From The Commission To The European Parliament, The Council, The European Economic and Social Committee and The Committee of The Regions - Enlargement Strategy and Main Challenges 2014-2015”, 08.10.2014, COM(2014) 700 final, Brussels, p. 28

final report in April 2014. The report highlighted the positive economic impact of the customs union on both parties. It also recommended broadening of mutual trade relations and addressing a number of issues related to the functioning of the customs union. On this basis, discussions on a possible follow-up of these recommendations have started between the Commission and Turkey. Turkey continues to be the EU's sixth largest trading partner, while the EU is still Turkey's largest trading partner, Two out of five goods traded by Turkey import from or export to the EU and over 70 % of foreign direct investment in Turkey — with a strong high-technology component — inflows from the EU. <sup>197</sup>

Subsequent to the meeting of the EU Commissioner for Trade, and the Turkish Minister of Economy, in 2014, a Senior Official Working Group (SOWG) was established to “explore the possibilities to resolve current concerns relating to the structure and the functioning of the Customs Union as well as to further deepen and widen bilateral preferential trade relations, and to report back.”<sup>198</sup> According to the report of SWOG<sup>199</sup>, the study of the World Bank provided that extending the association relations into new areas would increase the benefits of the Customs Union for the Parties and resolve systemic problems in the framework of the Customs Union. Hence, SWOG raises two main recommendations, considering what has been suggested by the World Bank. The first one is about better implementation and/or amendment of the CU - Decision 1/95, whereas the second one is related with areas to be covered in the enhancement of bilateral relations.

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<sup>197</sup>European Commission, ”Turkey 2014 Progress Report-Accompanying the document to Communication From The Commission To The European Parliament, The Council, The European Economic and Social Committee and The Committee of The Regions - Enlargement Strategy and Main Challenges 2014-2015”, 08.10.2014, SWD(2014) 307 final, p. 5

<sup>198</sup>Report of the Senior Officials Working Group (SOWG) on the Update of the EU-Turkey Customs Union and Trade Relations, 27 April 2015, p.2  
retrieved from  
<https://www.ekonomi.gov.tr/portal/content/conn/UCM/path/Contribution%20Folders/web/D%C4%B1%C5%9F%20%C4%B0li%C5%9Fkiler/Avrupa%20Birli%C4%9Fi/YDM%C3%87G%20Raporu.pdf?live>, retrieved on 17.08.2017

<sup>199</sup>Ibid, p. 2-3

According to the first recommendation, there is a list of necessary steps, such as:

- Develop a legally binding provision that should enable Turkey to benefit simultaneously from the FTAs concluded by the EU with third countries.
- Improve dispute settlement mechanism under modalities to be defined by both parties.
- Improve joint decision making mechanism to bring about the proper functioning of the CU, including consultation mechanisms, in particular in advance on legislation that may impact on the functioning of the Customs Union.
- Participation by Turkey to EU committees and specialized agencies relevant to the Customs Union.
- Communication by the Commission to Turkey of the new acquis that Turkey has to incorporate in its domestic legislation.
- Communication by Turkey of the acquis incorporated in its domestic legislation.
- Improve the framework for the implementation of TBTs commitments.
- Improve the framework for the implementation of the existing IPR commitments.
- Better customs cooperation to improve the free movement of goods.
- Review-assess the effective implementation of certain provisions that pointed to a future rendez-vous under Articles 44 to 47 of the CU.

In the second part, services, public procurement and further bilateral concessions in agricultural products, together with strong SPS provisions and enhanced cooperation on geographical indications are considered to be areas covered in the updated version of the CU. It is also worth stressing that the European Commission mentions in this second part that “for Turkey, road transportation is considered an integral and essential part of the package and that the resolution of road transport quota restrictions faced by Turkey is urgent.”<sup>200</sup> Consequently, both deepening and widening are foreseen in this

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<sup>200</sup>Ibid, p. 3

report as a future of the CU relation, relatively in the first and second part of the recommendations of SOWG.

Likewise, it was emphasized by the European Commission in its Enlargement Report of 2015 that “the Commission has launched a comprehensive impact assessment that will underpin a negotiation mandate for a modernization and extension of the EU-Turkey Customs Union. The aim is to enhance trade relations to a level commensurate with the strategic importance of EU-Turkey relations and the significance of their economic exchanges. An EU-Turkey high-level economic dialogue will be launched, complemented by an EU-Turkey business forum and the high level energy dialogue will be pursued.”<sup>201</sup> Therefore, in May 2015, the EU Trade Commissioner, in the name of the EU, and Turkey’s Minister of Economy, in the name of Turkey, signed The Memorandum of Understanding (MoU) about modernization of the CU. On this occasion Commissioner Malmström said: "We need to modernize our Custom Union with Turkey and bring it into the 21st century. This initiative will boost EU-Turkey commercial relations."<sup>202</sup>

In 2016, consultation with public and private institutions took place both the European Commission and Turkish Ministry of Economy conducted an impact assessment. In the Turkish case, four scenarios are considered, in which the first one includes updating the existing Customs Union deal with around 50 percent of expansion in the agriculture sector and mutual liberalization in services sector and public procurement. According to this scenario, 1% increase in GDP is foreseen.

In the second alternative, full liberalization of agricultural sector is expected. Under this scenario, 1,9% increase in GDP is estimated. In addition, an increase in Turkish exports to the EU by 24% and 15% in total exports are calculated, besides welfare

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<sup>201</sup>European Commission, ”Communication From The Commission To The European Parliament, The Council, The European Economic and Social Committee and The Committee of The Regions -EU Enlargement Strategy”, 10.11.2015 COM(2015) 611 final, p. 8

<sup>202</sup>Retrieved from <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1307>, Retrieved on 17.08.2017

gains to the Turkey. The third alternative requires the transition of the Customs Union deal into a free trade agreement covering only industrial goods, in which 0,4% decrease in GDP and 16% decrease in Turkish exports to the EU are calculated. Lastly, fourth scenario proposes a comprehensive FTA, including agriculture, services and public procurement. In this scenario, 0,16% increase in GDP is foreseen. Consequently, Turkey believes that the best alternative is the second one.<sup>203</sup>

According to the impact assessment conducted by the EU, three policy options were analyzed. In Option A ('baseline scenario'), continuation with the current framework is suggested. Under this option, there is a risk of deterioration in the bilateral trade relationship, besides non-achievement of the desired objectives. Under Option B, on the one hand the modernization of the customs union by addressing its deficiencies, and on the other hand the extension of trade preferences to new areas notably in services, agriculture and public procurement are offered. Lastly, Option C envisages on the one hand the replacement of the existing customs union with an FTA relationship for industrial goods and on the other hand also the extension of trade preferences to new areas.<sup>204</sup>

As a result of this assessment, the EU prefers Option B, due to several reasons. First of all, as the Customs Union is viewed as a stepping stone towards Turkey's EU accession, doing away with it may be perceived politically as a setback. Secondly, Option B is economically more beneficial for both sides, as it maintains the free circulation for industrial goods, while Option C entails increased trade costs to prove compliance with the rules of origin that would be reinstated under this option. In

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<sup>203</sup>Gümrük Birliği'nin Güncellenmesi Etki Analizi Çalışması Basın Bildirisi, Retrieved from <https://www.ekonomi.gov.tr/portal/content/conn/UCM/path/Contribution%20Folders/web/D%C4%B1%C5%9F%20%C4%B0li%C5%9Fkiler/Avrupa%20Birli%C4%9Fi/ekler/Etki%20Analizi%20-%20Bas%C4%B1n%20Bildirisi.pdf?lve>, Retrieved on 17.08.2017

<sup>204</sup>European Commission, "Commission Staff Working Document Executive Summary of the Impact Assessment-Accompanying the Document Recommendation for a Council Decision Authorising the Opening of Negotiations with Turkey on An Agreement on the Extension of the Scope of the Bilateral Preferential Trade Relationship And on the Modernisation of the Customs Union", 21.12.2016, SWD(2016) 476 final, Brussels, p. 2-3

addition, Option B has similar conditions with recommendations of the report of the EU-Turkey Senior Officials Working Group.<sup>205</sup>

Subsequently, both Turkey and the EU are in favor of creating a more comprehensive and deeply integrated Customs Union relationship, compared to other alternatives. Likewise, both Parties expect more welfare gains and increased bilateral trade volume from this option. In fact, under this scenario “the EU’s real GDP would increase by close to 0.01%, its economic welfare would rise by EUR 5.4 billion, and EU exports to Turkey would increase by EUR 27.1 billion.

Additionally, Turkey’s real GDP would rise by 1,44%, and its welfare by EUR 12.5 billion, while its exports to the EU would grow by EUR 5.0 billion. Both EU and Turkish consumers and businesses would benefit from this option. Social impacts (notably wages and employment) are likely to be slightly positive in the EU and in particular in Turkey. Overall effects on economic and social human rights (adequate standard of living, right to work, social protection) as well as other rights derived from welfare gains (health, education) would be positive in Turkey.”<sup>206</sup>

Both Turkish Ministry of Economy and the European Commission completed public consultation and preparatory steps in 2016. As a result, upon approval of the mandate, Turkish Ministry of Economy and the European Commission are expected to start negotiations, which are planned to come to an end by 2020, at most. However, at that point, it should be emphasized that there is a need for unanimous approval from the Council of the EU. In addition, following successful completion of the negotiations, the European Parliament’s approval is required for implementation. In fact, in the latest draft report of the European Parliament the International Trade Committee (INTA), it is stated that “negotiations should focus on the active promotion of decent work for all and the effective fight against national practices which seek to undermine

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<sup>205</sup>Ibid

<sup>206</sup>Ibid, p.3

the social and environmental substance of work for the purpose of promoting domestic production and attracting foreign investment”<sup>207</sup>. Hence, the European Parliament has a positive approach towards modernization process.

From Turkish side, Ministry of Economy made a presentation to the Council of Ministers in April 2014 about the reasons to update the CU and expected consequences from the revised CU. At the end of this presentation, it has been authorized by the Council of Ministers to carry out the negotiations and sign an agreement with the EU. Similarly, it was stated in 65<sup>th</sup> Turkish Governmental Programme that modernization of the CU is one of the objectives of Turkey in its relation with the EU, besides the EU membership.<sup>208</sup> Furthermore, in the Medium Term Fiscal Plan, the strengthened trade integration with the EU and modernization of the current CU to remedy its shortcomings were listed as objectives of the period between 2017 and 2019.<sup>209</sup> Consequently, Turkish Ministry of Economy has both full authority to conduct negotiations and strong governmental support to the modernization efforts.

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<sup>207</sup>European Parliament, “Draft Report on ‘Towards a new trade framework between the European Union and Turkey and the modernisation of the Customs Union’”, 10.01.2017, 2016/2031(INI), p.6

<sup>208</sup> Office of the Prime Minister of Turkey, 65. Hükümet Programı, Ankara, 24 May 2016, p. 126

<sup>209</sup> Ministry of Development of Turkey, 2017-2019 Orta Vadeli Plan.



## CHAPTER 4

### **THE CONCEPT OF SPILL-AROUND AS A REVISION TO THE EUROPEAN UNION-TURKEY CUSTOMS UNION AGREEMENT**

Having considered major problems of the CU and attempts to revise more than twenty years' old Agreement, in this chapter a theoretical perspective will be provided on how to revise the CU. Actually, for a theoretical debate, the notion of spill-around within Schmitter's version of neo-functionalism is chosen. Actually, many factors have played role in the selection of the spill-around for evaluating the CU, instead of spill-over. First of all, in contrast to the spill-over concept of neo-functionalism, premises of spill-around take the changing political environment of both the EU and of Turkey into account. In other words, the understanding of the spill-over concept based on economic parameters does not provide the necessary means to understand the Turkey-EU Customs Union and find solutions to its existing problems. Moreover, the assumption of the spill-over thesis that integration process will progress in a linear way from the economic area to the political area is not a valid prediction for the Customs Union. Instead, spill-around that develops alternatives to this linear progress, through considering political situation, seems to be more appropriate for examining the customs union.

Furthermore, different motivations of the parties with regard to economic integration, as one of the predictions of the spill-around concept, is a valid assumption for the CU and provides a good starting point for understanding the structural problems of the CU. Consequently, the concept of spill-around, developed by neo-neo functionalist Schmitter, can be applied to Turkey-the EU Customs Union to solve its cumulative problems. In other words, there is a need for increase in the scope of authority, while level of authority is kept constant. Hence, further trade integration between parties by creating a deeper and wider version of the current agreement can remedy existing problems of the CU.

In fact, this chapter consists of two main parts that are introduction to the concept of spill-around and its implementation to the EU-Turkey Customs Union. As it can be remembered from the first chapter, Schmitter developed a revision to neo-functionalism with a claim that spill over is not an automatic process and there could be some other alternatives to spill over depending on case-specific circumstances. These alternatives are 'spill-around', 'build-up', 'muddle-about' and 'spillback'. Spill-around, among these alternatives, was actually chosen by Schmitter to explain Central American integration, as a sort of composite or hybrid of the spill-over and self-encapsulation syndromes. In his implementation of spill-around concept to the case of Central America, he makes a compartmentalization of the process into separate issue arenas, such as political/symbolic, military/security and economic/technical.<sup>210</sup>

In this regard, he gives some examples that Central American countries were actually good at integration of economic arena, yet they could not show the same success in political and military arenas. Consequently, Schmitter concludes his work with the words that "Economic integration in Central America will probably survive the 'Football War'. The slim chance that it might have served as the basis for an eventual political integration of the region probably will not"<sup>211</sup> In other words, Schmitter do not expect an automatic transformation of integration in economic areas to an integration in political realm. Similar to the mentality Schmitter developed for the case of Central Asia<sup>212</sup>, in this chapter the concept of spill-around will be applied to the EU-Turkey Customs Union as a solution to its existing problems, explained in detail in the previous chapter.

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<sup>210</sup> Philippe C. Schmitter, "Central American Integration: Spill-Over, Spill-Around Or Encapsulation?", September 1970, *Journal of Common Market Studies*, Volume 9, Issue 1, p. 1-48

<sup>211</sup>Ibid, p. 48

<sup>212</sup>Ibid

#### 4.1. The Concept of Spill-Around

To start with, 'A Revised Theory of Regional Integration' is the major work of Schmitter in order to assess what he means by spill-around. In this study, Schmitter presents all actor strategies in table, in which level and scope of authority are determined as two main parameters to re-define strategies.<sup>213</sup> Accordingly, to indicate spill-around, he keeps level of authority constant, while expecting an increase in scope of authority. In other words, the principal concern in spill around is not expanding level of authority, transferred to regional institutions. On the contrary, what significant in spill-around is an expansion in the scope of the responsibilities, increasingly executed by regional institutions, without a parallel increase in the level of authority given to these institutions in decision making process.

Therefore, he defines spill-around as an integration strategy, in which only the scope of authority increase, while the level of authority is constant or within the zone of indifference. Furthermore, Schmitter derives a conclusion from the plot that "the most direct route to political community... is by way of successive spillovers or package deals involving new issues and new competences. Other routes may prove to be quicker, however. In the long run inconspicuous spill-around may avoid reaction-formation for some time, until a crisis forces a consolidation of disparate authorities."<sup>214</sup> To put it differently, spill-around is the most useful strategy for a formulation that is open to reaction. Since level of decision making authority is kept constant in it, there is little to cause reaction. In this manner, it could be suggested that the problems of transferring authority from national institutions to regional institutions at the early stages of integration could be overcome by spill-around. Schmitter also explains this conclusion by referring to "availability of a large number of unexploited,

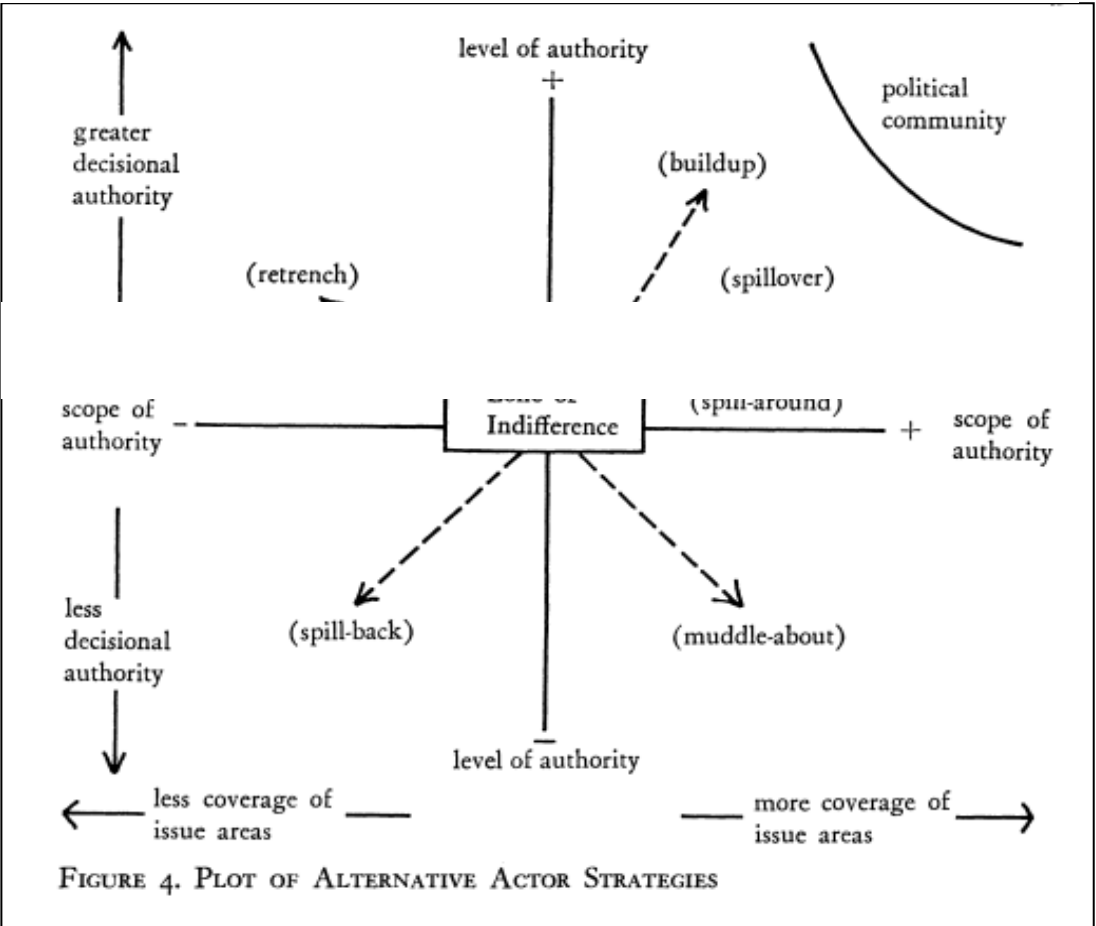
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<sup>213</sup> Philippe C. Schmitter, "A Revised Theory of Regional Integration", Autumn, 1970, International Organization, Vol 24, No. 4, Regional Integration: Theory and Research, p. 845

<sup>214</sup> Ibid, p. 846

noncontroversial adjacent policy areas” that could be benefited in spill-around strategy.<sup>215</sup>

**Table 5. Plot of Alternative Actor Strategies**



Source: Philippe C. Schmitter, “A Revised Theory of Regional Integration”, Autumn, 1970, International Organization, Vol 24, No. 4, Regional Integration: Theory and Research, p. 845

Besides early stages of integration, Schmitter also suggests that “the more varied (but not radically divergent) the motives and expectations of negotiating parties, the greater the probability they will adopt a spill-around strategy during the priming cycle(s).”<sup>216</sup> Therefore, he believes that spill-around strategy plays the role of negotiator, whenever divergent motivations and expectations of parties could harm integration process.

<sup>215</sup> Ibid, p. 861

<sup>216</sup> Ibid, p. 862

Since spill-around keeps level of authority constant, it is less likely to deteriorate already tense integration process. Accordingly, it is the best strategy available to be used in a regional integration process, if parties do not have “identical strategies based on similar responses to regional process.”<sup>217</sup>

As a result, spill around was designed by Schmitter to be used in problematic integration processes, either due to lack of habit of achieving compromises in early stages of integration or due to divergences in actors' motivation and expectations. In other words, whenever spill over cannot be used effectively in integration processes, spill around is one of the best alternatives to act as catalyzer. Therefore, considering what have been stated in the previous chapter about the problems of the EU-Turkey Customs Union, spill around can be the solution to these problems.

#### 4.2. Application of Spill-Around to the European Union-Turkey Customs Union

Actually, the main problem of the Customs Union in this case is divergence among parties in motivation to conclude the agreement and their expectations from the agreement. While, Turkey has perceived the Customs Union agreement as a step forward to full membership to the EU, the EU accepts the agreement as an end itself. Consequently, Turkey's main motivation under this agreement is political; while the EU's economic motivations are higher than their political motivations. Obviously, the EU has also political motivations to conclude this agreement, yet their intention was mainly achieving an economic gain from a customs union agreement. Furthermore, the EU has a habit of integration, stemming from their internal integration process that leads to the EU of today's. However, Turkey does not have experience of integration before the regional integration process with the EU, which also today mainly done by following the path of the EU.

Adding to these problems, the changing nature of both parties as well as regional and global realities deteriorated already problematic relations. Above-mentioned initial problems prevented adaptation of the agreement to new requirements of the time that

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<sup>217</sup> Ibid, p. 861

creates a vicious cycle. Consequently, spill over concept of neo-functionalism is not an efficient way to explain dynamics of the EU-Turkey Customs Union as well as to provide solutions to its problems.

In order to evaluate this deepening and widening, there is a need to recall that the Customs Union Agreement only covers industrial goods and industrial component of processed agricultural products. Therefore, taking spill around into consideration, the CU is needed to be revised in a way to cover basic agricultural products, all components of processed agricultural products and services that constitutes the widening part. Indeed, together with this widening, the World Bank suggests that both parties will have significant benefits.<sup>218</sup> In addition to widening, there is also a need for deepening that could be provided with removing or reducing existing restricting measures such as quotas, permits, visas etc. Similar to widening, the World Bank also argues that “further reforms are also needed to ensure continued growth in Turkish trade with the EU.”<sup>219</sup>

In terms of widening, it is significant to get informed about how GDP of Turkey is distributed among sectors. In value added terms, agriculture constitutes %7.5, industry %31.9 and services % 60.7 of Turkey’s GDP in 2014. These ratios relatively were %6.9, %32.4 and %60.7 in 2016.<sup>220</sup> Therefore, it could be commented that the ratio of agriculture in GDP is decreasing while industry is increasing, besides constant ratio of services. However, more significant parameter for Turkey is the ratio of people working in each sector. According to the latest statistics that covers March, April and May 2017, % 18.9 of all employed in Turkey work in agriculture sector, while % 54.3 are in services sector.<sup>221</sup> As a result, covering these two sectors in a customs union is

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<sup>218</sup> World Bank, “Evaluation of the EU-Turkey Customs Union”, 2014, Report No. 85830-TR, p. İi

<sup>219</sup> Ibid

<sup>220</sup>World Bank Data Bank, Retrieved from <http://databank.worldbank.org/data/reports.aspx?source=2&country=TUR#>, Retrieved on 4 August 2017

<sup>221</sup> Turkish Statistical Institute, Retrieved from <http://www.tuik.gov.tr/HbGetirHTML.do?id=24629>, Retrieved on 4 August 2017

a sensitive process for Turkey considering possible economic impacts of this widening on those people.

To start with agriculture, following two table will be useful to evaluate the current situation. One of the conclusions, could be deduced from them, is the fact that Turkey's agricultural exports to the EU outweigh its imports from the EU. While, agricultural exports' share in total exports to the EU is average 8,1% in the last three years, agricultural imports from the EU has the average share of 3,4% in total imports from the EU. One of the reasons for this outcome is Turkey's average most-favored nation (MFN) tariff is high (41.7%) in agricultural products. In addition, application of tariff quotas and price regulation in agricultural trade also create a high degree of protection.<sup>222</sup>

The second conclusion is the EU is the biggest market for Turkish agricultural exports, accounting for average 32% of all agricultural exports in the last three years. However, the EU's share in Turkey's agricultural imports from the world accounts for average 24% in these years. Therefore, it can be suggested that Turkey have a trade surplus in the agricultural products trade with the EU. According to the report of World Bank, this surplus could be based on tariff quotas provided to Turkey on some agricultural products under the Ankara Agreement, as well as preferential treatment granted to Turkey for a limited group of products imported from the EU under the Additional Protocol. In addition, two of the three protocols comprising Decision 1/98 of the EU-Turkey Association Council lay out a broad reduction in tariffs for agricultural products to the point where many consider it a de facto FTA for agriculture. Adding duty-free EU MFN rates for some agricultural products to all of these protocols, Turkey apparently has a privilege in agricultural trade with the EU.<sup>223</sup>

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<sup>222</sup> World Bank, "Evaluation of the EU-Turkey Customs Union", 2014, Report No. 85830-TR, p. ii

<sup>223</sup> Ibid, p. 61

**Table 6. Turkey's imports from the European Union**

Value: Thousand US \$									
Product label	Turkey's imports from EU			EU's exports to world			Turkey's imports from world		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
All products	89	79	77	6.136	5.374	5.3567	242	207	199
Agricultural Products	3	3	3	606	530	545	12	11	11
Share of Agricultural Products (%)	3,0	3,6	3,6	9,9	9,9	10,2	5,1	5,4	5,6

**Table 7. Turkey's exports to the European Union**

Value: Thousand US \$									
Product label	Turkey's exports to EU			EU's imports from world			Turkey's exports to world		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
All products	69	64	68	6.004	5.217	5.219	158	144	143
Agricultural Products	6	6	5	599	530	541	18	17	16
Share of Agricultural Products (%)	8,1	8,7	7,5	10,0	10,2	10,4	11,4	11,7	11,4

Source: Trade Map<sup>224</sup> (Tables are created by the author)

<sup>224</sup> TradeMap, Retrieved from [http://www.trademap.org/Bilateral\\_TS.aspx?nvpm=1|792||14719|TOTAL||2|1|1|2|2|1|1|1|1](http://www.trademap.org/Bilateral_TS.aspx?nvpm=1|792||14719|TOTAL||2|1|1|2|2|1|1|1|1), Retrieved on 16.08.2017



On the other hand, this position of Turkey is not expected to be long lasting, due to active FTA policy of the EU especially under Global Europe Strategy. In other words, under this Strategy, explained in detail in Chapter II, the EU has been conducting new generation FTA's with countries that have competitive power against Turkey in agricultural products. In this manner, the EU's FTA policy has been eroding preferences granted to Turkey in primary agricultural products. Indeed, even before new generation of FTA's, the EU started to include primary agricultural products in 2000's in its FTA's with countries such as Mexico, South Africa and Chile, yet due to number of countries, their geographical proximity to the EU and competitive power with Turkish agricultural products, these FTA's were not so threatening like new generation FTA's.

Considering FTA's signed under Global Europe Strategy and following strategies of the same objectives, countries ranging from Israel to South Korea and from Central America to Malaysia have gained preferences in agricultural products through FTA's. Furthermore, the EU FTA's with Bosnia-Herzegovina (2008), Montenegro (2008) and Serbia (2010), besides full membership of Bulgaria (2007), Romania (2007) and Croatia (2013) have also potential of eroding Turkey's preferences in agricultural products. Consequently, it is hard to expect continuation of Turkey's surplus in agricultural trade with the EU. Even taking the fact that Turkey has a customs union with the EU, which is deeper integration than a FTA, exclusion of agricultural products from its coverage is the main reason of this undesired outcome.

From the point view of services, by examining the tables below, it is clear that service sector has the major share in both European and Turkish employment rates. While it has approximately 70% share in the EU, approximately 50% of Turkish people are employed in service sector. Besides internal dynamics, services has 28% share in total exports; approximately 25% share in the total imports of the EU. Considering Turkey, share of service exports in total exports is approximately 22%, while it is 10% in imports. Therefore, it is convenient to argue that services are an integral part of trade

and economy both in the EU and Turkey. In addition, World Bank underlines three reasons that increases significance of services for the EU-Turkey bilateral relationship. First, services trade matters because of the emergence of global value chains and the interdependence between goods trade, investment and services (i.e. trade in tasks). Secondly, services are critical for Turkey's economic development while services trade is below potential in Turkey and there are opportunities to increase bilateral trade with the EU. Thirdly, services matter for the overall objective of Turkey's full EU membership.<sup>225</sup>

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<sup>225</sup> World Bank, "Evaluation of the EU-Turkey Customs Union", 2014, Report No. 85830-TR, p. 68

**Table 8. Services in Turkey and the European Union**

Value: Thousand US \$			
<b>European Union</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Employment in services (% of total employment)	70,6	70,9	..
Service exports (BoP, current US\$)	2.213.437.345	2.031.393.051	2.043.978.619
Exports of goods and services (BoP, current US\$)	8.031.728.429	7.170.181.943	7.198.349.291
Share of service exports in total	28%	28%	28%
Service imports (BoP, current US\$)	1.882.923.110	1.745.768.735	1.788.024.938
Imports of goods and services (BoP, current US\$)	7.492.306.077	6.573.322.033	6.608.442.325
Share of service imports in total	25%	27%	27%
<b>Turkey</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Employment in services (% of total employment)	51,1	52,4	..
Service exports (BoP, current US\$)	51.856.000	46.888.000	37.634.000
Exports of goods and services (BoP, current US\$)	220.782.000	198.858.000	187.812.000
Share of service exports in total	23%	24%	20%
Service imports (BoP, current US\$)	25.088.000	22.680.000	22.215.000
Imports of goods and services (BoP, current US\$)	257.611.000	222.764.000	213.236.000
Share of service imports in total	10%	10%	10%

Source: World Development Indicators <sup>226</sup>(Tables are created by the author)

<sup>226</sup> World Bank, Retrieved from <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators#>, Retrieved on 16.08.2017

Indeed, Turkey has a surplus in trade in services that accounts for 24.015 million US \$ in 2015 and 26.768 million US \$ in 2014. However, structural problems of Turkish service sector prevent the country from benefiting its full potential. The most critical problem is the composition of the sector. Indeed, 87,4% of its services exports are consisted of travel and transport.<sup>227</sup> Therefore, more value-added services related to technology, R&D, banking etc. do not represent a major ratio of Turkey's services exports.

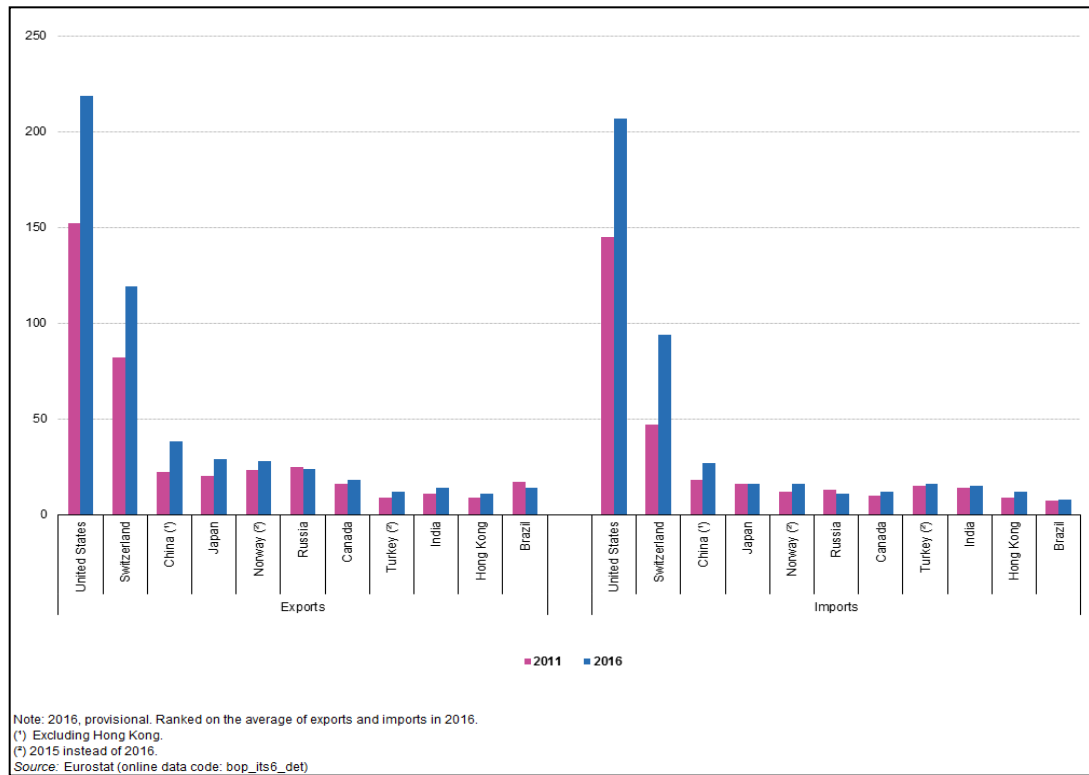
The situation actually is the same in services trade with the EU. Turkey imports travel and transportation services to the EU and it seems to have a surplus from it. However, when the share of Turkey within the rest of the world that exchanges services with the EU is examined, how far Turkey is performing under its potential becomes clear. Despite geographical proximity and similar rules and regulations concerning services with the EU, Turkey has not been able to compete even with China and Japan. The reason lying behind can be found in European description of main services traded. According to Eurostat, in 2016, the most traded services were the areas of R & D, professional and management consultancy, technical and trade related services, architecture, engineering and scientific services, waste treatment, agriculture and mining...distribution services for water, steam, gas and petroleum products, as well as distribution services for electricity, air conditioning supply, security and investigative services, translation and interpretation, photographic services, building cleaning, real estate and other services to businesses.<sup>228</sup>

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<sup>227</sup>UNCTADstat, Retrived from <http://unctadstat.unctad.org/CountryProfile/GeneralProfile/en-GB/792/index.html>, Retrieved on 10.08.2017

<sup>228</sup> Eurostat, Retrived from [http://ec.europa.eu/eurostat/statistics-explained/index.php/International\\_trade\\_in\\_services#Main\\_statistical\\_findings](http://ec.europa.eu/eurostat/statistics-explained/index.php/International_trade_in_services#Main_statistical_findings), Retrieved on 10.08.2017

**Table 9. Trade of the European Union on Country Bases (2011 – 2016)**



Source: Eurostat

Therefore, it is obvious from these figures that Turkish service sector needs a reform and liberalization as well as diversification and sophistication. In this regard, a dynamic simulation, developed by the World Bank, suggests that “bilateral agricultural trade liberalization with the EU combined with services trade liberalization from all sources results in Turkey’s real GDP in 2018 being 0.37 percent higher than the baseline. Even larger gains could be expected to come from liberalizing other modes of services trade and from the productivity gains that this liberalization would spur as services input prices declined in response to increased competition in those sectors and the adoption of more efficient practices.”<sup>229</sup>

<sup>229</sup> World Bank, “Evaluation of the EU-Turkey Customs Union”, 2014, Report No. 85830-TR, p. 73

In other words, full adjustment to the EU rules and regulations in services will have some strong positive consequences both in Turkish trade figures and economic indicators. Through this reform and renewal process, both bilateral trade with the EU, intra-regional and international trade volumes of Turkey will increase. It will be also a development of not only quantity, but also quality that will boost Turkey's position in global value chains. In order to align with the EU rules and regulations, and consequently benefit from them, the most efficient way is to include services into already existing structure of the Customs Union, instead of creating a new structure. Besides being practical, inclusion of services to the CU will help to create a full body of integration, rather than separate arrangements for each area.

As a result, apparently, without widening of the coverage of the current CU in a way including agriculture and services, it would not be a fully-functional structure. Accordingly, the most recent report released as a collaboration of European Neighbourhood Council (ENC) and the Economic Policy Research Foundation of Turkey (TEPAV) suggests that “the narrow coverage of the 1995 Customs Union agreement is full of untapped growth potential. Because the original Customs Union left out agriculture, services and public procurement, the EU and Turkey face a unfavorable situation of untapped growth potential in economic and employment terms. Widening the scope of the Customs Union is therefore expected to be the largest area to yield economic gains for employment and growth across the EU and Turkey.”<sup>230</sup>

Similarly, Dr. Özer Balkız, who is Deputy Secretary General the Independent Industrialists' and Businessmen's Association (MÜSİAD) argues that “because of the shifts in economic and commercial relations in the world over the last 20 years, it has been stated that the modernization of the Customs Union is beneficial and necessary – leading to mutually positive economic effects for both Turkey and the EU. Depending on this, it can be clearly said that the current Customs Union agreement

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<sup>230</sup> Samuel Doveri Vesterbye & M. Sait Akman, “A Modernized EU-Turkey Customs Union – Expert Interviews and Analysis”, 2017, European Neighbourhood Council, Belgium, p. 6

does not satisfy Turkey's economic expectation...A modernized Customs Union updated with the addition of missing areas...will lead to an increase in production volume and variety. Eventually, growth and employment will converge to Turkey's potential level. In addition to this, companies that give importance to research and development, designing, branding and innovation will be winners of this recreation and transformation. <sup>231</sup>

In a supporting way, Director General for EU Affairs in Turkish Ministry of Economy Murat Yapıcı believes that including agricultural sector in the Customs Union will boost efficiency and the standards of production and compensate for the losses that might occur as a result of liberalization, while an alignment process to the EU legislation in services will act as a trigger in reformation of these sectors. In addition, Turkey will attain significant level of competitiveness, follow the recent trade trends and integrate more to the world economy through this inclusiveness. However, he also reminds that it will be a challenge for Turkey. <sup>232</sup>

Likewise concerns of Yapıcı, Prof. Dr. Canan Balkır, who is head of the Department of EU Studies and Jean Monnet Chair in European Economic Integration Dokuz Eylül University, warns that "the negotiations on agriculture might not be easy, as the level of external trade protection of both parties differ, and Turkey's domestic support policies are not totally consistent with the Common Agricultural Policy (CAP)." She also adds that differences between the EU and Turkey in sub-sectors of services, such as transport, communication, finance etc., might cause problems of adjustment in service sector, despite the fact trade regulatory regimes in both parties share similar levels of openness. <sup>233</sup>

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<sup>231</sup> Ibid, p. 14

<sup>232</sup> Ibid, p. 9-10

<sup>233</sup> Ibid, p. 24

Nonetheless, general trend favors the extension of the EU-Turkey Customs Union to the agricultural and service sectors. In a survey conducted by European Development Foundation (IKV) with a sample size of 152 companies, 65% of the respondents express a favorable opinion regarding the modernization of the Customs Union. The umbrella organizations of the Turkish business world generally have a supportive attitude towards the modernization of the Customs Union.<sup>234</sup> This positive approach to widening of the CU stems from the belief that it would bring significant benefits both for people, companies and for economy in general. Indeed, according to the recent work, the gross domestic product could rise by an additional 1.84% and per capita income could show a growth of 171 US \$, through inclusion of these two sectors into the existing structure. In total, Turkish exports to the EU are expected to increase by almost 70%, with an increase of 95% for the agricultural sector and 430% for the service sector, despite a fall in exports in industrial sectors.<sup>235</sup>

It is especially critical for agriculture to reveal what might be the expected outcomes of a possible integration into the coverage of the CU. Reminding what have been stated above, the ratio of people employed in agriculture and its place in economy are two main reasons that makes this sector specific, especially for Turkey. According to simulations using a CGE model, positive welfare impacts for both Turkey and the EU are expected from inclusion of agriculture to the CU. On average, consumer prices for agricultural products fall under all scenarios because Turkish markets are opened to increased competition. Regarding possible negative impacts of widening on rural employment for Turkey, measures to improve productivity in Turkish agriculture are suggested, since productivity growth is a key component of rising per worker income gains in well performing agricultural sectors. Consequently, together with research in

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<sup>234</sup> Ibid, p. 19

<sup>235</sup> Erdal Yalcin, Rahel Aichele, and Gabriel Felbermayr, "Turkey's EU integration at a crossroads", 2016, GED Study, Bertelsmann Stiftung, p. 7 available at: [https://www.bertelsmann-stiftung.de/fileadmin/files/BSt/Publikationen/GrauePublikationen/NW\\_Turkey\\_s\\_EU\\_integration.pdf](https://www.bertelsmann-stiftung.de/fileadmin/files/BSt/Publikationen/GrauePublikationen/NW_Turkey_s_EU_integration.pdf)



basic agricultural research and productivity gains poverty and possible unemployment could be solved in rural areas.<sup>236</sup>

To conclude the part of widening, it seems as the most accurate way of preventing structural deficiencies of the CU as well as the most practical way of dealing with challenges created by developments since 1995. Hence, through including agriculture and service sectors into the existing CU, its advantages will outweigh its disadvantages. However, it is also significant to keep in the mind that widening alone is not sufficient to correct all problems of the CU, such as asymmetrical FTA processes, road transport permits, visa applications etc. Thus, course of widening should be handled together with deepening, in which further reforms are implemented to resolve structural problems of the CU. In other words, adding new areas to the coverage of the CU should be applied in a parallel course of removing existing barriers to bilateral trade to have a full-performing customs union area.

In this respect, the first and foremost step of correcting deficiencies of the CU should be related to anxieties of Turkey about the EU trade policy, especially with regard to its FTA policy. As a reminder, one of the basic problems of Turkey in this issue is erosion of Turkish preferences, stemming from the CU in the face of comprehensive FTA's of the EU with third countries. The situation has worsened with new generation FTA's, in terms of their coverage and partner countries. The other problem is the requirement of Turkey under 1/95 Agreement to conclude FTA with FTA partners of the EU, without taking part in the decision making process. This requirement has two folds, one of which is lack of opportunity for Turkey to choose with whom to sign an FTA. Moreover, whenever Turkey does not sign a FTA with these third countries, Turkish market becomes open to third country products, named under the coverage of the CU, yet having no reciprocal access to these markets. Hence, trade dimensions of Turkey have been deeply and negatively affected from FTA policies of the EU.

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<sup>236</sup> World Bank, "Evaluation of the EU-Turkey Customs Union", 2014, Report No. 85830-TR, p. 64

As a conclusion, it is hard to have a well-functioning customs union without having a solution to these problems. The first possible solution is that Turkey should take an active part in the decision-making process of the EU that directly affects operation of the CU. Especially the European Committees that has authority to decide on FTA partners should be open to participation of Turkish delegation. Only participation to these committees and procedures are not sufficient alone, yet Turkey should be provided with right to raise its concerns and discuss ideas. Consequently, it is not a realistic perspective to expect that “continuous exchange and dialogue between Turkish officials and their EU counterparts would have the effect of integrating Turkey further into the policy-making process of the EU in the area of trade policy. This could contribute to a gradual Europeanization of policy-making in Turkey and better align Turkey’s trade policy to that of the EU.”<sup>237</sup>, as Dr. Çiğdem Nas argued. Only gaining observer position does not have the capacity to affect the EU decisions that have a deep and continuous impact on Turkish trade and economy. Therefore, despite the fact that it is not a member of the EU, an exceptional status should be granted for Turkey, in order to resolve asymmetric nature of the CU.

Additionally, instead of following the FTA’s of the EU, Turkey should have parallel FTA negotiations with the countries that the EU is negotiating. Under the current situation, the third countries are not willingly to conclude a FTA with Turkey, since they already have market access. Therefore, they should be required to start negotiations also with Turkey, on the same or similar coverage of products or areas, if they want to have an FTA negotiation with the EU. In this manner, starting even from exploratory stage, Turkey and the EU should share information and make some consultation meetings.

Similarly, “acknowledging the difficulties faced by Turkey in concluding FTAs with third countries, which have negative effects on the Turkish economy and by enabling unilateral preferential access to the Turkish market for the EU’s FTA partners with

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<sup>237</sup>Samuel Doveri Vesterbye & M. Sait Akman, “A Modernized EU-Turkey Customs Union – Expert Interviews and Analysis”, 2017, European Neighbourhood Council, Belgium, p. 20

which Turkey has not yet been able to sign FTAs; the European Parliament calls on the Commission and the Council to ensure that Turkey is included in the impact assessment studies of prospective FTAs between the EU and third countries and to further strengthen the transmission of information on the EU's position and the state of play of the FTA negotiations; encourages the Commission to take account, in the FTAs, of the CU between the EU and Turkey”<sup>238</sup>

In addition, a binding and reinforced *Turkey Clause* is inevitable for a permanent solution. In the present form, the Turkey Clause is a statement that contains an invitation by the EU to the partner country to start FTA negotiations with Turkey too, in a short period of time. For instance, it was a form of “EU invites Central America to start negotiations with the States with which EU has established a Customs Union. Central America responds that they shall make best efforts an FTA with Turkey”<sup>239</sup> in the FTA text with Central America. Hence, it is just an invitation without having a binding force on the partner country, even does not take part in some FTA texts of the EU. Accordingly, Turkey proposes a reinforced Turkey Clause, in which the FTA partner is invited to negotiate and conclude parallel FTA with Turkey as nearly as possible same time with the EU, while providing free circulation to the Turkish products, benefiting from EU’s FTA reciprocally, as if they have European origin.<sup>240</sup>

Besides FTA policies of the EU, another problematic area for Turkish trade and economy is implementation of road transport quotas. Considering the fact that almost forty percent of Turkish trade is carried by its international road transport sector of

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<sup>238</sup>European Parliament, “Resolution of 21 September 2010 on trade and economic relations with Turkey”, 2010, 2009/2200(INI), available at <http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P7-TA-2010-0324&language=EN>

<sup>239</sup> European Commission, “EU-Central America Association Agreement”, 2012, available at <http://trade.ec.europa.eu/doclib/press/index.cfm?id=689>

<sup>240</sup> Murat Yapıcı on behalf of Turkish Ministry of Economy, Presentation on “Turkish Perspective On FTA’s Under The Turkey-EU CU (With A Special Emphasis to TTIP)”, 18 June 2013, Brussels, available at <http://www.europarl.europa.eu/document/activities/cont/201306/20130619ATT68026/20130619ATT68026EN.pdf>

around 1,300 firms and fleet of 45,000 vehicles<sup>241</sup>, remaining road quotas negatively affecting Turkish export volumes and bilateral trade between the EU and Turkey. It is also an obstacle to the free movement of goods, as a non-tariff barrier, which is against provisions of the CU. Since the number Turkish vehicles that is allowed to enter into the EU area is limited, there is an imbalanced competition between Turkey and other transporter countries such as Bulgaria and Romania.

Accordingly, both fair competition and free trade, envisaged under the CU agreement, are violated through application of road quotas. In this regard, in a gravity model analysis of estimated with panel data from 18 selected EU countries between 2005 and 2012, it is concluded that quotas have significant effects on Turkish total exports via road transport as well as the Turkish textile exports to EU countries. The estimated amount of the loss of the exports of Turkey to the selected countries in analyzed time period is 10.6 billion \$ in Turkey's total exports via road transport, and 5.65 billion \$ in Turkey's total textile exports.<sup>242</sup>

Likewise, Melih Özsöz, who is Corporate Communication and Resource Development Director at Foreign Economic Relations Board of Turkey (DEİK), argues that “road transport quotas are of prime importance for the Turkish business community and are required to be solved within the framework of the reform. One of the features in the establishment of the Customs Union is the removal of quantitative barriers, or so called quotas. While the abolishment of these quotas is accomplished in the area of free movement of goods, the same cannot be said of the transport sector. That’s a priority for us.”<sup>243</sup> Hence, facilitation in the EU-Turkey bilateral trade will be possible through elimination of quotas in road transportation.

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<sup>241</sup> World Bank, “Evaluation of the EU-Turkey Customs Union”, 2014, Report No. 85830-TR, p. 50

<sup>242</sup> Füsün Ülengin, Özgür Kabak, Peral Toktaş Palut, Şule Önsel Ekici, Özay Özaydın, Bora Çekyay, Burç Ülengin, “Effects of quotas on Turkish foreign trade: A Gravity Model”, 2015, Transport Policy Volume 38:1-7

<sup>243</sup> Samuel Doveri Vesterbye & M. Sait Akman, “A Modernized EU-Turkey Customs Union – Expert Interviews and Analysis”, 2017, European Neighbourhood Council, Belgium, p. 16

Another problem in the functioning of the CU, strongly related with road quotas, is visa requirements foreseen for Turkish citizens, while their entry into the EU area. Besides the fact that it is an obstacle for every Turkish people's travel to the EU, it is especially concerning for business people. Together with road quotas, it is also a non-tariff barrier to trade, since it is also asked for the person driving a Turkish-registered vehicle. Therefore, Turkey demands at least some convenience in visa applications for business people and truck drivers that transport goods to the EU area. Likewise road quotas, it is a barrier to fair competition in trade between Turkey and European countries, despite existence of the CU. Indeed, in a survey conducted, Turkish business people mostly complained from: Excessive paperwork and visa durations, the level of visa fees and delays in processing times and visa denials.<sup>244</sup>

As a result, both road quotas and visa requirements are significant problems standing in front of the well-functioning of the CU. Due to their restrictive nature on Turkish exports and bilateral trade volumes, Turkey and the EU could not get full benefit from the CU, as expected. In this manner, the most permanent solution actually is related with the widening prospects of the CU, as it was explained above. Through increasing the coverage of the CU, in a way including service sector, both of these problems could be dealt under the general heading of services. Liberalization and alignment in services will also be a complementary process to resolution of road quotas and visa requirements. At the end, both economic and social relations between the EU and Turkey might undergo an imminent development.

To conclude, spill-around is a neo-neo functionalist concept developed by Schmitter, in which increase in the scope of authority is preferred instead of spill-over's mutual increase in the scope and level of authority. Schmitter argues that divergent motivations and expectations in the integration process are the best cases, to which spill-around can be applied, besides early stages of integration. Therefore, keeping what have been explained about the EU-Turkey relations and formulation of Customs

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<sup>244</sup>World Bank, "Evaluation of the EU-Turkey Customs Union", 2014, Report No. 85830-TR, p. 79

Union Agreement in mind, spill-around concept is offered as the best solution to the problems stemming from the CU.

For application of spill-around to the case of the EU-Turkey Customs Union, it is suggested that widening and deepening are two complementary ways. In other words, adding new issue areas to the existing coverage of the CU as a part of widening and deepening the already existing scope of integration are two sides of the same coin that lead to proper functioning of the CU. Namely, implementation of spill-around suggests widening the scope of the CU to agriculture and service sectors, besides industrial products. In addition, it develops some suggestions about deepening commitments in the formulation and implementation of trade policies, such as FTA policies, road quotas and visa requirements. Hence, through widening and deepening, scope of authority is increased in the CU, yet the level of authority is kept in the zone of indifference. Through this way, permanent solutions are developed to the long-lasting problems of the CU, without causing any reaction due to divergent aims and motivations of the parties.

## CHAPTER 5

### CONCLUSION

Indeed, due to security, political and economic intentions of Turkey, it applied for membership to European Economic Community in 1959 that was concluded with an Association Agreement (Ankara Agreement) signed in 1963 and entered into force in 1964. In the Article 28 of this Agreement, the final aim was stated as full membership of Turkey to EEC when objectives and stages explained in Article 2 completed.<sup>245</sup> Within the same Article, three steps were defined to reach this final aim of membership, which are a preparatory stage, a transitional stage and a final stage. Preparatory stage started in December 1964 and finalized in January 1973, with the enforcement of the Additional Protocol. The Protocol is also the beginning of transitional period that ends with the establishment of Customs Union in 1995. Hence, with the Customs Union, the European Union-Turkey relations entered into its final stage.

Taking the fact that the EC-Turkey relations were in their final stage into consideration, on 14 April 1987, Turkey applied for full membership. The Turkish mindset for this application could be assessed from what the Turkish Ambassador to the EC, stated: "...the opening of these negotiations should reassure the Turkish people that they are at the first stage of an irreversible chain of events leading to full EC membership"<sup>246</sup> However, 'Commission Opinion on Turkey's Request for Accession to the Community' was delivered in 1989, in which it is stated that it is not the right time to start accession negotiations with Turkey due to both undergoing major

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<sup>245</sup>The Agreement Establishing an Association Between the European Economic Community and Turkey (Association Agreement), 1963, Official Journal No 217 of 29.12.1964

<sup>246</sup>Marc Paoloni "The Outlook for EC-Turkish Relations", in Mary Strang and Arlene Redmond eds. *Turkey and the European Community*, 1991, Forum Europe, Brussels, p.42.

changes within the Community and political and economic situation in Turkey.<sup>247</sup> In this manner, it is obvious that Turkish and European leaders are in a totally different perception towards the Customs Union.

Actually, many European leaders were in a view that Turkey had to be firmly linked to the EC, but it had to be left beyond the borders of the Community. Hence, in the minds of several European leaders, relations with Turkey had ended with the establishment of the Customs Union.<sup>248</sup> On the contrary, Turkish Prime Minister Tansu Çiller accepted that the Customs Union would have been the first step towards full membership.<sup>249</sup> She also publicly announced that “the customs union is not enough for us; our basic goal is full membership of the European Union.”<sup>250</sup>

The time passed until 2017, more than twenty years, has not witnessed the full membership of Turkey to the EU. However, the Customs Union Agreement is still the backbone of trade relationship between the EU and Turkey. It is convenient to argue that this customs union relation considerably conducted to liberalization of Turkish trade regime and transparency of trade policies. Through elimination of various barriers to trade and predictability of trade framework, Turkey’s trade volumes with third countries also increased. While Turkey had 35 billion US \$ volume of foreign trade in 1990’s, it became 82 billion US \$ in 2000 and 299 billion US \$ in 2010. When it comes to 2016, it reached 341 billion US \$ <sup>251</sup>. Consequently, the CU contributed not only bilateral trade between Turkey and the EU, but also Turkey’s integration with the world trade market, by modernization of its trade structure.

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<sup>247</sup>Commission of the European Communities, “Commission Opinion on Turkey's Request for Accession to the Community”, 1989, SEC (89) 2290 final/2, Brussels, p.8

<sup>248</sup> Selim Ilkin, “A History of Turkey's Association with the European Community”, 1990, in Ahmet Evin and Geoffrey Denton (eds), *Turkey and the European Community*, Opladen: Leske and Budrich

<sup>249</sup>Hakan Yılmaz, “Europeanization and its discontents: Turkey, 1959-2007”, in Constantine Arvanitopoulos eds. *Turkey's Accession to the European Union: An Unusual Candidacy*, 2009, Springer-Verlag Berlin Heidelberg, p.56

<sup>250</sup>Milliyet, 17 December 1995, in William Hale, *Turkish Foreign Policy since 1774*, 2013, Routledge, p. 177

<sup>251</sup>TUIK, retrieved on 17.08.2017



Though it was presented as a great success in 1995, actually the Customs Union Agreement has several deficits that have been recognized within twenty years. The most significant one is its asymmetric structure, favoring the EU. It is tempting to think that Turkey was also aware of these asymmetric Articles of the CU before signature of it, yet it did not pay much attention to the possible outcomes of this deficiency. Since it was thought to be a temporary agreement, Turkey failed to conduct a long-term impact assessment of this Agreement.

Additionally, within this time of twenty years, there have been several changes in both world trade and economy. Deadlock in the multilateral trade under institutionalization of the World Trade Organization, led major economies to indulge in bilateral relations. The most preferred way, in this manner, is concluding an FTA. However, rise of East Asia in the world economy has led conventional economic powers, such as the EU, to establish trade relations with them in a complex framework. In other words, the EU started to sign FTA with countries such as India, South Korea by including services, investment, public procurement in addition to conventional free circulation of goods as a coverage of these FTAs. Meanwhile, Turkey's share and the power of competition in the world trade as well as in the EU market have also increased, which results in a dissatisfaction with current form of the CU.

Consequently, both its institutional problems coming from the initial stage of establishment and developments in the world trade, regional trade and trade patterns of both Parties, the commonly held view is that there is a need to revise the CU. To benefit both sides of the Agreement, the realities of the current period should be given due consideration in order to have a well-functioning and satisfying preferential trade relationship between the EU and Turkey. Indeed, the general proposal for this revision is widening and deepening of the already existing form of the CU. It is believed that this coexisting process of widening and deepening will provide additional gains to both Parties.

Both the EU and Turkey have been well aware of problems of implementation caused by the structural problems of the Customs Union and several attempts to modernize the CU were finally turned into concrete steps only after 2014. It is actually, due to, alarmed position of Turkey as a result of the fact that the period after the official beginning of accession negotiations has not proceeded in a promising direction. Hence, considering the strained political relations between Turkey and the EU, the CU relation has appeared to be the only official path that can be developed. In other words, modernization of the CU is the only possible option for Turkey to achieve economic, welfare and social benefits, expected from relations with the EU.

From the European perspective, a significant priority is to ensure that “Turkey should refrain from adopting any protectionist or restrictive measures, such as the unilateral imposition of customs duties and non-tariff barriers on goods produced in the EU, including goods released for free circulation, or government policies to reduce imports.”<sup>252</sup> Indeed, this concern was voiced almost in all meetings of Customs Union Joint Committee after 2011, as a response to Turkey’s applying additional customs duties on increasing number of goods and largely textile products. Although this implementation does not include the EU and EU FTA partners, it indirectly affects trade with these countries’ too.

Therefore, by 2014, necessary conditions have already been in place for both parties of the CU, contrary to early attempts of modernization. The recommendations at the end of impact assessments developed by both the EU and Turkey suggested that correcting the deficiencies of the current structure of the Customs Union and reaching the full potential of the agreement is only possible by revising the current form into a more comprehensive, deepened and widened structure.

It is also significant at this point to place attempts to modernize the CU into a bigger political perspective. Besides economic and technical necessities to revise the agreement, the CU modernization ambition is actually a part of more complex series

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<sup>252</sup>Ibid, p. 5

of developments in bilateral relations. Indeed, failure in successful implementation of provisions of the Ankara Agreement has led to a deadlock in accession negotiations. Therefore, with a modernized Customs Union relation, Parties aim to have a new anchor to develop bilateral relations.

On the other hand, there is a possibility that modernization of the CU can lead to an alternative scenario to full-membership, like the idea of privileged partnership. In specific terms, Karl-Theodor Zu Guttenberg, who was a German parliamentarian, offered Turkey “a privileged partnership, instead of an underprivileged membership”, as the best possible option for the future of the EU-Turkey relations. In his proposal, improvement in institutional cooperation is suggested by expanding existing structures or establishing new ones. In addition, Turkey is offered a membership to European foreign, security and defense policy structures on an equal basis. The most striking suggestion is an expansion of the CU by establishing unlimited exchange of goods in a free trade area. For this expansion, free movement of services is chosen as the starting point. Nevertheless, the complete freedom of movement for workers is not suggested,<sup>253</sup>

Following Guttenberg, in 2005, Angela Merkel also suggested a privileged partnership with Turkey, as an alternative to membership talks with Turkey.<sup>254</sup> This declaration of Germany was followed by statements of Austria and France, in which a loose partnership with Turkey is proposed, as an alternative to full Turkish membership to the EU.<sup>255</sup> More explicitly and in an organized manner Valéry Giscard d’Estaing, who is former president of France and president of the European Convention, argued that

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<sup>253</sup> Karl-Theodor Zu Guttenberg, “Preserving Europe: Offer Turkey a 'Privileged Partnership' Instead”, 15 December 2004, The New York Times, Retrieved 16.10.2017, Retrieved from <http://www.nytimes.com/2004/12/15/opinion/preserving-europe-offer-turkey-a-privileged-partnership-instead.html>

<sup>254</sup> Hugh Williamson, “Merkel Calls for Rethink of Turkey's EU Membership”, 2 June 2005, Financial Times, Retrieved 16.10.2017, Retrieved from <https://www.ft.com/content/05a73264-d386-11d9-ad4b-00000e2511c8>

<sup>255</sup> Mark Beunderman, “Austria Moots Alternative to Turkish EU Membership”, 31 August 2005, EU Observer, Retrieved 16.10.2017, Retrieved from <https://euobserver.com/enlargement/19752>

negotiations with Turkey should not focus only on accession, yet Europe should be creative to find alternative options. He also added that “in economic matters, anything is possible, but can only be gradual; in matters of politics, nothing works but cooperation, organized to satisfy all the parties involved.” Therefore, he asked the EU to develop an alternative proposal to membership that is consistent with these two principles.<sup>256</sup>

On the other hand, Turkey was firm in its decision not to accept any other alternative to full membership. President Abdullah Gül stated that "Should [the EU] place anything short of full membership, or any new conditions, we will walk away. And this time it will be for good." Likewise, Prime Minister Recep Tayyip Erdoğan accused Europe of exploiting Turkey's proposed EU membership for domestic political reasons. Moreover, he firmly argued that "let's stop playing to the gallery and try to get a result".<sup>257</sup> Therefore, it was clear in 2005 that Turkey closed all the doors to discuss alternatives other than full membership.

As a result, full membership negotiations with Turkey started on 3 October 2005. However, only 16 of 35 chapters have been opened in twelve years, one of which has been closed temporarily. In addition, negotiations on 14 of these 16 chapters deadlocked, due to political disagreements on the status of the island of Cyprus. Because of the same disagreement, Cyprus and France has been preventing the opening of new chapters for seven years. Adding all of these stagnation in accession negotiations, in April 2017, the European Parliament asked for a formal suspension of accession negotiations with Turkey. As the most recent development, German

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<sup>256</sup> Valéry Giscard d'Estaing, “A Better European Bridge to Turkey”, 24 November 2004, Financial Times, 24 November 2004, Retrieved 16.10.2017, Retrieved from <https://www.ft.com/content/263d9778-3e4b-11d9-a9d7-00000e2511c8>

<sup>257</sup> Nicholas Watt, “Turkey Says It's All or Nothing on EU Proposal”, 3 September 2005, The Guardian, Retrieved 16.10.2017, Retrieved from <https://www.theguardian.com/world/2005/sep/03/turkey.eu>

Chancellor Angela Merkel stated on 3 September 2017 that she would seek an end to Turkey's membership talks.<sup>258</sup>

Therefore, the CU modernization efforts take place within this complex and politicized atmosphere. Both the EU and Turkey is well aware of the fact that the modernized CU will be the new institutional anchor of bilateral relations, in the setting of deadlocked accession negotiations. It will also act as the stage of mutual trust and strategic cooperation. Consequently, the CU modernization efforts is prone to provide an alternative path to full membership. Despite being aware of this potential, Turkey accepts to start negotiations to revise the CU, which is contrary to its firm position in 2005. Turkish Ministry for EU Affairs, still, warns that the revision of the Customs Union should proceed without creating an alternative path to Turkey's EU membership.<sup>259</sup> Nevertheless, Turkey has completed all necessary preparatory steps to start negotiations with determination of Turkish Ministry of Economy and support of Turkish government.

This change in Turkish mindset between 2005 and 2014 can be based on different explanations. One of the possible reasons is serious institutional and economic hardship stemming from asymmetric nature of the CU. Especially new FTA policy of the EU, has been implementing since 2006, has worsen the already asymmetric economic and institutional structure for Turkey. Turkey's preferential position in the EU market has lessened and risk of trade diversion highly increased. Hence, as a result of a cost-benefit analysis, maintaining this significantly limited and extremely asymmetric CU has not been a preferable option anymore for Turkey.

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<sup>258</sup> Reuters, "Factbox: Turkey's collapsing EU membership bid", 4 September 2017, Retrieved 16.10.2017, Retrieved from <https://www.reuters.com/article/us-germany-turkey-eu-factbox/factbox-turkeys-collapsing-eu-membership-bid-idUSKCN1BF1TH>

<sup>259</sup> Turkish Ministry for EU Affairs, "Customs Union", Retrieved 16.10.2017, Retrieved from [https://www.ab.gov.tr/46234\\_en.html](https://www.ab.gov.tr/46234_en.html)

Moreover, the belief in Turkey's EU membership has declined significantly since 2005. In twelve years, none of the chapters could be closed and Turkey has not achieved any of its political expectations from the accession negotiations. Naturally, this situation created a despair in Turkey about its membership bid to the EU. Accordingly, this stalemate in political relations led Turkey to focus on economic and institutional interests, which can be gained from modernized CU. In other words, Turkey has aimed to recompense its political loss with economic and institutional benefits expected from a modernized CU.

Approaching these developments from theoretical perspective, this revision of the CU could be best explained with spill-around concept of Schmitter, as a neo version of neo-functionalism. In fact, Schmitter suggested using spill-around under two specific cases. First one is early stages of integration and the other is in case of divergent motivations and expectations from the integration. Actually, the second case describes the EU-Turkey CU relation, especially considering above mentioned political circumstances. Considering not having a political integration in more than twenty years of economic integration, this political picture also explains why spill-over concept is inadequate to understand the EU-Turkey CU. Therefore, spill-around is the best alternative, in which scope of authority is increased, while level of authority is kept constant.

In more specific terms, implementation of spill-around to the case of the EU-Turkey CU suggests to extend its scope in a way to include agricultural products and services, besides industrial products. At the same time, spill-around requires deepening commitments in the design and implementation of trade policies. In this regard, trade policies that regulate FTA's, road quotas and visa requirements are expected to be included in the deepening part. In fact, these two suggestions of spill-around have been supported with the findings of the World Bank study, results of impact assessments and several official reports.

As it is suggested by spill-around, SWOG recommended widening the scope of the CU to previously excluded areas such as agriculture, services, public procurement. In addition, deepening through creation of more integrated mechanisms in the problematic areas of the current CU, such as FTA policies, visa requirements, road permits etc. is advised in the study of SWOG. Adding to what is suggested by SWOG; similar recommendations have been listed in Memorandum of Understanding between the EU and Turkey. Accordingly, recommendations listed in these official documents are in the same line with the premises of spill-around.

Consistently, this thesis aims to provide a rethinking to the European Union-Turkey Customs Union Agreement, in which premises of neo-functionalism is the main guidance. Therefore, the research question of this thesis was: “How deficiencies of European Union-Turkey Customs Union Agreement can be corrected according to neo-functionalism?” With the help of neo-functionalist theoretical framework and contextualized Customs Union relation between the EU and Turkey, it is convenient to propose that deficiencies of European Union-Turkey Customs Union Agreement can be overcome through application of spill-around concept. In other words, further trade integration between parties through a deeper and wider version of the current Customs Union Agreement, as it is envisaged by spill-around, could brought a sustainable solution to problems stemming from this Agreement.

At that point, the most significant issue is to prevent politicization of the process of the CU modernization. The CU modernization, thus, should be regarded as an economic and technical issue that will benefit both sides. Therefore, the process of the CU modernization should be based only on economic and technical conditions. Adding political conditions to this process will result in the lack of confidence in both sides and deadlock in the relations, as it has been in the accession negotiations. Thus, preventing the CU modernization process from being politicized is a vital necessity for the continuation of Turkey-European Union relations.

Nevertheless, what has been recently happening in both sides is not promising for the future of bilateral relations. In fact, the European Council did not allow the Commission in December 2016, when it asked for a mandate to launch talks with Turkey on modernizing the existing CU. This refusal of the Council was due to accusing President Erdogan of having dictatorial tendencies. Similarly, in July 2017 the European Parliament released a resolution on the Commission Report on Turkey, stating that “calls on the Commission to include a clause on human rights and fundamental freedom in the upgraded Customs union between Turkey and the EU”. It is also stated in the same resolution that the Customs Union can only achieve its potential when Turkey fully implements the Additional Protocol vis-a-vis all member states, which refers to political disagreement over Cyprus issue.<sup>260</sup> In general, hence, these statements and attitudes make it clear that the EU institutions tend to politicize modernization of the CU.

Moreover, on 30 August 2017 German Chancellor Angela Merkel informed European Commission President that Germany would veto an update of the CU agreement with Turkey. Her reason for this veto is solely political, not economic. Indeed, she announced that the rule of law is not guaranteed in Turkey, thus Turkey is not ready to negotiate a modernization of the CU. In this manner, Merkel wants Turkish government to release arrested journalists, in order to start negotiations to update the CU.<sup>261</sup>

From Turkish perspective, this declaration of Merkel was met with criticism. Presidential Spokesman Ibrahim Kalın told reporters that “the Customs Union agreement is built on a win-win principle. We are talking about a relationship that is

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<sup>260</sup> Kadri Tastan, “Customs Union an Anchor for Turkey–EU Relations”, 3 August 2017, RealClearWorld, Retrieved 16.10.2017, Retrieved from [http://www.realclearworld.com/articles/2017/08/03/customs\\_union\\_an\\_anchor\\_for\\_turkeyeu\\_relations\\_112478.html](http://www.realclearworld.com/articles/2017/08/03/customs_union_an_anchor_for_turkeyeu_relations_112478.html)

<sup>261</sup> Celal Özcan, “Merkel conveys Germany’s veto on Customs Union update with Turkey to Juncker”, 31 August 2017, Hurriyet Daily News, Retrieved 16.10.2017, Retrieved from <http://www.hurriyetdailynews.com/merkel-conveys-germanys-veto-on-customs-union-update-with-turkey-to-juncker.aspx?PageID=238&NID=117422&NewsCatID=351>



based on the mutual benefit of both Turkey and European countries. When it is precluded, postponed or cancelled, then all European countries will be harmed, not just Turkey.” Likewise, Minister of the EU Affairs Ömer Çelik stated that “updating the Customs Union is not a one-sided request of Turkey. This is a matter of increasing free trade.”<sup>262</sup> In addition, Turkish Prime Minister Binali Yıldırım responded Merkel by stating that “the Customs Union is not a unilateral agreement. Turkey is not in the mood to suggest to change the Customs Union as soon as possible. Turkey will make a decision according to what its interests require. No matter what happens, we are not in a situation that aches for an update of this Customs Union. They should not worry or get too excited.”<sup>263</sup>

Accordingly, Turkey clearly stated its unrest with politicization of the CU modernization process. Besides criticizing this politicization, Turkey has started an initiative to find alternatives to the CU. One of these alternatives is the Eurasian Customs Union. Indeed, Minister of Economy Nihat Zeybekci said that Turkey is still considering its affiliation with the European Customs Union, but aspires to become a part of Eurasian Customs Union, as well. He also underlined the significance of talks on a FTA that covers services and investments with Russia, which is planned to be finalized in 2017 or during the first half of 2018.<sup>264</sup>

As a result, the recent developments have proven that politicization of the CU modernization process will be the most devastating option for the future of the EU-Turkey relations. Together with the politicization of conditions, economic relations will replicate what happened in political relations. While political loss had a chance to

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<sup>262</sup> Hurriyet Daily News, “Ankara voices concerns after Merkel’s Customs Union remarks”, 17 August 2017, Retrieved 16.10.2017, Retrieved from <http://www.hurriyetdailynews.com/ankara-voices-concerns-after-merkels-customs-union-remarks.aspx?pageID=238&nID=116839&NewsCatID=345>

<sup>263</sup> Hurriyet Daily News, “PM Yıldırım says Turkey not aching for Customs Union update”, 18 August 2017, Retrieved 16.10.2017, Retrieved from <http://www.hurriyetdailynews.com/pm-yildirim-says-turkey-not-aching-for-customs-union-update.aspx?pageID=238&nID=116908&NewsCatID=510>

<sup>264</sup> Daily Sabah, “Economy Minister: Turkey eyes Eurasian Customs Union”, 18 August 2017, Retrieved 16.10.2017, Retrieved from <https://www.dailysabah.com/economy/2017/08/19/economy-minister-turkey-eyes-eurasian-customs-union>

be compensated with economic relations, there is no compensation for the economic breakdown. Therefore, if there is a failure in the CU modernization process, it will probably remark a total collapse in bilateral relations. As a result, both parties should be aware of this possibility and do their best to avoid it. The CU modernization process should be strictly based on economic and technical conditions, not the political ones.

As a prospect for the future, a deepened and widened customs union relation could also be a way to solve internal integration problems of the EU. In other words, changing conditions of the world and member countries' have been driving the EU from a perfect example of the supranational institution to a more intergovernmental institution. The latest example of it British decision to leave the European Union, known as Brexit (combination of Britain and exit). Indeed, a referendum was held in the United Kingdom (UK) on 23 June 2016 in order to agree on leaving the EU or maintaining the EU membership. At the end, people decided to leave the EU by 51.9%, contrary to 48.1%, who wants to remain as a member of the EU.

It was a shocking experience for the EU, which makes it to realize that supranationalism is not going so well. Following the referendum, the UK and the EU has been negotiating on the conditions of leaving as well as the type of relationship they will have after 30 March 2019, which is the date pre-determined to leave. Consequently, there are various alternatives for the UK and the EU to continue their relationship. In a government report presented to the Parliament by the Secretary of State, what type of relationship does the EU has with Norway, Switzerland, Canada and Turkey have been examined. In this examination, actually, UK tries to decide whether to have considerable but not complete access to the free-trade Single Market, like Norway; several and complicated set of bilateral agreements like Switzerland; a free trade agreement like Canada or a customs union like Turkey.<sup>265</sup>

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<sup>265</sup>HM Government, "Alternatives to membership: possible models for the United Kingdom outside the European Union", March 2016, Williams Lea Group

From perspective of Norway model, it has not found suitable for a diverse economy like that of the UK, since UK will lose its access to international supply chains and free market access through the EU FTA's. In addition, UK believes that "the Norway model would erode our global influence and there is no guarantee that it would fully replicate our current cooperation on measures which benefit our security."<sup>266</sup> Therefore, it is obvious that UK does not opt for implementing Norway model. When it comes to Switzerland model, it is believed to provide many of the same drawbacks as the Norway model, in terms of not being applicable for a diverse economy like the UK and lose of free market access to the EU FTA partners.

Swiss model is also thought to erode UK's global influence and reduce its access to cooperation, which benefits its security.<sup>267</sup> Canada example is also less favorable alternative to current relationship of UK with the EU. Especially considering service sector, Canada example is not an acceptable alternative for UK, besides restrictions that UK agricultural and manufacturing exporters might face. Moreover, in all of these three models, UK would have little or no say over future rules that makes all of them unfavorable for UK.<sup>268</sup>

Another alternative model for UK is Turkey's customs union relation with the EU. In fact, Britain's International Trade Secretary Liam Fox has argued that the U.K. could replicate Turkey's relationship with the EU, remaining a partial member of Europe's customs union after Brexit.<sup>269</sup> Likewise, government report comments on Turkish model is the most positive one among other alternatives, despite underlining some drawbacks of it when it is applied to UK example. First of all, limited coverage of the EU-Turkey Customs Union Agreement, non-inclusion of agriculture and services, is

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<sup>266</sup>Ibid, p. 21

<sup>267</sup>Ibid, p. 29

<sup>268</sup>Ibid, p. 33-34

<sup>269</sup>Sinan Ülgen, "The UK should stay in the customs union after Brexit", 17.01.2017, Retrieved from <http://www.politico.eu/pro/opinion-the-uk-should-stay-in-the-customs-union-after-brexite/>, Retrieved 05.09.2017

one of the major concerns of UK. In addition, Turkey's non-reciprocal obligation of implementing the EU FTA's is another problem indicated by British government. It is stated in the report that "while Turkey can agree trade agreements with countries outside the EU, as part of the Customs Union, Turkey's external tariffs must be aligned with EU tariffs. This limits the trade deals that Turkey can agree. When the EU signs a trade agreement with a third country, such as South Korea, Turkey must give that country access to its own market on the same terms. But this obligation is not reciprocal. The third country is not required to open its market on the same terms to Turkish exports. Instead, Turkey has to negotiate separate trade deals with these countries."<sup>270</sup>

Related to this non-reciprocity, exclusion of Turkey from decision-making mechanism is another problem detected by UK. It's obligation to follow EU laws, rules and regulations, without having any right to comment and affect these decision is not seen in the line with British interest. Furthermore, "Turkey has limited cooperation with the EU on domestic and international security. It does not participate in EU policing and criminal justice measures. Turkey can align itself with the EU's position on international issues, and seconds personnel to EU military and civilian missions. But it has no right to take part in decisions over such actions."<sup>271</sup> As a combination of last two deficiencies of the EU-Turkey model, UK government states that "under this model we would lose our decision-making power over the UK's external tariffs, because we would be part of the Customs Union. Instead, we would be forced to open our borders to countries with which the EU had agreed trade deals, without necessarily being able to secure reciprocal access. Such a situation would put the UK economy at a substantial disadvantage."<sup>272</sup>

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<sup>270</sup>HM Government, "Alternatives to membership: possible models for the United Kingdom outside the European Union", March 2016, Williams Lea Group, p.29-30

<sup>271</sup>Ibid, p. 30

<sup>272</sup>Ibid

Consequently, all concerns of UK provided above is actually what have been indicated throughout this thesis as problems of the current form of the CU. Therefore, implementation of the proposal presented in this thesis could also make Turkish experience more acceptable for UK in its search for relation with the EU after leaving the membership. Indeed, renewed version of the EU-Turkey Customs Union in the light of spill-around by widening and deepening could improve its limited coverage and asymmetric nature; hence makes this model the best alternative for future relationship between UK and the EU. Going even further, a collaboration could be expected from UK and Turkey in the process of modernization of the EU-Turkey CU, which would develop bargaining power of Turkey and provide a preparation to UK in its negotiation process with the EU on the future of their relationship.

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## APPENDICES

### A. TURKISH SUMMARY/TÜRKÇE ÖZET

Bu tezde, Avrupa Birliği (AB) ve Türkiye arasında 1995 yılında akdedilen Gümrük Birliği (GB) Anlaşması Uluslararası İlişkiler Teorilerinden olan Yeni İşlevsellik görüşü kapsamında yeniden değerlendirilmektedir. Söz konusu Anlaşma, genel olarak bakıldığında, AB ile Türkiye arasındaki ikili ilişkilerin belkemiğini oluşturmasına rağmen; gerek imzalanması sırasında mevcut olan sorunlar gerekse aradan geçen yirmi yılı aşkın süre içerisinde meydana gelen değişimler sonucunda ortaya çıkan yeni sorunlarla birlikte etkin bir şekilde işlemekten yoksun bir mekanizmaya dönüşmüştür. Bu mekanizmanın daha etkin bir şekilde işlemesi için bu tezde önerilen model ise Yeni İşlevselcilik akımının kavramlarından biri olan *spill-around* kavramı etrafında şekillenmektedir.

Anlaşmanın imzalanması sırasında da mevcut olan ancak kısa bir süre içerisinde tamamlanması beklenen tam üyelik sonrasında büyük sorunlara neden olmayacağı düşünülen asimetrik yapı, aradan geçen yıllar içerisinde yaşanan küresel, bölgesel ve ülke ekonomilerindeki değişimlerle birlikte her geçen gün eleştirilere konu olmaktadır. 1995'ten beri özellikle küresel ticarete yaşanan artış ve yükselen ekonomilerin Batı'dan Doğu'ya doğru kayması sonucunda 1900lü yıllarda öngörülemeyen yeni bir ekonomik trend yaşanmaktadır. Bu küresel olarak değişen ve gelişen yapı, hem bölgesel ekonomik dengeleri hem de Türkiye ve AB'nin ticari önceliklerini doğrudan etkilemektedir. Her iki GB tarafı da bu yeni sistemde kendileri için en faydalı noktada yer almaya çaba gösterirken, GB yapısı gittikçe bu ihtiyaçlara cevap vermekten uzak bir noktaya ilerlemektedir. Bu yaşanan gelişmeler altında, söz konusu anlaşmanın mevcut yapısal asimetrisi iyice ortaya çıkmaktadır.

Bu nedendir ki, iyi işleyen, her iki tarafa da bu yeni ticari ortamda fayda sağlayan bir GB için mevcut Anlaşmada değişikliğe gidilmesi ertelenemez bir ihtiyaçtır. Bu gereklilikten hareketle, bu tezin araştırma sorusu: "Avrupa Birliği-Türkiye Gümrük Birliği Anlaşması'nın eksiklikleri yeni işlevciliğe göre nasıl düzeltilir?" şeklindedir. Bu soruya cevap bulunabilmesi için ise öncelikle mevcut literatür incelenmiş ve bu literatürde yer alan eksiklikler tespit edilmiştir.

Buna göre, tespit edilen ilk eksiklik GB konusunda yapılan ve uluslararası ilişkiler teorileri etrafında şekillenen çalışmaların azlığıdır. Genel olarak GB'yi inceleyen çalışmalar ekonometrik modeller ve bu modeller temelli analizlere odaklanmaktadır. Bu model temelli çalışmaların diğer bir tespit edilen eksikliği ağırlıklı olarak nicel verilere dayanmasıdır. Diğer taraftan, nitel verilerle yapılan çalışmalar ise teorik altyapıdan uzaktırlar.

Literatürde yer alan ve GB'yi uluslararası ilişkiler teorileri odaklı inceleyen diğer çalışmalar ise GB'yi ayrı bir Anlaşma olarak incelemekten çok Türkiye'nin AB üyeliği sürecinde yer alan herhangi bir basamak gibi ele almaktadırlar. Bu teorileri kullanarak GB'ye odaklanan az sayıdaki çalışmada ise neo-liberal akımlardan yararlanılmış ve diğer uluslararası ilişkiler yaklaşımları çerçeve olarak kabul edilmemiştir. Bütün bunlar dikkate alındığında, GB odaklı ve neo-liberalizm dışındaki diğer uluslararası ilişkiler yaklaşımlarını kullanan akademik çalışmaların eksikliği açıktır. İşte bu tez ile birlikte bu eksiklik giderilmeye çalışılmaktadır.

Tez boyunca, uygulamalı ve açıklayıcı araştırma yöntemleri kullanılarak hem nitel hem de nicel verilere ulaşılmıştır. Bu veriler kullanılarak tarafların GB ile ilgili eleştirilerinin nedenlerine ve mevcut sorunların nasıl çözüleceği sonucuna varılmaya çalışılmıştır. Ayrıca yapılan literatür çalışması sırasında kitaplar, makaleler, akademik tezler, önemli resmi belgeler, anlaşmalar, raporlar ve incelenen döneme ait gazeteler gibi bir çok farklı kaynak araştırılmıştır. Bu kapsamda, birincil kaynaklara ulaşmak için arşiv araştırması yapılırken; ikincil kaynaklar için doküman analizi yöntemi incelenmiştir. Bütün bu kaynaklara ek olarak, Türkiye Cumhuriyeti Ekonomi

Bakanlığında geçirmiş olduğum üç yıllık uzman yardımcılığı görevim sırasında katıldığım serbest ticaret anlaşması müzakereleri, Gümrük Birliği Ortak Komitesi toplantıları, Gümrük İşbirliği Komitesi toplantıları ve AB temsilcileri ile gerçekleştirilen diğer ikili ve çok taraflı müzakereler sonucunda edinmiş olduğum bilgiler ve tecrübeler bu tezin oluşturulmasında önemli derecede faydalı ve etkili olmuştur.

Bu araştırmalar sonucunda elde edilen bilgiler ise Yeni İşlevselcilik akımının kavramlarından biri olan spill-around kavramı çerçevesinde tezin araştırma sorusunu cevaplamak için kullanılmıştır. Spill-around kavramının inceleme çerçevesi olarak seçilmesinde birçok faktör rol oynamıştır. Bunlardan ilki Yeni İşlevselcilik akımının spill-over kavramının aksine spill-around kavramının politik ortamı da dikkate alan öncülleridir. Bir başka deyişle, spill-over kavramının ekonomik parametreler odaklı anlayışı, Türkiye-AB Gümrük Birliğini anlamak ve mevcut sorunlarına çözüm bulabilmek için gereken araçları sağlayamamaktadır. Ayrıca, spill-over kavramının bölgesel entegrasyonun doğrusal bir şekilde ekonomik alandan politik alana ilerleyeceği varsayımı GB için geçerli bir öngörü değildir. Bunun yerine, bu doğrusal ilerleyişe politik durumları dikkate alarak başka alternatifler geliştiren spill-around kavramı GB'yi incelemek için daha uygun bulunmuştur. Bunun yanında, spill-around kavramının öngörülerinden biri olan tarafların entegrasyona ilişkin farklı motivasyonları, GB için geçerli bir varsayımdır ve GB'nin yapısal sorunlarını anlamak için iyi bir başlangıç noktası oluşturmaktadır.

Bütün bu yöntemler uygulanan yapılan tez çalışması, beş bölümden oluşmaktadır. Giriş bölümünün ardından, Yeni İşlevselcilik akımının incelendiği ve tarihsel gelişiminin açıklandığı teorik altyapı bölümü yer almaktadır. Bunun izleyen bölümde ise ilk olarak bölgesel bütünleşmenin tanımı ve çeşitleri, sonrasında Türkiye-AB GB imzalanmasına giden süreçte yaşanan gelişmeler, imzalanma süreci ve sonrasında yaşanan gelişmeler ayrıntılı bir şekilde incelenmektedir. Bu bölümde ayrıca GB Anlaşmanın yaşanan yapısal sorunlara temel oluşturan önemli maddeleri tek tek incelenmekte ve ne gibi sorunlara neden oldukları ve/veya olabilecekleri



açıklanmaktadır. Bütün bu bilgiler ışığında ise spill-around kavramının ne olduğu ve GB kapsamında yaşanan sorunlara ne gibi çözümler sunabileceği değerlendirilmiş ve farklı çözüm alternatifleri geliştirilmiştir. Bu incelemeler ve değerlendirmeler sonunda varılan sonuç: Avrupa Birliği-Türkiye Gümrük Birliği Anlaşması'nın mevcut sorunlarının, spill-around kavramında öngörüldüğü üzere, taraflar arasında genişletilmiş ve derinleştirilmiş bir ticaret ilişkisi kurulması ile çözüleceği gerçektir.

Genel anlamda değerlendirildiğinde, Türkiye-AB GB Anlaşması sonucunda, henüz bir emsali olmayan bir bölgesel bütünleşme örneği oluşturulmuştur. Bu Anlaşma ile sanayi ürünleri (Avrupa Kömür ve Çelik Topluluğu ürünleri hariç) ve tarımsal ürünlerin yalnızca sanayi bileşenleri için Türkiye AB tarafından uygulanan Ortak Gümrük Tarifesini (OGT) uygulamayı taahhüt etmiştir. Bu vergisel düzenlemenin yanı sıra teknik ve altyapısal uyum çalışmaları sonucunda da 1996'dan bu yana AB-Türkiye ticaret hacmi önemli ölçüde artmıştır. Bu teknik iyileştirme ve Avrupa ticaret standartlarının uygulanması sonucunda, Türkiye'nin AB ile olan ticaret hacmi artışı diğer ülkelerle olan ticaretindeki artışla da desteklenmiştir.

Diğer taraftan, GB Anlaşması yapısında başından beri birçok asimetrik maddeler bulundurmaktadır. Bunların genel çatısı; Türkiye'nin GB kapsamındaki alanlarda, henüz AB üyesi olmamasına rağmen, AB müktesebatını üstlenmek yükümlülüğünden kaynaklanmaktadır. Türkiye'nin bir diğer önemli yükümlülüğü ise AB'nin akdetmiş olduğu tüm Tercihli Ticaret Anlaşmaları (TTA) ve Serbest Ticaret Anlaşmaları (STA) ile AB'nin Genel Tercihler Sistemini (GTS) de kabul etmesidir. Bahse konu kabul etme, Türkiye'nin AB'nin TTA ve STA ortakları ile TTA veya STA akdetme zorunluluğunu ve GTS kapsamındaki ülkelere AB tarafından tanınan kolaylıkların Türkiye tarafından da bu ülkelere tanınması zorunluluğunu içermektedir.

Madde bazında özetlenecek olursa; 1/95 sayılı GB Kararın 13. Maddesi ile Türkiye AB üyesi olmayan ülkelerle olan ticaretinde OGT ile uyum sağlayacağını ve gereken her durumda gümrük tarifesini bu OGT oranlarına göre düzenleyeceğini taahhüt etmiştir. 14. Madde uyarınca ise, Türkiye'nin GB kapsamında olan herhangi bir ürüne

OGT'den daha düşük bir tarife uygulaması yasaklanmaktadır. Aynı Kararın 16 Maddesinde, Türkiye'nin, ticaret politikasını AB ticaret politikası ile uyumlu kılmak amacıyla AB'nin tercihli gümrük rejimine uyum sağlamakla yükümlü olduğu ifade edilmiştir. Bu uyum ile kast edilen hem otonom rejim hem de üçüncü ülkelerle olan tercihli anlaşmalardır. 54'üncü Maddeye göre ise Türk mevzuatı AB mevzuatı ile uyumlu hale getirilmelidir. Bu uyum kapsamında Türkiye'nin üçüncü ülkelerle imzalanan ve sanayi ürünleri itibariyle ticari boyutu olan anlaşmalar, sanayi ürünleri ticaretindeki teknik engellerin kaldırılmasına ilişkin mevzuat, rekabet, sınai ve fikri mülkiyet hukuku ile gümrük mevzuatı gibi alanlarda AB ile uyumlu politikalar izlemesi yükümlülük altına alınmaktadır.

Bütün bu kapsamlı yükümlülüklerin aksine, Türkiye'nin tam üye olmaması nedeniyle GB kapsamına giren alanlardaki karar alma mekanizmalarında yer almaması söz konusu yükümlülükleri asimetrik yapının merkezi haline getirmektedir.

Türkiye'nin bu gibi bir yapıyı içeren Anlaşmayı imzalamasının nedeni ise, GB'nin kısa süre içerisinde gerçekleşmesi beklenen tam üyeliğe kadar yürürlükte kalacak olan geçici bir düzenleme olarak algılanmasından kaynaklanmaktadır. Öte yandan, 2017 yılına gelindiğinde tam üyelikten gittikçe uzaklaşan bir Türkiye-AB ilişkileri ve Türkiye'nin dezavantajlı konumunun gittikçe kötüleştiği bir GB söz konusudur.

1996 yılından beri değişen ve gelişen küresel ekonomi, dengeleri değişen bölge ekonomisi ve sanayileşen Türkiye ekonomisi ile farklı öncelikler kazanan AB ekonomisi zaten var olan asimetrilerin kötüleşmesinde önemli rol oynamıştır. Bütün bu gelişmeler karşısında 1996 yılı koşullarına göre düzenlenen GB gittikçe ihtiyaçları karşılamaktan uzak bir hal almıştır. Bu noktada, özellikle küresel ticaretin nabzının tutulduğu Dünya Ticaret Örgütü (DTÖ) bünyesinde yürütülen Doha Kalkınma Gündemi müzakerelerinin önceleri yavaş ilerlemesi ve sonrasında tıkanması sonucunda, AB ikili ticaret anlaşmalarına öncelik vermiştir. Özellikle 2006'da ilan edilen Küresel Avrupa Stratejisi (Global Europe Strategy) ile birlikte STA'lar AB ticaret politikalarının temel yapıtaşı konumuna yükseltilmiştir. Yalnızca önemi değil aynı zamanda kapsamı ve ortakları da değişen AB STA'ları Türk ticareti için yıkıcı

bir etki yaratmıştır. Hizmetler, kamu alımları, tarım gibi alanları da içeren ve Çin, Güney Kore, Amerika gibi ortaklarla yapılan/yapılması planlanan STA'lar iki yönden Türkiye'yi zor duruma sokmaktadır.

Bunlardan ilki, AB'nin STA ortaklarının Türkiye ile müzakere masasına oturmaktan imtina etmeleridir. Hâlihazırda AB üzerinden Türkiye pazarına GB kapsamı ürünlerde vergisiz giriş yapma imkânı elde eden söz konusu ortaklar Türkiye ile STA akdetmek için gereken motivasyona sahip değildirler. Bunun yanında, Küresel Avrupa Stratejisi altında akdedilen ve yeni nesil STA olarak adlandırılan bu STA'ların kapsamlarının GB'de yer almayan alanları da içermesi nedeniyle Türkiye'nin GB'den elde etmeyi beklediği ticari kazanç erimekte ve AB'nin yeni nesil STA ortakları GB ortağı olan Türkiye'den daha avantajlı bir konuma yükselmektedir.

Bu kayıplara ek olarak, GB kapsamında olan malların ulaşımında da Türkiye açısından yaşanan ciddi zorluklar bulunmaktadır. Transit geçişe izin verilmemesinin yanında karayolu ulaşım izin belgelerinde çıkarılan yasal veya pratik zorluklar da Türkiye'nin GB'den elde etmeyi beklediği ticari kazancı ciddi oranda azaltmaktadır. Tırların geçişinde yaşanan bu sıkıntılar, tırları kullanan şoförlere yönelik vize zorunluluğu ile birlikte daha da zorlaşmaktadır. Hem iş insanların seyahatinde hem de ürünlerin transferinde görevli insanların sınırdan geçişinde tabi tutuldukları zor ve uzun vize süreleri literatürde öngörülen şekilde etkili bir GB uygulanmasını engellemektedir.

Türkiye ise yaşamakta olduğu bu sıkıntılara karşı ticaret savunma mekanizmalarından olan korunma önlemlerini ve anti-damping vergilerini aktif olarak kullanmaya başlamıştır. Özellikle 2011'den beri uygulanmakta olan İlave Gümrük Vergisi (İGV) uygulaması ile birlikte AB ve AB STA ortakları kapsam dışında bırakılmakla birlikte, Türkiye OGT'den sapan ticaret politikası uygulamaları geliştirmeye başlamıştır. Bu gelişmeler ise hemen her GBOK toplantısının gündeminde AB tarafından eleştirilmiş ve kaldırılması talep edilmiştir.

Bütün bu gelişmeler dikkate alındığında, GB'nin her iki tarafın da taleplerini dikkate alacak şekilde güncellenmesi ve yeni koşullara uygun maddeler ile modernleştirilmesi bir zorunluluk olarak ortaya çıkmaktadır. Diğer yandan, GB taraflarının bu Anlaşmaya olan farklı yaklaşımları ve motivasyonları güncelleme sürecini de zorlaştırmaktadır. Bu nedenle nasıl bir güncelleme sürecinin yapılacağına iyi planlanması ve bu sürecin mevcut dengeleri dikkate alır koşullar içermesi önem arz etmektedir.

Bu kapsamda, AB ile Türkiye arasında Gümrük Birliği'nin güncellenmesine ilişkin teknik müzakereler yürütülmeye başlanmış ve 2015 yılı Nisan ayında tamamlanmıştır. Mayıs 2015'te ise taraflar arasında uzlaşmaya varılan ve müzakere çerçevesini belirleyen rapor resmiyet kazanmıştır. Her iki tarafça da etki analizi raporları hazırlanmış ve GB güncellenmesi sonucunda en yüksek faydaya GB kapsamının tarım, kamu alımları ve hizmetler gibi yeni alanları da içerecek şekilde genişletilmesi ve süregelen sistematik sorunlara çözüm bulunması ile elde edileceği sonucuna ulaşılmıştır.

Bu yapılan GB güncelleme çalışmalarını ve görüşmelerini teorik açıdan inceleyecek olursak, Yeni İşlevselcilik kavramlarından olan spill-around kavramının getirmiş olduğu önermelerin tam anlamıyla ihtiyaca yönelik olduğu görülecektir. Bu kavramın ve getirdiği önerilen daha iyi anlaşılması açısından Yeni İşlevselci yaklaşımı kısaca özetlemekte fayda bulunmaktadır. Ernst Haas tarafından 1950li yıllarda geliştirilen Yeni İşlevselcilik yaklaşımı İkinci Dünya Savaşı'nın sona ermesiyle birlikte Avrupa'nın bir bütün olarak ele alınmasını kolaylaştıracak çabaların bir sonucudur. Yeni İşlevselcilik, esas itibariyle, Avrupa ülkelerinin başlatmış oldukları bütünleşme çabasından yola çıkarak oluşturulan bir teorik anlayıştır. Buna göre, bütünleşmeye siyasi alanlardan değil de ekonomik, teknik ve mali alanlardan başlamalı ve zaman içerisinde gerçekleşeceğine inanılan yayılma etkisi ile siyasi bütünleşmeye ulaşılabileceği beklenmektedir.

Burada sözü edilen yayılma etkisi, ya da spill-over, ile ekonomik, teknik ya da mali alanlarda elde edilen başarıların zaman içerisinde diğer alanlarda da bütünleşmeye yol açacağı ve bu ilerleme ile birlikte nihai hedef olan siyasi bütünleşmeye ulaşılacağı beklenmektedir. 1950 ve 1960lı yıllarda bu savlarının pratikte yaşanan hızlı Avrupa bütünleşmesini desteklemesi ile Yeni İşlevselcilik yükselen bir eğilim izlemiştir. Ancak, 1960lı yılların sonundan itibaren yaşanan ve siyasi bütünleşmeye giden doğrusal spill-over çizgisinin sorgulanmasına neden olan, Boş Sandalye Krizi, gibi gelişmeler sonucunda Haas tarafından ortaya konulan önermeler de eleştirilmeye başlamıştır.

Haas'ı eleştiren ve spill-over kavramına alternatifler geliştiren en önemli yazarlardan biri de Philippe C. Schmitter'tir. Schmitter, spill-over kavramının öngördüğü doğrusal ilerlemenin uygulanamadığı durumlar için spill-around, build-up, muddle-about and spill-back gibi alternatif senaryolar geliştirmiştir. Aslında, Schmitter bütün bu alternatif senaryoları iki temel eksen üzerine inşa etmiştir. Bunlardan biri yetki düzeyi iken, diğeri yetki alanıdır. Bu tezin temel kavramı olan spill-around kavramının önerisi ise yetki düzeyi aynı kalırken yetki alanının genişletildiği bir bütünleşme senaryosudur. Bu senaryosunun kullanılmasının Schmitter tarafından en çok önerildiği durum ise bütünleşmenin taraflarının farklı motivasyonlara ve beklentilere sahip olduğu örneklerdir.

Bir başka deyişle, taraflar arasında motivasyon ve beklenti farklılıkları olan durumlarda bütünleşmenin hem yetki alanı hem de yetki düzeyindeki eş zamanlı artışla ilerlemesinin zordur. Bu durumda, Schmitter yetki düzeyini sabit tutarak yetki alanını genişletmeyi ve bu yolla da oluşabilecek anlaşmazlıkları en aza indirmeyi amaçlamaktadır. Bu önermenin altında, yetki düzeyindeki ilerlemenin yetki alanındaki ilerlemeye kıyasla daha fazla reaksiyona neden olacağı düşüncesi yatmaktadır. Bunu engellemek ancak aynı zamanda da bütünleşmenin ilerlemesini sağlayabilmek için spill-around kavramı geliştirilmiştir.

Bu noktada, GB tarafları olan Türkiye ve AB'nin GB'ye yaklaşımlarını hatırlamak faydalı olacaktır. Türkiye, GB Anlaşmasının imzalanmasını AB'ye tam üyelik yolunda atılmış bir adım olarak algılamakta, AB bu Anlaşmayı kendi başına bir son olarak kabul etmiştir. Dolayısıyla, Türkiye'nin bu Anlaşmaya yönelik motivasyonu ağırlıklı olarak politikken, AB'nin ekonomik motivasyonu politik motivasyonun üstündedir. Açıkçası, AB'nin de bu Anlaşmayı sonuçlandırmak için siyasi nedenleri var olmakla birlikte, niyetleri esas olarak bir gümrük birliği anlaşması ile ekonomik bir kazanç elde etmektir. Türkiye ise tam üyeliğe odaklanmış bir noktadayken, GB bu yola giden temel taşlardan herhangi birisi olarak algılanmıştır.

Bu nedenle, GB sorunlarının çözümü için bu tezde uygulanması önerilen kavram spill-over yerine spill-around olmuştur. Bu uygulamanın ise iki sacayağı vardır. Biri derinleşme diğeri ise genişlemedir. Başka bir deyişle, GB'nin düzgün işleyişinin önündeki engellerin kaldırılması ve var olan entegrasyon kapsamının genişletilmesi aynı madalyonun iki yüzüdür. Bu sacayaklarından derinleşme önerisine göre; STA politikaları, yol kotaları ve vize gereksinimleri gibi ticaret politikalarının oluşturulması ve uygulanmasına ilişkin taahhütlerdeki sorunların giderilmesi ve daha derin bir bütünleşme sağlanması öngörülmekte iken; genişleme önerisi ile GB kapsamının sanayi ürünlerine ek olarak tarım ve hizmet sektörlerine genişletilmesi öngörülmektedir. Bu ikisinin birlikte uygulanması ile GB'nin yetki alanı arttırılırken yetki düzeyi sabit tutulmaktadır. Bu yolla, hem tarafların farklı motivasyonları ve beklentileri dikkate alınmış hem de taraflarda tepkiye yol açmadan GB'nin uzun zamandır süregelen sorunlarına kalıcı çözümler geliştirilmiş olur.

Türkiye ve AB arasında yürütülen GB güncelleme çalışmaları da bu tezde önerilen derinleştirme ve genişlemeyi destekler niteliktedir. Her iki tarafın da tamamladığı etki analizlerine göre mevcut durumdaki GB ürün kapsamına ek olarak tarım ürünlerinde tam liberasyona gidilmesinin ve hizmetler ile kamu alımlarının da GB kapsamına dahil edilmesinin en yüksek faydayı sağlayacağı düşünülmektedir. Ancak, bu tezde yapılan öneriler ile yürütülen GB güncelleme çalışmaları arasında kamu alımları hususunda bir farklılık bulunmaktadır. Bu teze göre kamu alımlarının GB kapsamına dahil

edilmesi yetki düzeyinin arttırılmasının neden olabileceđi sonuçlara gebedir ve bu nedenle GB kapsamının genişletilmesi tarım ve hizmetler sektörleri ile sınırlı tutulmalıdır. Kamu alımlarının GB kapsamına dahil edilmesinin, spill-around kavramı tarafından engellenmesi amaçlanan taraf reaksiyonuna neden olacağı ve bu nedenle kapsam dışında tutulması gerektiđi düşünölmektedir.

Tezde elde edilen önemli bulguları ve bu bulgulara eşlik eden önermeleri kısaca özetlemek gerekirse, aşağıda tablo faydalı olacaktır:

TEZİN ÖNEMLİ BULGULARI	TEZ ÖNEMLİ ÖNERMELERİ
GB yirmi yılı aşkın bir süredir Türkiye ile AB arasındaki ilişkinin belkemiğini oluşturmaktadır.	Türkiye-AB ilişkilerinin tarihsel gelişimini anlamak ve bu ilişkinin geleceği konusunda öngörüle bulunabilmek için GB odaklı bir incele yapılması şarttır.
GB'nin başlangıçta var olan yapısal sorunları; küresel, bölgesel ve ülke bazlı gelişmeler neticesinde GB ilişkisini tehdit eder boyuta ulaştırmıştır.	Mevcut asimetrisi giderilmesi için GB'nin acil olarak gözden geçirilmeye ihtiyacı vardır.
Spill-around, Schmitter tarafından geliştirilen Yeni İşlevselci bir bölgesel entegrasyon kavramıdır. Bu kavram kapsamında, bölgesel entegrasyonun ilerlemesi sırasında, entegrasyon kurumlarına aktarılan yetkinin düzeyi değişmezken, bölgesel entegrasyona dahil edilen alanlarda artış öngörülmektedir.	Spill-around kavramına temel oluşturan önermeler, GB'yi gözden geçirmek için ana çerçeve olarak kullanılmaya uygundur.
Spill-around kavramının GB'ye yaklaşımı, taraflar arasında daha genişletilmiş ve derinleştirilmiş bir ticaret ilişkisini önermektedir.	<ul style="list-style-type: none"> <li>• GB'nin kapsamı, tarımsal ürünler ve hizmetler de içerecek şekilde genişletilmelidir.</li> <li>• İkili ticarete yönelik mevcut engeller kaldırılmalıdır.</li> </ul>



Sonuç olarak, bu kadar uzun süre yürürlükte kalması beklenmeyen Türkiye- AB Gümrük Birliği Anlaşması küresel, bölgesel ve yerel ekonomik koşullarının değişmesi durumunu dikkate alınarak tasarlanmış bir örnek değildir. İkili ticarete yaşanan hacim düşüşü de bu eksikliği doğrular niteliktedir. Gerek AB gerekse Türkiye, Gümrük Birliği yapısından kaynaklanan sorunların farkındadır ve önceki yıllarda yaşanan birkaç başarısız GB güncellemesi girişiminin aksine 2014 yılından beri GB güncellemesi üzerine somut adımlar atmışlardır.

Bu girişimlerin 2014'ten beri somut adımlara dökülmesinin Türkiye açısından nedeni, Türkiye'nin AB tam üyelik müzakerelerinin 2005 yılındaki resmi başlangıcından sonraki dönemde herhangi bir ilerleme kaydedemediğinin farkına varılmasıdır. Dolayısıyla Türkiye, AB ile arasındaki tek işleyen mekanizma olan GB'den mümkün olan en yüksek faydayı sağlama yollarına odaklanmaya başlamıştır. Bu yolla, Türkiye, ekonomik ve sosyal fayda elde etmenin yanı sıra karşılıklı güven ortamını sürdürerek Avrupalılaşıma serüvenini devam ettirmeyi amaçlamaktadır. Türkiye ile AB arasındaki ilişkinin gerçeklerini göz önüne alarak, bu hedeflere ulaşmanın tek olasılığı, GB'nin modernizasyonu olacaktır. Avrupa açısından bakıldığında ise GB güncellemesi talebine yol açan en büyük motivasyon, Türkiye tarafından artarak uygulanan korumacı ve ithalat kısıtlayıcı yöntemleri engelleyebilmektir. Bu yöntemler gerek vergisel gerekse vergi dışı diğer tedbirleri içermesi nedeniyle AB tarafından endişe ile karşılanmaktadır ve GB taahhütlerinden sapma olarak nitelendirilmektedir. Bu nedenlerle, 2014 yılına gelindiğinde hem AB hem de Türkiye, Gümrük Birliği'nin mevcut yapısının eksikliklerinin düzeltilmesi ve GB'nin tam potansiyelde çalışabilmesi için mevcut GB yapısının daha kapsamlı, derinleşmiş ve genişletilmiş bir yapıya dönüştürülmesinin gerekli olduğunda hemfikirdi.

Bu gelişmelerle tutarlı bir şekilde, bu tezde Yeni İşlevselciliğin rehberliğinde Avrupa Birliği-Türkiye Gümrük Birliği Anlaşması yeniden değerlendirilmiştir ve mevcut sorunların Yeni İşlevselcilik kavramları kapsamında nasıl giderilebileceğine cevap aranmıştır. Tez boyunca, öncelikle teorik altyapı hazırlanmış, sonrasında GB'ye giden yol ve GB'nin asimetrik yapısına neden olan önemli maddeleri açıklanmış ve son

olarak imzalanmasından bugüne yaşanan gelişmeler listelenmiştir. Tez boyunca tartışılan, nicel ve nitel kanıtlarla desteklenen önermeler sonucunda, Avrupa Birliği-Türkiye Gümrük Birliği Anlaşması'nın eksikliklerinin, spill-around kavramının uygulanması yoluyla aşılabileceği düşünülmektedir. Başka bir deyişle, Avrupa Birliği-Türkiye Gümrük Birliği Anlaşması'nın mevcut sorunlarının, spill-around kavramında öngörüldüğü üzere, taraflar arasında genişletilmiş ve derinleştirilmiş bir ticaret ilişkisi kurulması ile çözüleceği düşünülmektedir.

İlerleyen çalışmalara ilham vermesi açısından, bu tezde önerilen GB formülünün İngiltere'nin AB üyeliğinden ayrılması sonrasında kurulacak yeni ilişki için de uygulanabilir olduğu düşünülmektedir. İngiltere'de yapılan referandum sonucunda AB'den ayrılma kararı çıkmasından sonra, AB ile yürütülecek yeni ilişkilerde nasıl bir yol izlenmesi gerektiği konusunda farklı tartışmalar yaşanmaktadır. İngiltere tarafından yapılan değerlendirilmelerde de alternatiflerden biri olarak değerlendirilen GB ilişkisine ilişkin çekinceler bu tezde geliştirilen önerilerle giderilmiştir. Bu nedenle değerlendirilen İsviçre, Norveç gibi formlere kıyasla Türkiye-AB GB örneğinin spill-around kavramı çerçevesinde güncellenmiş hali, İngiltere ile AB arasındaki gelecekteki ilişkiler için en iyi alternatiftir.

## B. TEZ FOTOKOPİSİ İZİN FORMU

### ENSTİTÜ

Fen Bilimleri Enstitüsü

Sosyal Bilimler Enstitüsü

Uygulamalı Matematik Enstitüsü

Enformatik Enstitüsü

Deniz Bilimleri Enstitüsü

### YAZARIN

Soyadı : SÖNMEZ

Adı : Esmâ Yağmur

Bölümü : Avrupa Çalışmaları

**TEZİN ADI** (İngilizce) : “Rethinking the European Union-Turkey Customs Union Agreement in the Light of Neo-Functionalist Premises”

**TEZİN TÜRÜ** : Yüksek Lisans  Doktora

1. Tezimin tamamından kaynak gösterilmek şartıyla fotokopi alınabilir.
2. Tezimin içindekiler sayfası, özet, indeks sayfalarından ve/veya bir bölümünden kaynak gösterilmek şartıyla fotokopi alınabilir.
3. Tezimden bir bir (1) yıl süreyle fotokopi alınamaz.

**TEZİN KÜTÜPHANEYE TESLİM TARİHİ:**