



Hacettepe University Graduate School of Social Sciences

Department of International Relations

**REPRODUCTION OF DEPENDENCY:  
THE CUSTOMS UNION BETWEEN TURKEY AND THE  
EUROPEAN UNION**

Murat PESTELI

Master's Thesis

Ankara, 2013



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## KABUL VE ONAY

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[ İ m z a ]

Doç. Dr. Galip YALMAN (Başkan)

[ İ m z a ]

Prof. Dr. Ali Murat ÖZDEMİR (Danışman)

[ İ m z a ]

Dr. Zeynep ARKAN

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## OZET

PESTELİ, Murat. *Bağımlılığın Yeniden Üretilmesi: Türkiye ile Avrupa Birliği Arasındaki Gümrük Birliği*, Yüksek Lisans Tezi, Ankara, 2013.

Uluslararası Ekonomik Entegrasyon sürecinin aşamalarından biri olan Gümrük Birliği Türkiye ekonomisini derinden etkilemiştir. Türkiye ile Avrupa Birliği arasında tesis edilmiş olan Gümrük Birliği, zaman içerisinde Türkiye'ye tam üyelik vermemenin mekanizması haline gelmiştir. Türkiye ile AB arasındaki ekonomik ilişkiye Bağımlılık Okulu'nun analizleri açısından bakıldığında ise Türkiye aleyhine eşitsiz gelişmenin derinleştiği ve bağımlılık ilişkisinin yaygınlaştığı gözlenmektedir. Türkiye ile AB arasındaki bütünleşme, merkez ile semi-periferik formasyonlar arasındaki ekonomik ilişkiye yani farklı gelişmişlik düzeylerinde bulunan ekonomilerin entegrasyonuna bir örnek olarak değerlendirilmelidir.

Bu değerlendirme neticesinde Merkez ile Semi-periferi arasında on altı yıldır uygulanmakta olan Gümrük Birliği neticesinde üçüncü ülkelerle olan ticarete bağlı olarak ekonomik kayıplar yaşandığı, ticaret yaratıcı etkinin AB lehine gerçekleştiği, dış ticaret dengesinin ithalat lehine bozulduğu, vergi geliri kayıplarının yaşandığı, ticaret hadlerinin bozulduğu ve merkezin ihraç ettiği kirliliği endüstrilerdeki ihracatın arttığı görülmüştür. Bunlara ek olarak alt sözleşme ilişkileri ve esnek üretim yaygınlaşmış ve teknoloji üretimi yabancılara bırakılmıştır. Tüm bu sonuçların ışığında Bağımlılık Okulu'nun Cardoso, Evans ve Gereffi gibi yazarlarının "bağımlı gelişme" argümanı, Gümrük Birliği'ne bağlı olarak Türkiye'nin ekonomik ve siyasi yapısındaki değişimi anlamaya dönük en uygun yaklaşımdır.

### Anahtar Sözcükler

Bağımlılık, Gümrük Birliği, Ekonomik Bütünleşme, Bağımlı Gelişme, Merkez-Çevre.

## ABSTRACT

PESTELİ, Murat. *Reproduction of Dependency: The Customs Union Between Turkey and the European Union*, Master's Thesis, Ankara, 2013.

Customs Union, one of the phases of International Economic Integration, has had a deep impact on Turkish economy. The same Customs Union, established between Turkey and the European Union, has become a mechanism of not accepting Turkey as a full member in the EU in the process of time. If we look at the economic relations between Turkey and the EU in the light of dependency theory, we can see that an unequal development and a dependency relationship to the detriment of Turkey has deepened and become widespread. The integration between Turkey and the EU should be evaluated as an example in terms of an economic relationship between the core and the semi-peripheral formations, i.e. an integration between economies having different development levels.

Consequently, the situation that emerged as a result of Customs Union process which was initiated as an integration form between the EU and Turkey but was squeezed in the field of economics, supports the analyses of Dependency School. As a result of the Customs Union that is being implemented for sixteen years between the Core and the Semi-periphery, trade creation effect is realized in favour of the EU, external trade balance is increased in favour of imports, tax income losses are experienced, terms of trade are distorted and amount of exports in dirty industries by the core increased. Furthermore, subcontracting relations and flexible production became extensive, and technology production is dominated by foreigners. In consideration of all of these results, "dependent development" argument of writers from Dependency School, such as Cardoso, Evans and Gereffi (Özdemir, 2010: 201) is the most suitable approach directed towards understanding the change in Turkey's economic and political structure in connection with Customs Union.

### Key Words

Dependency, Customs Union, Economic Integration, Dependent Development, Core-Periphery.



## TABLE OF CONTENTS

<b>KABUL VE ONAY</b> .....	i
<b>BİLDİRİM</b> .....	ii
<b>ACKNOWLEDGEMENTS</b> .....	iii
<b>OZET</b> .....	iv
<b>ABSTRACT</b> .....	v
<b>TABLE OF CONTENTS</b> .....	vi
<b>LIST OF ABBREVIATIONS</b> .....	xi
<b>LIST OF FIGURES</b> .....	xii
<b>INTRODUCTION</b> .....	1
<b>CHAPTER 1: INTERNATIONAL ECONOMIC INTEGRATION</b> .....	9
1.1. INTEGRATION AS A NOTION.....	9
1.2. CONCEPT OF THE ECONOMIC INTEGRATION.....	11
1.2.1. Economic Integration between Under-Developed Economies and Developed Economies.....	12
1.2.2. Economic Integration of Under-Developed Economies.....	14
1.3. PHASES IN THE INTERNATIONAL TRADE.....	16
1.3.1. The Historical Process.....	17
1.3.2. Liberalization of the International Trade and International Cooperation in Practice.....	22
1.3.2.1. The Global Approach: GATT.....	22
1.3.2.1.1. GATT with Regards to Under-Developed Countries.....	24

1.3.2.1.2. The Institutionalization of Multi-Sided Trade: The World Trade Organization.....	26
1.3.2.2. Regional Approach: Economic Integration.....	27
1.3.2.2.1. Phases of Economic Integration.....	28
1.3.2.2.1.1. Free Trade Zone.....	28
1.3.2.2.1.2. Customs Union.....	28
1.3.2.2.1.3. Common Market.....	29
1.3.2.2.1.4. Economic Union.....	29
1.3.2.2.2. The Customs Union Theory and Economic Effects of Customs Union.....	30
1.3.2.2.2.1. Customs Union Theory.....	31
1.3.2.2.2.2. Economic Effects of Customs Union.....	32
1.3.2.2.2.2.1. Static Effects of Customs Union.....	32
1.3.2.2.2.2.2. Dynamic Effects of Customs Union.....	34
1.3.2.2.2.2.2.1. Increase in Foreign Competition.....	34
1.3.2.2.2.2.2.2. Economies of Scale.....	35
1.3.2.2.2.2.2.3. Technological Progress.....	35
1.3.2.2.2.2.2.4. Promotion of Investment.....	36

<b>CHAPTER 2: TURKEY AND THE EUROPEAN UNION</b> .....	38
2.1. TURKEY-EUROPEAN UNION RELATIONS.....	38
2.1.1. Process Before Application for Association.....	39
2.1.2. Application for Association of Turkey and the Ankara Agreement.....	40
2.1.2.1. Preparatory Stage.....	40
2.1.2.2. Transitional Stage.....	42
2.1.2.2.1. General Features of the Additional Protocol.....	42
2.1.2.2.2. The Additional Protocol and Elimination of Customs Duties.....	43
2.1.2.2.3. Free Movement of Persons in the Additional Protocol.....	44
2.1.2.2.4. Turkey's Obligations at the Transitional Stage.....	45
2.1.2.2.5. Turkey's Full Membership Application.....	45
2.1.2.3. Final Stage (Association Council Decision No. 1/95 and the Customs Union).....	46
2.1.2.3.1. Opinions in Turkey before Customs Union.....	47
2.1.2.3.2. Association Council's Customs Union Decision.....	48
2.1.2.3.3. Basic Characteristics of Association Council Decision No. 1/95.....	49
2.2. COMMENTS ABOUT CUSTOMS UNION.....	51
2.2.1. Comments of Political Parties About the Customs Union.....	51
2.2.2. Comments of Mainstream Media About the Customs Union.....	53
2.2.3. Comments of Employers About the Customs Union.....	54

2.2.4. Comments of the Trade Unions About the Customs Union.....	55
2.2.5. Comments of Academics on the Customs Union.....	56
<b>CHAPTER 3: CUSTOMS UNION: A DEPENDENCY RELATION.....</b>	<b>63</b>
3.1. MODERNIZATION-ENLIGHTENMENT.....	63
3.1.1. Profiling of Development Literature.....	65
3.1.2. Economic and Sociological Aspects of Development.....	66
3.1.3. Reflection of Developmentalism in Turkey.....	67
3.2. NEO-LIBERALISM AND NEW MODERNISM: TRANSFORMATION IN THE DEVELOPMENT RHETORIC.....	68
3.2.1. Relation between Neo-Liberalism and Customs Union.....	68
3.2.2. Dependency Relation which Deepens between Core and Periphery.....	69
3.3. DEPENDENCY SCHOOL.....	70
3.3.1. ECLA Wing.....	71
3.3.2. Neo-Marxist Theories.....	73
3.3.2.1. Paul Baran: The Political Economy of Growth.....	73
3.3.2.2. Andre Gunder Frank: Metropolis-Satellite Relation.....	74
3.3.2.3. Samir Amin: Distorted Development.....	75
3.3.2.4. Cardoso: Dependent Capitalist Development.....	75
3.3.2.5. Emmanuel and Unequal Exchange.....	76
3.3.2.6. Wallerstein: World-System Analysis.....	77

3.4. EVALUATING THE CUSTOMS UNION WITHIN THE SCOPE OF DEPENDENCY ECOLE.....	78
3.4.1. Evaluating the Effects of Customs Union on Foreign Trade within the Scope of Dependency Ecole.....	78
3.4.2. Evaluation of Customs Union’s Growth and Productivity Effects.....	82
3.4.3. The Relation between Customs Union and Technological Superiority of the Core.....	84
3.4.4. Political Dependence and Effect of Customs Union on Turkish Economy via Third Countries.....	89
3.4.5. Effect of Customs Union on Tax Revenues.....	91
3.4.6. Ecological Aspect of Customs Union.....	92
<b>CONCLUSION.....</b>	<b>94</b>
<b>BIBLIOGRAPHY.....</b>	<b>101</b>

## LIST OF ABBREVIATIONS

ANAP	Motherland Party
CEE	Central and Eastern Europe
CHP	Republican People's Party
DEP	Democracy Party
DPT	State Planning Organization
DSP	Democratic Left Party
DYP	The True Path Party
EC	European Community
ECJ	European Court of Justice
ECLA	Economic Commission for Latin America
EEC	European Economic Community
EFTA	European Free Trade Association
EU	European Union
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
IBRD	The International Bank for Reconstruction and Development
IKV	Economic Development Foundation
IMF	International Monetary Fund
ITO	International Trade Organization
ITO	Istanbul Chamber of Commerce
MHP	Nationalist Movement Party
MEDA	Mesures D'accompagnement
MESS	Turkish Employers Association of Metal Industries
NAFTA	North American Free Trade Agreement
NATO	The North Atlantic Treaty Organization
NIC	Newly Industrialized Country
OEEC	Organisation for European Economic Co-operation
RP	Welfare Party
SHP	Social Democratic People's Party
TBMM	The Grand National Assembly of Turkey

TEKSİF	Union of Textile Knitting and Garment Industry Workers of Turkey
TRIPS	Trade-Related Aspects of Intellectual Property Rights
TUSIAD	Turkish Industrialists' and Businessmen's Association
UN	United Nations
USA	The United States of America
YASED	Foreign Investors Association

**LIST OF FIGURES**

Figure 1	Science and innovation in Turkey.....	87
Chart 1	Distribution of patent registrations from TPI by years.....	86
Chart 2	What is the situation in our trade deficit with Mexico in last 13 years.....	91
Chart 3	Trade balance deficit with the Republic of South Africa.....	91
Chart 4	Trade balance deficit with South Korea .....	91





## INTRODUCTION

The Customs Union as established between Turkey and the EU has a different place within the framework of classical integration because of its unique and special characteristics. The *sui generis* structure of Turkey's Customs Union process in reference to economic and political levels keeps this process distinct from classical forms defined in integration theories. The key feature giving this process its *sui generis* form and making the relations between Turkey and the EU so distinctive and peculiar is the fact that it is being used as a strategy not to accept Turkey as a full member in the EU, not to speak of the fact that the integration process has remained stuck up at a certain point.

A customs union should be accepted in its core as the first step in integration process; but in the case of Turkey, it has been taken outside of its original context because of political and economic interests and on the political level the process has been downgraded to a political victory and its economic dimensions have been downgraded to free international commerce. These evaluations on political and economic levels have been one of the reasons why the relations between Turkey and the EU have become one of dependency. In order to see the big picture and to evaluate the matter in a comprehensive way, the matter of customs' tariff reduction in respect of Turkey, based on the Additional Protocol which was signed on 22 November 1970, entered into force on 1 January 1973 and carried into effect by the 1/95 decision of the Association Council, should be examined in the context of "dependency" and "dependent development".

Arguing in favour of the existence of a dependent development between Turkey and the EU subject to The Customs Union and the evolution of this unequal relationship on behalf of the EU, this study aims to look into the economical results of the Customs Union and assess these results within the scope of the theories of Dependency School. As a consequence, the loss incurred by Turkey as a result of Customs Union is of great importance as an example of the

consequences of integration between different economic structures such as core and periphery and core and semi-periphery.

The impact of Customs Union on Turkey's economy has been examined within the framework of many studies; but there exist no studies that examine the relations between Turkey and the EU from the perspective of dependent development and as an outcome of integration between different economic structures. In this concept the issue results to be of great interest and of unique character.

The Customs Union process demonstrates the results of an economic integration between the core and the semi-periphery and it will also make it possible to test the arguments of Orthodox Economic Theory with respect to development. The results of the propositions of the Classical Economic Theory in terms of development and integration in the case of Turkey will also be assessed and criticised on the basis of the arguments of the Dependency School which defends a similar level of economic production, but is completely dissimilar to classical theories of economy. The deepening of the dependency relationship between Turkey and the EU in favour of the EU constitutes the basic characteristic of the problem selected.

The main reason why the problem in question is assessed as worthy to be examined lies in the insufficiency in handling the problems between Turkey and the EU in respect of their various aspects. The present study aims at evaluating the notions under-development and dependent development within the framework of integration between core and semi-periphery. The Customs Union maintains its importance nowadays as it had in 1995 and continues to affect the foreign trade of Turkey. The ongoing negotiations concerning Free Trade Agreements between the EU and the USA and countries like Japan and India and the assessments of politicians in Turkey about Shanghai Cooperation Organisation are directly linked with the Customs Union process of Turkey and they demonstrate the actuality of this matter.

This study brings about the argument that the Customs Union process of Turkey is an economic integration between the core and the semi-periphery and

that the economic relation between different economic formations deepens in favour of the core and this process is vested with characteristics of a dependent development.

This dissertation is comprised of three chapters. The study is formulated in a form to examine this process, which moves forward towards dependent development of Turkey because of The Customs Union, in a complete manner.

In the first chapter the concept of integration is defined and its boundaries are drawn. Integration is seen as the most common expression in the processes of internationalisation of economic relations. After having defined the concept of economic integration, we touched on the objectives of economic integration and address the integration of under-developed countries with their objectives and results. The Customs Union process between Turkey and the EU is evaluated as economic integration between the core and the periphery, because of the fact that it is a case of integration between under-developed and developed economies, i.e. integration between different economic structures. The probable results of an economic integration between similar economic structures have been examined under the heading "Integration of under-developed countries."

In order to understand the economic integration and customs union which are products of regional approaches in international trade, economic integrations are examined from the point of historical perspective and the process towards the international economic cooperation is taken up in its implementation process. Furthermore it has been pointed out that economic integrations, which historically date back to the Late Middle Ages, have come into existence on the cutting edge of free international trade and it has been emphasized that they have become widespread in the period after the World War II. It has also been underlined in the study that international free trade is defined in two categories in the literature as the global approach and the regional one and the customs unions should be evaluated as part of regional movements in commerce. As territorialisation movements cannot be isolated from the global approach, the global approach is examined prior to territorialisation movements in international

free trade. The phases of economic integration are also scrutinised in the study so as to understand the nature of the relations between Turkey and the EU.

Customs Unions Theory and the economic impact of the Customs Union are also among the issues which have been examined in this study; this is necessary in order to get the parameters to be used in evaluating the dependency relation between Turkey and the EU and discuss the basic arguments of The Customs Union Theory. The Customs Union Theory is also known as Static Integration and it is stated in the study that the analysis of Smith, Taussing and Torrens had an impact on the theory. The Customs Union Theory took its place in the literature after the analysis of Viner and Meade. Static and dynamic impacts of Customs Unions are another issue examined in this study.

In the second chapter integration between Turkey and the EU and the phases of Customs Union are examined. The relation between Turkey and Europe are examined under two headings: The process before the association agreement and the process in which the association relationship was established. Under the heading of "Process before Application for Association" the developments before Turkey's application to the EEC in 1959 are examined. The association relationship after the Ankara Agreement is examined in the third chapter. The Ankara Agreement which is the basis for the association of Turkey into the EEC divides the integration process with the community in three periods: Preparation, transition and final period. We also remained faithful to this division in this study.

As the relations between Turkey and the EEC evolved towards a Customs Union after signing the Additional Protocol, the general characteristics and the content of the period between 1973 and 1995 are overemphasized and in this concept the Additional Protocol is evaluated as a testimony of the internationalisation process of capital circulation within the context of Turkey. Time given to Turkey in respect of customs tariff concessions in the transitional period initiated with the Additional Protocol has been linked with effective productiveness differences between Turkey and the EEC. The concessions in

customs tariffs in the Additional Protocol, free circulation of persons, the responsibilities of Turkey in the transitional period and Turkey's application for full membership have all been analysed and evaluated. After making a general evaluation of the last period initiated after the end of the transitional period and the basic characteristics of the 1/95 decision of the Association Council, the arguments about Customs Union have been explained. At the end of the second chapter reflections of the process called "The Final Period", which is the last phase of the integration process, on various classes and levels of the population have been put under investigation. In this way the reasons have been evaluated as to why various social classes supported or stood against the process as the "dependency relationship" between Turkey and the EU has evolved in favour of the EU.

The third and the last chapter, in which Turkey's Customs Union process is examined with respect to under-development and dependency relationship, starts with discussions concerning the content of the notion of development. The reason why the theoretical framework put forward by Neo-Marxist theories is used in this chapter is the evaluation of integration and dependency relation in terms of commercial exchange. In order to comprehend the dependency relationship between the core and the periphery, one must comprehend at first the epistemological and ontological structure of the notion of development. For this reasons, various phases of the development notion beginning from Modernisation/Enlightenment were put under investigation in the third chapter. In the following chapters, the reasons for the fractionating of development in terms of its subdisciplines and the economic and sociologic dimensions of development are scrutinized. Then reflections of developmentalism on Turkey and the relationship between the Customs Union and Neo-Liberalism are examined. It is emphasized that the elimination of barriers in respect of trade was not a phenomena unique to Turkey that many underdeveloped countries had to undergo such processes in the same period.

As it is put forward that commercial and political relationship between Turkey and the EU creates a "dependency relationship" linked with the Customs Union, we should also emphasize the meaning reflected by notions such as

dependency and dependent development. Although they differ in many basic issues such as the theoretical sets to be used and the break from capitalism, both wings of the Dependency School (ECLA and Neo-Marxist theories) underline the determining role of external factors on underdevelopment. For this reason the core assumptions of both wings of the Dependency School are examined briefly, with a view to evaluate the dependent development in a proper manner.

At first foreign trade was examined in terms of the evaluation of the Customs Union on the basis of analysis of the Dependency School. In this chapter, it is stated that the trade creating effect of Customs Union has evolved in favour of the EU, the balance of trade has developed in favour of imports and deteriorations in the terms of trade have been observed. In the chapter where the effects of Customs Union on development and productivity are examined, decreases in productivity in the first years of the process are addressed and it is stated that in the middle term the increase in the labour productivity are associated with imports.

Furthermore it is illustrated that specialisation in some capital intensive commodities which has occurred in Turkey subject to the Customs Union would not bring about a change in the semi-peripheral statute and such a development is in conformity with global dynamics. If the analysing unit is reflected on economic formations such as core and periphery rather than national basis, it can be seen that the same situation which came into light in Turkey because of the Customs Union could also be observed in other peripheral or semi-peripheral formations (such as CEE countries). The issue of technology, which is of great importance to break the cycle of under-development, has been included in the study with a special emphasis and this matter has been evaluated taking the actual technological level and patent registers in Turkey into consideration.

The dependency creating effect of the Customs Union is reflected on the foreign trade policies of Turkey both in direct and indirect ways. Direct dependency has abolished the possibility of creating an independent foreign trade policy from the

EU. Indirect dependency is realised via third countries and it damages Turkish economy. For this reason, political dependency and the effects of the Customs Union on Turkish economy via third countries are examined under the same heading. Following this, the losses in tax revenues in association with the Customs Union are examined, the ecological dimension of the process is analysed and it is underlined that the developments in the so called "dirty industries" in Turkey following the Customs Union reflect the basic features of an industrialisation in the periphery.

Consequently, it has been observed that most of the academic examinations put forward arguments in the framework of developmentalist rhetoric and fictionalise the economic results of the Customs Union on the basis of commodity production. It is not possible to comprehend the effects of economic integrations on social classes comprising the society when we degrade the notion of development to quantitative values. For this reason, it is underlined in the study that criticising the Customs Union solely on the basis of commodity production constitute an impediment and obscures the dependent relationship between Turkey and the EU, i.e. a relationship between the semi-periphery and the core.

It is being observed that the process of the Customs Union, which began as an integration process between Turkey and the EU, but has gotten stuck only in the economic field in the course of time supports the analysis of Dependency School. As a consequence of the Customs Union which is being implemented between the core and the semi-periphery for 16 years now, the trade creation effect has developed in favour of EU, balance of trade has deteriorated for the benefit of imports, losses in tax revenues have occurred, terms of trade have been disconcerted and an increase has been recorded in the exports of dirty industries in the centre. In addition to all these, subcontracting relations and flexible production have become widespread and foreigners have gotten the upper hand in the production of technology. In the light of all these results, we see that the argument of "dependent development" of theoreticians of the Dependency School such as Cardoso, Evans and Gereffi (Özdemir, 2010:201)



is the most appropriate approach to understand the transformation in the economic and political structure of Turkey with respect to the Customs Union.

# **CHAPTER I**

## **INTERNATIONAL ECONOMIC INTEGRATION**

Integration is the most known expression of the internationalisation of economic relations. This dissertation examines the dependent development of Turkey. In this first chapter, the analysis concerning the meaning, content, objectives and types of integration will help to comprehend the theoretical level of the process of Turkey's Customs Union in a more transparent manner. For this reasons, we should at first specify the definition and the content of the notion of "integration" before examining economic integration.

### **1.1. INTEGRATION AS A NOTION**

The Cambridge Dictionary defines integration as: "to combine two or more things to become more effective." (Cambridge Dictionary [web] 2012). According to the Merriam-Webster Dictionary, the act or process of integration is "an incorporation as equals into society or an organization of individuals of different groups." (Merriam-Webster, [web] 2012).

The notion of integration as we understand it today, i.e. as a notion of "getting together of different nations because of their over-lapping interests." dates back to the period after the World War II. Precedent integrations were economic integrations within the boundaries of the same country.

There are various definitions of economic integration in the international economic literature. Tinbergen is one of the pioneers who defined the notion of integration and according to him integration has two basic components; a negative and a positive dimension. Negative integration can be described as the removal of discriminatory and restrictive institutions. Positive integration, on the other hand, is the adjustment of existing and the establishment of new policies and institutions endowed with coercive powers (Jonanovic, 1998: 5).

Kindleberger underlines the content of this notion of integration. According to him, integration has no meaning unless its content is clear and it includes various components such as cooperation, regulation and organisation. He also argues that it should be defined as equalisation of production factors (Kindleberger, 1970:210).

Bela Balassa sees integration as a structure composed of various phases and interprets the integration types on a wide scale from the weakest one to the most comprehensive one. Integration in its weakest type is the integration of trade; according to this the barriers that constitute an impediment for trade are abolished. The following phase is factor integration in which factor movements between countries are liberalised. Political integration follows this phase of factor integration. Here national economic policies are adapted for the benefit of international relations. Complete integration is the last phase. However all previous phases should have been completed successfully before getting through to the final phase (Ertürk, 2002:44).

One of the basic objectives of economic activity is to increase the welfare level. Individuals and companies on the micro level and nations on the macro level seek the most appropriate tools within the framework of this basic objective. Parallel to this, international economic integration can be defined as a tool utilised to increase the general welfare level of actors at different levels (Jonanovic, 1998:5).

According to Dominick Salvatore, economic integration is a process of decreasing or removing the obstacles restricting international trade and the phases of economic integration stretches out from free trade regions to economic union (Salvatore, 1993:291).

Robson sees international economic integration as a tool rather than a final objective and defines it as an effort to unite different national economies in a bigger economic region. According to Robson, there are two essential conditions of economic integration: one of them is free circulation of production factors and products, and the second condition is the creation of a non-discriminatory structure among group members (Robson, 1993:1).

According to Pelkmans, economic integration is the abolishment of economic boundaries between two or more economic structures. Pelkmans defines the economic boundary as a boundary due to which the potential mobility of production factors, commodities and services is relatively low. According to him, the most outstanding feature of economic integration is the increase in competition (Pelkmans, 2006: 3-4).

Consequently, economic integration at the international level can be defined as a process of abolishment of the restrictions hindering trade and liberalisation of commodity and service circulations in the economies which unite to form a common market. In this way, it becomes possible to produce for a wider market and get the benefits of a production realised on a larger scale (Karluk, 1991:233).

Based on all these comments and definitions, we can define economic integration as putting an end to differences between particular factors to create a bigger structure and international economic integration as the abolishment of differences between national economies and thus making it possible that the union can become a reality.

## **1.2. CONCEPT OF ECONOMIC INTEGRATION**

As the comments above illustrate, economic integrations are put into practice on the basis of various economic reasons. Acquisitions from integrations of different economic structures can be variable; but according to the Orthodox Economic Theory the basic objective is to increase the welfare level. When we comprehend the reasons of economic integration between different economic structures, we can evaluate the consequences resulting from integration in a proper way.

The effect of economic integration on the welfare level in total can differ with respect to different parameters. The most important of these parameters is the difference in development between the countries which are involved in economic integration. The economic integration of economic structures having big differences in terms of such criteria as production, demand, employment

and productivity will inevitably have different consequences. When we divide the economies as developed and under-developed<sup>1</sup>, two basic types of economic integration will come to light<sup>2</sup>:

- 1) Economic integration between under-developed economies and developed economies.
- 2) Economic integration of under-developed economies

### **1.2.1 Economic Integration between Under-Developed Economies and Developed Economies**

The process of Customs Union between Turkey and the EU is an example of integration between an under-developed economy with a developed one, i.e. integration between different economic structures. For this reason the consequences that could result from the integration of the structures in question should be analysed. Integration between economies with different development levels creates more controversial results than other integration types. As the integration between Turkey and the EU is classified in this category, different dimensions of this issue should be put under the microscope.

Orthodox Economic Theory accepts the comparative advantages having static structures as key units of analysis. According to this, the economic union of an under-developed economy with developed economies at least through customs union would have comparative advantages (Manisalı, 1971:134).

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<sup>1</sup> It is impossible to explain a versatile phenomenon such as development with only one parameter. For this reason it would not be sufficient to explain the notion of under-development solely within the framework of national income. Criteria such as urbanisation rate, distribution of the population in sectors, the share of industrial production in national income and per capita consumption should be taken into account in the definition of under-development (Aren, 2009:193). Although all the definitions of under-development are subjective, some basic features can be observed in all of the so-called under-developed countries. According to this, the under-developed countries are those which have fallen behind developed countries on the basis of national income and industrial output. These countries are specialised in agricultural production and labour productivity and life standards in such countries are low (Bhagwati, 1966).

<sup>2</sup> Besides integration of under-developed countries, it is a known fact that developed countries also carry out integrations with other developed countries. But as we look into the issue under the perspective of under-development, the integrations formed by developed industrial countries remain out of the scope of this study.

The under-developed country that lowers the customs tariff wall in the process of Customs Union incrementally is specialised in the production field in which it is superior comparatively. While the under-developed countries sell agricultural products and basic products to developed countries, the countries with developed economic structures sell industrial products to under-developed countries (Alper&Ongun,1985:191). As a result of this process, under-developed countries are specialised in basic products, agricultural and light industry products as they are comparatively advantageous in this field.

At this point we are face to face with an important problem as far as under-development is concerned. Because a specialisation solely in light industry fields solely brings forward very serious problems in itself. For instance the changes in the international economic conjuncture have a deep impact on an economy which is specialised only in light industry products. Moreover, the investment realised in a field where technology is used intensively contributes more to marginal growth; the production in light industry field cannot benefit from such contribution. Additionally, production in fields other than the ones in light industry will make it possible to create external economies<sup>3</sup> because of the input-output intercourses between industries (Manisalı, 1971:134).

Consequently, as a new industry sector is established in an under-developed country, the comparison of production cost in this new sector with international costs cannot be evaluated as a precise indicator as the theory of comparative advantage argues. In spite of high costs, it can be decided to establish the industrial sector in question taking the dynamic factors into consideration.

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<sup>3</sup> The notion of external economy was first introduced by A. Marshall. External economy can be defined shortly as the gratuitous benefit of the activity of a company or sector on another company or sector. Due to environmental factors the losses taking place in this concept has been underlined in recent years. Scitovsky also underlines the importance of external economies concerning industrialisation of under-developed countries. External economies can emerge outside the market and by means of market mechanisms. For instance, investment in an industrial sector creates an increase in the production of the related company; consequently the product prices fall and the factor prices used increase. A decrease in the prices of products is beneficial to consumers; an increase in factor prices on the other hand is beneficial to those who offer these. If this returns to companies as profit, it means that external utilisation comes into existence (Manisalı, 1971:124-138).

For example even if the establishment of an industry in a certain country does not have comparative advantage, the external economies created by this phenomenon in the economy can recompense the high cost to a great extent. Taking also the dynamic factors indicated into account, the protection of new industrial sectors in under-developed countries against international markets emerges as a necessity (Manisalı, 1971:135).

Motta and Norman demonstrated that direct foreign investments to the integrated markets have increased. According to them, while access conditions to market develop by way of economic integration, the interest on the integrated region of foreign companies outside the region increase (Motta & Norman, 1996:757). The market can be integrated and attract foreign investments in a direct way, but the basic objective of under-developed countries remains industrialisation. Industrialisation is associated with production and putting the technology under the reign of industrialisation. If the increase in foreign investments does not result in technology transfer, we can speak of an industrialisation endeavour by importing plants from abroad. This brings forth not an essential but a formal change of trade with developed capitalist countries (Başkaya, 2001:55).

Consequently, we can say that the integration of an under-developed country with a developed one can create an increase in foreign investments towards the region in question. But in such a case, newly established industrial sectors needing protection would be opened for competition without having competitive power and this will have negative effects with respect to industrialisation. We have already stated that the main objective of under-developed economies is industrialisation; but in practice we observe that integration with developed countries are far from realising this objective.

### **1.2.2 Economic Integration of Under-Developed Economies**

The integration established between Turkey and the EU is a case of integration between economies with different structures. If we take the outcomes of economic integration between economies with similar structures into consideration as in the example of Mercosur, the process of a Customs Union

between Turkey and the EU will be assessed in a healthier manner and alternative approaches to the process can be found.

The economies which are categorised as under-developed are similar economies in terms of production and demand structures. For this reason it is expected that economic integration between similar economies would give rise to an increase of competition<sup>4</sup>.

When under-developed economies are integrated, they face various problems in the short term. The insufficiency of infrastructure is the first problem in this context. This insufficiency in infrastructure investments is one of the obstacles in the short term with respect to the benefits of substantial advantages resulting from integration. However once the infra-structure is created, the investments made afterwards will have a higher social productivity (Manisalı, 1971:126).

Another problem of under-developed countries which are involved in integration is the insufficiency of technical knowledge level. In addition, a problem of finance comes into existence in the short term which deteriorates the situation for under-developed economies to a great extent. External aids and investments play an important role in solving the finance problem of countries involved in integration. Integration between under-developed economies causes an increase in external aids; because the projects to be realised in integration are closer to the optimum level in comparison to the projects realised on the national level. Such projects are taken more seriously by the states and the international institutions granting the aid. The reason behind intensive foreign investments to the integration region is the productivity advantages of the integrated vast market which creates an attractive environment for foreign capital (Manisalı, 1971:128).

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<sup>4</sup> The hypothesis accepted as a parameter in the integration of under-developed countries is that these economies have an industrialisation objective. For this reason Static Customs Union Theory based on comparative advantages is not valid for under-developed economies. This is due to the fact that the costs of integration between under-developed economies can be higher than the costs of external economies. But as the hypothesis of industrialisation indicates a structural change, integration should be protected against external markets until the industrialisation is realised (Manisalı, 1971:124-138).



The success of economic integration of under-developed countries is inversely proportional to the accumulation effect which arises after the integration. In other words qualified workforce and capital flow to the economically powerful country where infrastructure is developed the most and the countries which cannot make use of these benefits withdraw from the union. This fact can be An obstacle to successful economic integrations between under-developed countries (Alpar&Ongun, 1985:191). But it is also a fact that the accumulation effect is observed more frequently in economic integrations between under-developed and developed economies.

The most significant result of integration between under-developed economies is the decrease in dependency on foreign sources. In this way the national economies become relatively independent with respect to policies implemented by international institutions and other states and this has an impact on the growth process. While the economic integration enables the growth of the regional market, the commercial dependency of the integrated region against the markets outside the region in question undergoes a decrease (Axline, 1977:86).

Consequently, we can say that under-developed economic structures that are integrated gain more advantageous position than the situation before the integration. In the short term these economies face such problems as financial difficulties caused by industrialisation, insufficiency in infra-structure and lack of technical knowledge. However, in the long run the protective structure in respect of external economies plays an important role in the development of under-developed countries.

### **1.3. PHASES IN THE INTERNATIONAL TRADE**

In the historical process integrations take shape in accordance with the dynamics of international trade. In order to comprehend economic integrations and customs unions which are products of regional approaches in the international trade, the phases of international trade up to now should be discussed at first. Economic integrations will be examined in their historical

process and the process causing international economic cooperation in practice will be scrutinized.

### **1.3.1 The Historical Process**

The international trade should be examined by dividing into sub-sections so as to understand the basic dynamics of the process leading up to integration. The Mercantilist Period is taken as the starting point in the related literature, mainly because of its characteristic that changed the precedent system in a radical manner. It is indispensable that a related analysis also includes the period before the Mercantilist Period. In certain phases of this period, structures like the ones we call customs union nowadays were created as integrations in the internal market of some countries.

Trade began to flourish in the 12<sup>th</sup> and 13<sup>th</sup> centuries in Europe. In the following centuries it gave rise to a new social class and it was just this new born social class which put an end to feudal economic system in Europe. Trade replaced the feudal economic system which was based on agriculture and craftsmanship (Talas, 1977:25).

Cities got more and more richer in this period thus becoming an attraction also for rural areas. The finance needed to purchase the luxurious commodities brought to the market by merchants were provided by the aristocracy. On the other hand, land owners began to sell their land to serfs to get the finance to this end. These same serfs who were overwhelmed by war expenditures and heavy tax loads in the 14<sup>th</sup> century became the actors who inflamed the new economic system. The wars launched by Lords because of ever decreasing resources and rebellions of serfs were the factors which brought an end to the economic system in the Medieval Ages. When the states reinforced by firearms took to the stage to play their roles of organising, they encountered little resistance (Adda, 2010:35-38).

The centralisation process of military, political and financial power gave rise to a new economic structure. The price rises which began in the 13<sup>th</sup> century and accelerated in the midst of the 16<sup>th</sup> century also contributed to the creation of a

new economic system. One of the fundamental reasons of price increase was the valuable metals that flew to Europe from America. These price increases which began in Europe and spread to other parts of the world (McNeill, 2005:470) had an impact initially on the political system and consequently on the economic system.

Price increases made industrial production attractive; this was one of the most important effects of price rises. The structure which remained limited to the monopoly of guilds in the cities and was based on plant production would be surpassed by merchants. This mentality also took hold of rural areas as the bourgeoisie was interested in these areas either to search for cheap labour force there or to take residence. After such a phase, the only obstacle against the development of merchants was the internal market which was not integrated and the ongoing monopoly of guilds. The nation state would later play the dominant role in abolishing this obstacle facing bourgeoisie (Adda, 2010:37).

As the bilateral dependency between bourgeoisie and nation states continued, the place of bourgeoisie in the political mechanism grew stronger in the course of time. For example the policies in The United Kingdom and The Netherlands were reflecting more and more the demands of the bourgeoisie and the individuals in it (Heaton, 2005:204).

The crisis in the 17<sup>th</sup> century is of great importance to show the boundaries of growth based only on external markets. The states created protection walls for the valuable metals they acquired in order to overcome the crisis and they realised it by increasing the exports, decreasing the imports and abolishing the restrictions hindering trade in the domestic market (Talas, 1997:26).

And just in this period the integration of the internal market, i.e. free circulation of goods, adaptation of currencies, linear measures and weight measures, and abolishment of diverse obstacles originating from the feudal era (such as the fee at the entrance of cities or on bridges) came on the agenda, which were all practices well known to Europeans in the 20<sup>th</sup> century. This process proceeded very slowly. It was so slow that the customs union between the regions in France could be realised as late as in 1664 and only on 3/5 of the territory

(Adda, 2010:38). It should be kept in mind that customs union was firstly an integration type implemented in the internal market, contrary to the notion we use nowadays.

The period preceding the Mercantilist Period came to an end with the wars in the 17<sup>th</sup> century and the slowing down of the growth in trade. The states had to take new measures to protect the economic gains obtained in the precedent period. Mercantilism emerged as a product of these measures. In other words, we can say that the continuation of the flow of precious metals such as gold and silver into the country and the endeavours for the creation of powerful and self-sufficient economies as a consequence gave rise to Mercantilism (Sander, 2001:93-94).

Mercantilism stood up for the intervention of state in the economic and social life by means of objectives such as creation of new colonies, enabling the inflow of gold into the country and tipping the scales in favour of trade balance by way of improvements in the fields of trade and industry so as to increase the national wealth and thereby the power of the kingdom (Zarakolu, 1978:17).

Mercantilist applications in Europe differed from one country to another, but they continued to exist from the beginning of the 16<sup>th</sup> century up to the midst of the 18<sup>th</sup> century. The protection of the fortune acquired in this period through looting and pillage (Başkaya, 2001:68) required some tools and foreign trade was one of the tools that was used to hinder the outflow of precious metals from the country.

In the Mercantilist period, states took sides with respect to adverse interests of the merchants always in a form that supported their own powers (Seyidoğlu, 1980:415). That is because many restrictions were recorded in international trade in this period. The protection of new domestic industries, the protection of the new middle class developed through Mercantilism, i.e. manufacturers and merchants, accelerated capital accumulation and prepared Europe for a new era. In 1650, the foundations of the historical capitalism as a system capable of surviving were already in place (Wallerstein, 2009:37-38).

The new class that got wealthy in the Mercantilist period demanded more independence opposing the restrictive structure of the period and thus initiated a new era in international trade. Liberalism can be defined as an opposition to the Mercantilist applications which imposed self-sufficiency on countries. Ensuring the local specialisation and international cooperation were handled by Adam Smith and David Ricardo, both theoreticians of classical economic policy.

The transition to liberalism was different from one country to another. For example the first types of industrial capitalism were observed in England, earlier than continental Europe. This was because of the political union of England which was realised earlier than other European countries. Mercantilism, which was a protective system, had prepared England for the industrial revolution. But the United States had been the advocate of liberalism holding the taxes lower and allowing the free circulation of currencies. They had founded the first big companies which played a monopolistic role in the relations with the colonies and that was a great advantage with respect to competition (Adda, 2010:40). Another critical point was that the USA began advocating liberalism after that they insured the competitive advantage.

Similarly it is also a known fact that England applied in the 1840's years 40 % customs duty on manufacturing industry products, prohibited English workers to work in foreign companies and imposed prohibitions on machine imports from abroad to protect the domestic industry before lowering the tariffs on finished goods, abolishing the prohibitions on imports (1842) and putting an end to the applications of the Mercantilist era (Adda, 2010:45-46).

The Industrial Revolution was perhaps one of the most important improvements with respect to international free trade. In addition to the novelties brought about by it, the Industrial Revolution is also associated with the issue handled in this study within the context of creating its own antagonism.

The Industrial Revolution which is associated with fundamental changes in production organisation, improvements in land and canal transportation, great inventions and speed increases in national product emerged especially as an accumulation model in the textile industry (Sosyalizm ve Toplumsal Mücadeleler

Ansiklopedisi, 1988, Vol.I pp:169) The first phase of the the Industrial Revolution, i.e. the period between 1760-1830 was followed by the second phase of the Industrial Revolution. Industrialisation gained a new dimension when the iron-steel industry took part in the production process in all trade branches in addition to the textile industry (G. Alpkaya& F. Alpkaya, 2005, 16-17). For instance, while the share of producer goods in Britain's total export was 8,7 % in 1827-1829, it increased to 11,3 % in 1840-1842 and 22 % in 1857-1859. In other words, one fifth of the total exports in 1860's were comprised of machines, equipments and wrought iron (Sosyalizm ve Toplumsal Mücadeleler Ansiklopedisi, 1988, Vol.I pp: 176).

As this progress led by England proceeded thereby creating a difference difficult to make up, new born industries led by Germany brought forward a new protective discourse (Heaton, 2005:546). In this period which was called neo mercantilism, the countries who participated in the race of industrialisation at a latter stage than the other countries (such as Germany, USA and Japan) claimed that the intervention of state in the industrialisation of under-developed countries was inevitable with respect to development<sup>5</sup>.

The most important effect of the neo-mercantilist period on the path to international integration was the rise of economic nationalism. In the years following the World War I, countries remained distant to international cooperation and, combined with the global economic crisis in 1929, each state started to restrict their customs tariffs and foreign trades so as to be able to protect their own national income and business level.

The refusal of free foreign trade theory so as to be protected from the competition of more developed countries and following the protection policy continued for a while and these were substituted by free and integrated foreign

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<sup>5</sup> For example, Friedrich List who underlined that a pragmatic protectionism was necessary in Germany, advocated a ZollVerein (German Customs Union) with emphasis on the protection and enlargement of market. In his opinion it was fundamental for Germany to improve its own production capacity before entering into competition on the international level. Improvement of production capacity meant the ability of transforming the nature and this was just the fundament of economic improvement. For this reason the intervention of the state was unavoidable in this world where there were different levels of economic development (Adda, 2010:48; Kazgan, 1984:208).

trade regimes (Kazgan, 1984:207). International trade, which was restricted by high customs tariffs, affected particularly the countries in Western Europe and solutions were developed with respect to these problems during the World War II. Endeavours to establish a multi-faceted trade and balance of payments system was materialised by the foundation of the World Bank and the IMF and paved the way towards a union to be created on the international level.

### **1.3.2 Liberalisation of International Trade and International Cooperation in Practice**

International free trade is examined in the relevant literature within the context of two basic approaches; the global approach and the regional approach (Kreinin, 1971:261). The Customs Union as established between Turkey and the EU is a product of the regional approach. Regional approaches with respect to international trade cannot be evaluated isolating them from the "Global Approach." This results from the fact that both of these notions have emerged in the aftermath of the same historical process and they are two basic approaches which complement each other. For this reason, in the examination of the phases of the international trade we start by examining the global approach.

#### **1.3.2.1 The Global Approach: GATT**

The liberalisation of international trade was realised in the years following the World War II. The basic objective of all the activities in this period in which the institutionalisation of international trade was initiated was the standardisation of global trade and the free exchange of goods and services.

The international monetary system established in the aftermath of the World War II was negotiated in June 1944 and a new system called later as Bretton Woods has been established. As a consequence of this conference the basic features of the international economic system and two big financial institutions, The World Bank (International Bank for Reconstruction and Development: IBRD) and the IMF have been founded in accordance with the Bretton Woods Agreement (Aktan, 1994:1).

The fundamental objectives of IMF can be summarised as follows: increasing the growth and employment speeds of member countries, creation of a multi-sided payment system, abolishment of the boundaries with respect to imports and exports, providing loans to remove the malfunction in the balance of payments of the member states; and all these were to be achieved in a manner that enables the improvement of the global trade. (Alpar&Ongun,1985:122).

The IBRD, also known as the World Bank, grants loans for projects in developing countries. The World Bank also plays a role in channelling the special capital investments to under-developed countries (Büyüктаşın, 1997:3).

The cooperation at the international level in financial and monetary issues paved the way for the liberalisation of international trade and as a consequence it was decided in 1947 to found the ITO planned as an organ within the United Nations; but no agreement could be achieved on the draft and ITO could not be founded. However individual countries tried to form a framework by reducing the tariffs by means of bilateral agreements. GATT emerged as a result of such endeavours to form a framework with respect to tariff reductions (Kreinin, 1971:313).

The contracting states of the GATT Agreement gave their approval to reduce all the tariffs and obstacles hindering the foreign trade and put an end to the discriminatory behaviour in the international trade in compliance with the objectives mentioned in the introduction section of the agreement (Text of GATT [web], 1986).

The General Agreement on Tariffs and Trade which was signed in 1947 is comprised of four sections and 38 articles. The responsibilities of the contracting countries are mentioned in the first section of the agreement. The first article is the fundament of the GATT agreement. In the first paragraph of this article the principle of the General Most-Favoured-Nation Treatment is defined and clarified. Therein it is stated that if a member country provides customs conveniences to another country, other countries can benefit from this application without entering into any obligations (Kreinen, 1971:314).



The objective of this article is the standardisation of international trade and putting an end to discriminatory applications among countries. An exception of this article is the fact that a regional integration approach has emerged out of the approach in terms of global integration. The principle of General Most-Favoured-Nation Treatment can be ignored providing that it is in compliance with the fundamental principles of GATT and the basic provisions mentioned in the 24<sup>th</sup> article (Text of GATT [web], 1986).

GATT purports that regional integrations create new restrictions between countries included in the region and have certain conditions. According to this the new common restriction introduced in the region of regional integration cannot be above the level reached within the framework of GATT (Büyüktaşkın, 1997:148). In addition other GATT members should also be informed of regionalisation. However in existence of these conditions the third countries can not want to benefit from conveniences provided and only member countries of the union can make use of these (Ertürk, 2002:215).

But in spite of all these conditions it is not possible to say that free international commodity trade system functions on the basis equality. The abolishment of foreign trade restrictions affects the countries having a developed industry in a different way than the countries which have developing industry.

#### 1.3.2.1.1. GATT with Regards to Under-Developed Countries

GATT emerged in association with the "Global Approach" in international trade and it has affected peripheral and semi-peripheral formations deeply. For this reason while the effects of the "Global Approach" on under-developed countries demonstrate the dimensions of dependency relationship between core and periphery, they also give an idea concerning the character of the integration between Turkey and the EU.

In principle the GATT makes no discrimination between countries doing foreign trade business and this principle affects the economies of under-developed countries in a negative way. Remaining neutral on this issue concerning the

industries of different development levels means in fact taking a stand in favour of industrialised countries.

The majority of GATT members were under-developed countries. The provisions of GATT aiming at free foreign trade were far from solving the development problems of under-developed countries. States having developing industries claimed that especially the principle of “non-discrimination” mentioned in the 1<sup>st</sup> article of GATT had negative effects on their own industries. Therefore, a new section was added to the agreement of GATT in 1965 in order to solve the problems of under-developed countries. This new section having the heading “Trade and Development” is the fourth section of the agreement (Karluk, 1991:274).

The studies aimed at a better participation of under-developed countries in the GATT system and more privileged transactions in favour of these countries were concluded during the Tokyo Round. As agreed here the developed countries would bring no restrictions on basic product imports from developing countries except inevitable conditions and reduce the customs tariffs (Karluk, 1991:274).

However, both before the Tokyo Round between 1973 and 1976 (1968-New Delhi, 1972-Santiago), and during the negotiations in the course of Tokyo Round (1976-Nairobi) all these actions aiming at reducing the effects of GATT on under-developed industries failed to get over the negotiation level. Even if financing the balance of payment deficits in newly industrialising countries and lower tariffs for their products were on the negotiation table, no results were achieved because of the attitudes of industrialised countries (Ertürk, 2002:220).

We can understand that GATT Agreement consolidated under-development or recreated it just having a look at the reduced customs tariffs. Because the concessions given under the GATT agreement comprise such developed technologies which the under-developed countries could and can never produce. The developed countries adopt a particular attitude to protect their own producers in respect of labour-intensive light industry commodities which are fundamental export products.

Thus as raw materials were exported from under-developed countries to developed countries with a low tariff, finished product exports cannot be realised with reference to measures taken by industrialised countries to protect their own producers. As a consequence, under-developed countries make losses let alone benefitting from tariff reduces due to reasons concerning decreasing customs tariff revenues and weakening of the protection provided for the domestic industry (Seyidoğlu, 1980:421).

As the core countries advocate the liberalisation of foreign trade on the one hand, they take labour-intensive manufacturing industries where they have lost competition power. For example, textile and ready-made garment industries, cotton and wool thread, various electronic products and especially agricultural products are taken under protection by means of tariff and non-tariff measures. As the number of countries which expand their trade on the global level and the sectors taken under protection by the core countries increase simultaneously, terms of trade in under-developed countries would follow a negative flow.

#### 1.3.2.1.2. The Institutionalisation of Multi-Sided Trade: The World Trade Organization

GATT-1947 had foreseen an international trade order with no restrictions with all the conditions brought forward by it to liberalise international commodity. But in the course of time liberalisation came also in the fields outside GATT context on the agenda and the western capitalism regarded it necessary to form an institutional structure that would be effective to concretise these efforts. This institutional structure is the WTO, similar to the ITO which could not be established because of disagreements on the draft text in the years 1940's.

The states which came together in the city of Marrakech in Marocco and signed on 14 December 1993 the results of Uruguay Round realised between 1986-1994 to come into force as per 1 January 1995 founded the WTO. GATT-1947 which was an agreement realised to organise the multi-sided commodity trade was revised under the name of GATT-1994 and it has been one of the basic texts of the WTO. In addition to commodity trade, trade of services and intellectual property rights were also included in the new order brought forward

by the WTO. GATS and TRIPS are fundamental characteristics distinguishing the WTO from GATT-1947 (Büyüktaşkın, 1997: 45-49).

As an agreement organising multi-sided trade, the GATT agreement did not foresee an institutionalised organisation. The foundation of the WTO solved this problem. In addition to these the WTO had an organisational power over a broader field than the GATT-1947 and it enabled that the WTO juridical discipline could be developed in reference to various fields (Akman&Yaman, 2008: 1).

The WTO defines its field of activity as follows: administering the WTO trade agreements, forum for trade negotiations, handling trade disputes, monitoring national trade policies, technical assistance and training for developing countries, cooperation with other international organizations (World Trade Organisation [web], 2012).

The fundamental objective of the WTO which had 153 members as per 10 February 2011 is the flow of free trade without problems as much as possible. The WTO sees the free trade as the fundament of progress and welfare aims at abolishing all the obstacles hindering trade. In this way, individuals, companies and states would engage in free trade under the belief that there would be no change in the trade policies (World Trade Organisation [web], 2012).

The standardisation of international trade and the efforts in respect of abolishing the obstacles in this concept date back many years ago have continued until today in spite of interruptions. The standardisation of international trade which is accepted by states as one of the tools used in increasing the total welfare are carried into practice both by global applications and regional projects.

#### 1.3.2.2. Regional Approach: Economic Integration

GATT is one of the steps on the global level to liberalise the international trade and conduct it under certain criteria. The steps taken for the purpose of the liberalisation of international trade are not limited with action taken on the global level. The regional effects of free international trade bring to light a notion what we call today as economic integration.

In general economic integrations are classified with respect to the common action issues and levels of economies which come together. Economic integrations stretch from free trade agreements allowing countries to act independently in trade matters to the level of political unions in which they are administered economically like a single state.

#### 1.3.2.2.1. Phases of Economic Integration

Economic integrations are examined generally in four phases which are free trade region, customs union, common market and economic union. Progress of integration to the upper phase is directly proportionate to the gradual restriction of independent actions of integrating economies. When the phases of economic integration are examined, it will be comprehended more clearly the framework of the relations between Turkey and the EU stuck up in the economic field.

##### 1.3.2.2.1.1. Free Trade Zone

Free trade zones are accepted as the first phase of an economic integration. In such a zone commodity and service trade between the countries integrated are liberalised abolishing all restrictions in respect of tariffs and quantities. But in the type of integration the member countries do not have any obligation to apply a common tariff against the so-called third countries remaining outside the integrated region (Kreinin, 1971:263).

The reason why free trade zones are accepted as the first phase of an economic integration lies especially in the fact that the integrated economies have the possibility of acting independently in respect of the trade carried out with the countries outside the union. This independency is replaced by common actions in the further phases of the related union. Nowadays EFTA and NAFTA can be given as examples for such free trade zones.

##### 1.3.2.2.1.2. Customs Union

A customs union is the next step of an economic integration after free trade zone. The trade between member countries is also liberalised in this type of integration; but additionally a common customs tariff system is applied against

non-member third countries. In a customs union there are restrictions on independent foreign trade policies of individual member states (Dura & Atik, 2003:7).

Customs union is the most applied integration type today. Therefore each time we speak of economic integrations, there come customs unions in mind automatically. Customs unions have been applied especially after the 1950, but we see effective applications of such integration in the course of history. For example, the unification of the South and the North in America and Zollverein which was an integration of German princedoms began in their initial phases as customs unions. In addition these integrations could reach the end stage of full economic integration (Ertürk, 2002:47).

The most outstanding example of economic unions is the EEC which was established with the Treaty of Rome in 1957. The EEC which aimed at an economic and political union in a large scale was founded in the form of a customs union (Seyidoğlu, 1980:422).

#### 1.3.2.2.1.3. Common Market

The term "common market" was first used in the Spaak report in 1956 and began to be used officially as the Treaty of Rome entered into force. Common market was the next step of integration following a customs union. In a common market, restrictions on tariffs and quantities in the member states are lifted and a common customs tariff is applied against third countries. In addition production factors such as labour and capital circulate freely in the member states (Karluk, 1991:236).

#### 1.3.2.2.1.4. Economic Union

This is the final stage of economic integration. All characteristics of a free trade zone, customs union and common market can be observed in this type of integration. The factor distinguishing an economic union from other stages of integration is the harmonisation of national policies.

A single monetary system, a financial system unified by means of Central Bank and additionally a common foreign trade policy are applied. Free trade zones, customs unions and common markets are based the abolishment of factors which hinder the trade between member states. However, in an economic union the decisions taken by a supra-national organ should be applied by all member states to enable the integration (Karluk, 1991:237).

The harmonisation of national policies of member states is based in fact on the harmonisation of economic policies and tariff systems. The EU is the establishment which could realise a union by implementing such a harmonisation. The EU is an example of an integration that could transform into an economic union.

The economic union accepted as the final stage of integration can also enable the political union. The political union is accepted as the final stage by some people in place of the economic one. The member states begin to act as if they were a single state not only in economic matters but also in military and political issues in the stage of political integration.

It is accepted in the literature that the economic integration theories commence with customs union theories. Customs union theory is also called static integration and its development has begun in the aftermath of the World War II.

#### 1.3.2.2.2. Customs Union Theories and Their Economic Effects

As we claim that there exists a dependency relationship between Turkey and the EU associated with the Customs Union and this dependency relationship has deepened to the detriment of Turkey, we should also take into consideration the basic arguments of the Customs Union theory which is formed by the main arguments of the Orthodox Economic Theory. Therefore the content of the Customs Union Theory and its economic effects will be examined and thus the parameters will be sorted out to be used in the evaluation of the dependency relationship between Turkey and the EU.

### 1.3.2.2.1. Customs Union Theory

J. Viner and J.E. Meade<sup>6</sup> are the pioneers of customs unions theory which forms a part of the international trade. Both economists researched the developments which are probable to occur in the economies in the customs union (Manisalı, 1971: 16).

However other economists like Smith, Taussing and Torrens brought about the idea of economic integration before Viner. Smith affirmed that abolishment of taxes in trade and application of common customs tariffs between two countries had a positive impact on the producers and vendors in both of these countries. Taussing claimed that the benefits and costs of bilateral tariff reductions were associated with the shares of countries in foreign trade. On the other hand Torrens underlined that bilateral tariff negotiations should be preferred in place of multilateral negotiations as far as tariffs and free trade are concerned. It was because of the negative impact of multilateral negotiations on the terms of trade (Dura &Atik, 2003:10).

The static integration theory, also called customs unions theory, emerged from analysis of Viner. He affirmed that customs unions had two effects on economies: one was the trade creation effect and the other one was trade diversion effect and the effects of such unions on the global welfare differs in association with the levels in terms of these two effects (Karluk, 1991:239).

While Viner underlined the production effect of customs unions, Meade also included the consummation effects in his analysis. Lipsey and Lancaster claimed that the customs unions could not increase the welfare level in the world as Viner had put it and we can say that they brought a new dimension to the matter in this way. Hindering the trade from non-member countries of a customs union by means of common customs tariffs and similar tools affected negatively the welfare in the world, so Lipsey and Lancaster. This theory of

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<sup>6</sup> J. Viner, The Customs Union Issue, 1950.

J.E. Meade, Problems of Economic Union, 1953, London.

J.E. Meade, The Theory of Customs Union, 1955.



these two economists is accepted as “the second best theory” (Dura &Atik, 2003:10).

Economic integrations are of great importance for under-developed countries. However as we have already seen, economic integration between developed countries differs from an integration between under-developed economic structures and the reason here lies in the structural differences between developed and under-developed countries. The effect of economic integrations on under-developed economies were analysed by various economists such as Johnson, Cooper, Massel, Mikesell and Bhambri. These economists approached customs unions in terms of under-developed countries and underlined mainly the dynamic effects of economic integration (Ertürk, 2002:55).

#### 1.3.2.2.2. Economic Effects of Customs Union

Customs unions have two effects: the dynamic effect and the static one. The production effect as one of the static effects is examined under two main parameters called trade creation effect and trade diversion effect. Dynamic effects come to light in the long run and increase of foreign competition, emerging of scale economies, technological development and increases in foreign investments can be cited as examples for such effects. As the main parameters of dynamic and static effects shall be implemented in establishing the dependency relationship in association of the Customs Union between Turkey and the EU, these effects shall be clarified shortly.

##### 1.3.2.2.2.1. Static Effects of Customs Union

Before Viner, it was suggested that free international trade and customs unions, in the character of a step taken in this direction, always increase global welfare level. As Viner approached the issue by using two concepts, namely trade creation effect and trade diversion effect, he showed that customs unions shall not always increase global welfare.

Effects that are named as static effect of customs unions are trade creation and trade diversion effects. These effects are called “static” because researchers referred to the assumption that technologic and economic structure shall not

change. Static effects are one-off effects and it purports the effects that shall emerge as a result of re-distribution of production factors (Dura & Atik, 2003: 11).

The initial effect of customs unions is that it extends the external trade volume within a region. As the elements that block trade within the union are eliminated, relative products shall be commenced to be imported from the country that presents the cheapest buy within the region. Thus, production of the product with low efficiency shall be replaced by foreign products with high efficiency. The fact that consumption shifts from domestic products with high costs to common country products with low costs (Karluk, 1991: 239) is an indication that a new trade is created. This effect is called trade creation effect (Seyidoğlu, 1980: 425).

The trade creation effect makes a positive impact on world welfare, but trade diversion effect makes exactly opposite of this effect. If customs tariffs are removed in a region, an increase is observed in the trade that union member countries make with each other, and a negative situation emerges from the perspective of non-member countries. Decrease of trade made out of region in connection with customs unions is called trade diversion effect (İyibozkurt, 1989: 215).

One of the most significant reasons of the fact that trade diversion effect decrease welfare level all over the world is related to efficiency. This is because, even if a country produces any product with a higher quality in comparison to other countries, trade diversion effect shall step in since it shall stumble on common customs wall of other countries, and therefore, customs union shall make a negative impact on world welfare.

Advantage that customs union provide to any country may be determined making a comparison between trade creation effect and trade diversion effect. However, only effect of international economic integrations is not the earning that is obtained as a result of the comparison made between trade creation effect and trade diversion effect. Reflection of developmental differences between countries to integration and industrialization goals of underdeveloped

countries indicate that the issue is more than making a comparison between two main factors (Alkin, 1981: 90-91). Therefore, dynamic effects of customs union gain importance particularly from the perspective of underdeveloped countries.

#### 1.3.2.2.2.2. Dynamic Effects of Customs Union

Static effects of customs union are based on certain assumptions. These assumptions are related with acceptance of technologic and economic structure (full employment and pure competition) as stable. However, there may be circumstances in real life where these assumptions are not applicable (Dura & Atik, 2003: 18).

Markets of countries that come together as a result of customs unions constitute a larger market naturally. Replacement of small country markets by larger markets comes with a series of dynamic effects. The market that extends based on trade creation and trade diversion effects also allows making production extensively and also increases competition (Kreinin, 1971: 266). These effects that are called dynamic effects of customs union are classified as increase in foreign competition, scale economies, technological progress and promotion of investments (Seyidođlu, 1980: 428).

##### 1.3.2.2.2.2.1. Increase in Foreign Competition

One of the most significant effects of customs union is related with increase in foreign competition. Producers that are protected by customs walls and that make production with low efficiency come across with foreign producers that produce the same product with higher efficiency and from a cheaper price. As a result of this encounter, producers that may not tolerate foreign competition pull out of the market, and they are replaced by foreign producers.

Companies that may not operate efficiently under the conditions of competition are obliged to shift to more efficient sectors. Companies capable of competing endeavour to find practices that may increase efficiency in order to decrease their costs even more. Moreover, small firms endeavour to subsist by mergers. This effect is particularly observed in France (Kindleberger, 1970: 220).

Strength of monopolies decrease under such circumstances, and firms that manage to increase efficiency become lucrative.

#### 1.3.2.2.2.2.2. Economies of Scale

One of the other dynamic effects of customs unions is related with the fact that the market that emerges as a result of integration is very large in comparison to the market prior to integration. Production that is made for a larger market causes occurrence of economies of scale.

Economies of scale refers to increasing efficiency and making profit by extending a firm or facilities in an industrial sector, by transferring technological innovations and by putting other cost-cutting elements (Karluk, 1976: 44).

Certain economists accepted the relation between development and large market. According to the economists, such as A. Smith, J.S. Mill, K. Wicksell, A. Marshall and A. Young, size of a market is the main factor that determines efficiency of industries. As a result of the customs union larger market, which is suitable for developing advanced production techniques, emerges in the short period of time. In addition manufacturers are able to make investments with longer terms as a result of decrease of uncertainty in a large market (Bilget, 1971: 47).

External economies that are expected to emerge as a result of customs union are as follows; delivery of products to the consumers with lower prices as a result of customs union and transfer of information and technology to the underdeveloped countries in the union since they move freely between countries (Dura &Atik, 2003: 21).

#### 1.3.2.2.2.2.3. Technological Progress

Another claim of customs union is related with technological progress. As a result of customs union, manufacturers must make production for a larger market and must increase their efficiencies in order to continue their existence. Manufacturers endeavour to carry their development activities and production

technologies a step further, and they also endeavour to introduce foreign advanced technology to the country.

#### 1.3.2.2.2.2.4. Promotion of Investments

Reducing customs tariffs causes an increase in the number of local and foreign investors in connection with the extension of market, as well as a rise in growth rate. Such “investment creation” can be partly offset by what might be called “investment diversion” when investments are diverted from the most rational location in the world to the integrating region because of the tariff discrimination (Kreinin, 1971: 267).

Motta and Norman emphasized the effect of economic integration in increasing direct foreign investments, and they referred to the relationship between Mexico’s membership to NAFTA and direct foreign investments. Accordingly, Mexico that may be defined as an underdeveloped economy is in a more advantageous position in terms of attracting foreign investments after participating in NAFTA (Motta & Norman, 1996: 758).

The meaning and objectives of integration and its development in historical process are assessed in the initial chapter of this thesis which suggests that the relationship established between Turkey and the EU on the basis of Customs Union is an uneven relationship and that it deepens unevenness against Turkey. Theoretical background and economic effects of Customs Unions which are the products of territorialisation process of international trade are assessed. Following issues are observed accordingly:

1. Core economies get the better of integrations that are made between various economic formations, such as core and periphery or core and semi-periphery.
2. Tariff discounts that are made in connection with liberalization of international trade damage underdeveloped countries, rather than providing benefits since tariff discounts decrease tariff incomes and weaken the protection provided to the local industry.

3. Customs Unions has two basic effects, namely static and dynamic effects, and these effects emerge in short and long term. Trade creation effect and trade diversion effect constitute the production effect of static effects. Dynamic effects are comprised of increase in foreign competition, occurrence of economies of scale, technological progress and increase in foreign investments etc. These hypotheses shall be tested in the following chapters.

## **CHAPTER II**

### **TURKEY AND THE EUROPEAN UNION**

In order to make a healthy assessment on the Customs Union established between Turkey and the EC, we need to study the relations between Turkey and integration form that we call the EU today. Also, how the Customs Union process has evolved by passing through certain stages should be scrutinized. Therefore, in the second chapter, we will first assess the development of relations between Turkey and the EU. Also, integration phases that were mentioned in Ankara Agreement, which started the Association relationship between Turkey and the EEC will be addressed within the framework of developments of the relations between Turkey and the EU. The evolution of Turkey-EU relations to Customs Union started with the Additional Protocol, we will elaborate the general features and contents of the Additional Protocol as well. We will finalize the second chapter by assessing the reflections of the final phase of the integration process, which is called the Final Period on various parties and classes. In this way, we will be able to understand with which reasons the different social parties supported or opposed to the process while the relations between Turkey and the EU that created a dependent development at the advantage of the EU get deepened.

#### **2.1. TURKEY-EUROPEAN UNION RELATIONS**

The relations between the organization named the EEC, the EC and the EU respectively should be studied under two main headings. We will assess that depending on which events Turkey's relations with West before its association application to the EEC in 1959 was developed and transformed under the title Process Before Application for Association. The developments evolved in relation to association relations will be examined under the title `Application for Association`.

### 2.1.1. Process Before Application for Association

Turkey's relations with Western European nations has changed right after the World War II with relation to the Soviet threat. The atmosphere that the Soviet expansionism created after the World War II has led addressing Turkey-Europe relations within the defense and security axis instead of a context of civilization and westernization problematic.<sup>7</sup>

Right after the Yalta Conference, on 19 March 1945, Soviet government note given to Turkey stated that Soviets did not want to renew the Turkish-Soviet Treaty on Friendship and Non-Aggression, which would end on 7 November 1945 (Sander, 2002: 252). On 7 June 1945, Soviet Minister of Foreign Affairs Molotov notified Turkey's Ambassador to Moscow, Selim Harper, the conditions that needs to be filled by the Turkish government that seeks to come to an agreement with the Soviet Union. For this, the Soviet Union wanted to change the Turkish-Soviet border, to have a base on the Straits and to make amendments on Montreux Agreement (Gönlübol&Ülman, 1989: 192).

Although it was uncertain whether Stalin would really attack Turkey or not in 1945-46 (Hale, 2013: 113), it is obvious that the process pushed Turkey into the arms of the West.<sup>8</sup> During the years following this period, Europe and the USA stood by Turkey against the Soviet Union. Turkey began receiving Marshall Aid in 1948, became a member of the OEEC and later accepted in the Council of Europe in 1949 (Hale, 2003: 116-117).

Relations between Turkey and the West reached to a new dimension when the Democrat Party, collecting 53% of the votes in the elections on 14 May 1950, came into power. Even though the relations with the Western world started in 1946, the Democrat Party considered integration with the West as a means for

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<sup>7</sup> Transformation of Turkey's relations with West can be traced back to pre-Reorganization (*Tanzimat*) period that has been often emphasized in the modernism debates. In addition to opinions that westernization efforts surfaced as a recipe for structural deformities of Ottoman military, economic and social structure (Kongar, 1998: 64), there exists opinions carrying the phenomenon way before the `sudden` meeting of Ottomans with the Europeans (Ortaylı,2008: 13).

<sup>8</sup> The dialog between Khrushchev and Beria can be considered as an indication of a shift in Turkish foreign policy to the Western axis. Khrushchev said to Beria that `Stalin scared Turkey into the arms of the Americans` (Hale, 2003: 121).



solving all problems. This opinion stems from the idea of ensuring the economic development with foreign debt and aids (Kongar, 1998: 150).

The fact that Turkey became a member of NATO in 1952 together with Greece, and signed Bagdat Pact to curb the Soviet influence in the Middle East in 1955 shows that the relations with the West has deepened. Turkey's application to the EEC in 1959 is the follow up of this process.

### **2.1.2. Application for Association of Turkey and the Ankara Agreement**

The Ankara Agreement that establishes the association relationship between Turkey and the EEC divides Turkey's integration process with the Community into three phases: Preparatory, Transitional, and Final Stages. Every stage in Turkey's integration process with the EEC, which is in essence an economic integration, brought about different obligations or preparatory stages.

#### **2.1.2.1. Preparatory Stage**

Turkey's application to the EEC took place on 31 July 1959, a very short time after the application of Greece to the EEC (Gökdere, 1989: 141). At this period, despite little knowledge about the Common Market, Turkey applied to the EEC with intensive efforts of Minister of Foreign Affairs, Fatin Rüştü Zorlu, based on the opinion that Greece should be followed in foreign policy (Birand, 1996: 52).

After the military intervention on 27 May 1960, relations between Turkey and the EEC entered into a troublesome period. When the National Unity Committee approved the death penalty of Menderes, Polatkan and Zorlu on 15 September 1960, and the penalty was executed on 16-17 September, De Gaulle proposed to postpone negotiations with Turkey indefinitely, and French Minister of Foreign Affairs Maurice Couve de Murville proposed to halt the negotiations immediately (Birand, 1996: 10).

Taking into consideration that a country alone like Turkey that has an important geographic location during the Cold War years, the negotiations restarted again after a while and the Ankara Agreement, establishing the legal basis of Turkey-EU relations was signed on 12 September 1963.

The Ankara Agreement aimed at building up firm ties between Turkey and the EEC, reducing the economic difference between Turkey and the Community, and for that, accepting to extend economic aid to Turkey. According to the Agreement, the support given by the EEC would facilitate Turkey's joining into the Community (Turkish Foreign Ministry, 1963).

The Ankara Agreement, by taking into consideration the development difference between Turkey and the EEC, has bound the membership of Turkey to the Community into a three-phased period. According to article 2 of the Agreement, Turkey will be able to join the Community after having completed the stages called as preparatory, transitional and final (Turkish Foreign Ministry, 1963).

Article 28 of the Agreement states the legal framework, which Turkey often mentioned during the full membership discussions. This article says that:

“As soon as the operation of this 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 accession of Turkey to the Community” (Turkish Foreign Ministry, 1963).

The reason why Turkey opposes to the options apart from full membership (like privileged partnership) stems from the idea that Article 28 of the Agreement overrules the alternative ways different from full membership.

According to the Ankara Agreement, Turkey has no obligations during the Preparatory Stage. At this stage, it was envisaged that Turkish economy would be supported with credits and aids by the Community to be prepared for the transitional and final stages. Article 2 of the financial protocol annexed to the Ankara Agreement foresaw that these credits should be 175 million units of account.(European Union [web], 1963).

### 2.1.2.2. Transitional Stage

The Preparatory Stage terminated with signing the Additional Protocol on 23 November 1970 in conformity with the Article 3 of the Ankara Agreement and legally entered into force on 1 January 1973 (Kabaalioglu, 1998: 387-388).<sup>9</sup>

While the Additional Protocol, which is the implementation of the transitional stage between Turkey and the EEC, was put in effect at the beginning of the 1970s, accumulation crisis based on the Fordism in Europe was deepening. When the wage increases passed the productivity increases, linked especially to the increase of activity of European origin capital in international cycle, New Industrialized Countries have emerged in Asia-Pacific region. However, Turkey, in relation to some reasons depending on general wages level and economical structure, could not reach the ranks of NICs. Turkey removed the obstacles ahead of its commodity circulation related to world-system that was restructured since the beginnings of 1970s. The Additional Protocol is one of the expressions of internationalization of capital circulation in Turkey. The issue of giving time to Turkey for reductions of customs duties during the Transitional Stage is related to effective productivity variance between Turkey and the EEC.

#### 2.1.2.2.1. General Features of the Additional Protocol

The Additional Protocol, drafted within the framework of the Ankara Agreement establishing the association relations with the EEC, as defined in article 1 of the Agreement, was signed with the aim of “lay(ing) down the conditions, arrangements and timetables for implementing the transitional stage” (Turkish Ministry of Finance, 1970).

The Additional Protocol consists of four titles and sixty four articles. The first title defines free movement of the goods, the second title defines movement of persons and services. The third title that defines the regulations concerning alignment of the economic policies is followed by the fourth title that states the general and final provisions (Turkish Ministry of Finance, 1970).

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<sup>9</sup> As the ratification of the commercial clauses of the Additional Protocol by the parliaments of the community members would take time, an “Interim Protocol” was signed and trade clauses of the Additional Protocol *de jure* entered into force on 1 September 1971.

The main aim of the Additional Protocol, as stated in the related articles (Articles 7-35), was to establish the Customs Union between the parties. Because of the difference between the development levels of the EEC and Turkey, the responsibility of the parties varied. This variation can be considered as an additional time given to Turkey before opening to outside in sectors where Turkey's competition power is weak.

#### 2.1.2.2.2. The Additional Protocol and Elimination of Customs Duties

According to the Additional Protocol, the EEC agrees to remove all customs duties and quotas that it applies to industrial products imported from Turkey, with the entry of the Protocol into force<sup>10</sup>. Turkey pledged to remove tariffs that she applied to industrial products starting from the entry into force of the Agreement within 12 years for sectors that she has competition power, and within 22 years for sensitive sectors (Aydoğan, 2004: 180).

The provisions related to the agricultural products are defined in Title 2, Chapter four in the Additional Protocol. In the Article 33, it is agreed that for the free movement of agricultural products between the Community and Turkey, Turkey should adjust to the Community's common agriculture policy over a period of 22 years. Besides, within this time, the Community would take into account the state of the Turkish agriculture in establishment and future development of the agricultural policy (Turkish Ministry of Finance, 1970).

Within the framework of "preferential regime" that was implemented in view of the Additional Protocol and took its final shape in 1980, while 76% of Turkey's agricultural product exports were under preferential regime, Turkey gave a preferential quota in some products to the Community for the first time in 1993. As a result, only 7% of the Community's agricultural product exports to Turkey benefited from tax reduction (DTM, 2007: 301-302).

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<sup>10</sup> Some petroleum products, cotton yarn put up for retail sale, other woven fabrics of cotton and wool or carpets made up of fine animal hair were exempted from tariff duties reduction. The tariffs of products apart from petroleum products were set to be reduced in lots of 25% to be removed totally within a 12 year period. These tariffs duties were totally removed on 1 January 1985 as committed. Similar practices were made on petroleum products as well and zero rates of duty quota was raised (DTM, 2007: 299).

### 2.1.2.2.3. Free Movement of Persons in the Additional Protocol

The Additional Protocol, besides free movement of the goods, included the arrangements on free movement of persons and services, which is one of the main characteristics of the EC. The principle of free movement of persons is considered as one of the fundamental dynamics in Turkey's relations with the European Union today, and is important in showing the quality of integration of Turkey with the EU and its dimensions. We cannot see the flexibility in free movement of persons that we saw in free movement of the goods.

The Additional Protocol refers to Article 12 of Ankara Agreement for freedom of movement for workers (Turkish Ministry of Finance, 1970). Article 12 of the Ankara Agreement states that Articles 48, 49 and 50 the Treaty of Rome establishing the EEC will be guiding the Parties for the purpose of progressively securing freedom of movement for workers between the Parties (Turkish Foreign Ministry, 1963). Article 48 of the Treaty of Rome concludes the issue, by stating "freedom of movement for workers shall be secured by the end of the transitional period at the latest" (European Union [web], 1957).

As the Ankara Agreement entered into effect on 1 December 1964, Turkish workers were supposed to have the right of entering freely to the labor force market of the Community starting from 1 December 1976. However, the economic stagnation and unemployment that appeared with 1973-74 oil crises brought about the limitations on free movement of workers. This limitation was reflected on the ECJ decisions, as well. The Demirel Case concluded by the ECJ in 1987 sets an example of this issue. According to the conclusion, the articles stating that Turkish workers would gain the free movement right until 01 December 1996 carry the quality of "conditional right". This right depends on the decisions that will be taken by the Association Council. In short, according to the ECJ, from a legal perspective, it is not possible to say that Turkish workers have freedom of movement right in member countries of the Community (DTM, 2007: 302).

#### 2.1.2.2.4. Turkey's Obligations at the Transitional Stage

Turkey has gradually implemented its customs reductions defined in Additional Protocol starting from 1973 and began the process that leads to Customs Union with the EEC. However, Turkey started not abiding by its obligations concerning customs reductions after 1976 and did not follow the calendar set in Additional Protocol (Erhan&Arat, 2002a: 850).

As Turkey assumed that the economic crisis experienced deepened because of the trade deficit between Turkey and the EEC, and implemented the Article 60 of the Additional Protocol, ensuring that necessary protective measures were taken justifying it with the fact that its financial stability was adversely affected (Erhan&Arat, 2002a: 850).

Turkey, during the meetings with the EEC in 1978, asked to be exempted from its obligations towards the EEC for five years, to make amendments on products in 12 year and 22 year lists, to remove limitations on industrial products to include textile products, to incorporate Turkey in to Generalized System of Preferences applied to the third countries for free movement of workers and agriculture. However, the EEC did not accept the propositions other than 5 year exemption. (DTM, 2007: 308).

#### 2.1.2.2.5. The Turkey's Full Membership Application

With the inclusion of political elements (12 September 1980 military intervention) to the economic factors, the relations between Turkey and the EEC entered into a long stagnation period starting from 1978. Turkey's efforts during the second half of the 1980s increased as Greece, Spain and Portugal joined the Community. On 14 April 1987, Turkey applied to the EEC for full membership, and put into effect the reductions in customs envisioned in the Additional Protocol, which she was not able to realize because of economic reasons, within a new calendar framework (Aydoğan, 2004: 181).

Turkey's application was refused by the EEC in 1989 due to underdevelopment of the economy of Turkey and the EEC's inability to accept such an enlargement while the Community was in the way for Single Market. Besides

these main reasons, Europe found Turkey's steps for transition to democracy after 12 September 1980 military intervention inadequate and believed that Turkey's full membership would bring the EC additional burden. Despite this negative answer, Europe expressed that cooperation with Turkey should continue, customs union should be realized and reductions in customs should continue within a certain calendar framework (Erhan & Arat, 2002b: 100).

For this reason, Turkey, starting from 1988, continued to reduce customs duties after applying for full membership. In bilateral meetings between the parties, it was stated that Turkey's customs reductions and adjustment to the Common Customs Tariff should be realized by 1996.

#### 2.1.2.3. Final Stage (Association Council Decision No. 1/95 and Customs Union)

Customs Union which had been foreseen in Ankara Convention for the countries in the consolidation period and which is an integration style whose terms and conditions have been determined by Additional Protocol, has been expected to be implemented at the end of the year 1995, which means that at the end of 22 years transition period. Beginning from 1988, Turkey has continued to the customs discounts which have been paused in 1976, and a rate of 80% in the 12 years list and 70% in the 22 years list has been achieved beginning from 1 January 1993. Similar figures have been reached about the Compliance with Common Customs Tariff. Customs discount at the rate of 60% in the 12 years list and 50% in the 22 years list has been achieved beginning from 1 January 1993 (Gümrükçü, 2002: 123).

Beginning from the end of 1980s, after the other parameters have become a part of the activity, the relation between Turkey and the EEC has started to change. Especially Soviet Union's being in a disorganization stage has caused Turkey's way of being perceived and used by Europe to change. In the following years, Europe has started to evaluate Turkey and the relations mostly on an economic level and has started to remain distant for the membership of Turkey in the Union.

Raymond Barre, the former Prime Minister of France, who has visited Turkey in the year 1988, has stated that Turkey's membership application in 1987 would be rejected and that Turkey should focus on Customs Union. According to Barre, none of the countries can keep a country which has completed Customs Union out (Birand, 1996: 448). Relations between Turkey and Europe have come to a structure which excluded the components except Customs Union with the application of the aforementioned policy beginning from 1990s.

#### 2.1.2.3.1. Opinions in Turkey before Customs Union

Subjects like full membership and free circulation of workers in the Union have been off the agenda when Turkey has declared that Customs Union would be realized at any cost (Manisalı, 2008: 13) and when Turkey has used the subject in the domestic policy. The declarations in the Customs period, especially during Tansu Ciller's Prime Ministry, changed the quality of the relationship between Turkey and the EU. Customs Union has been used as a domestic policy material and it has been introduced to the public with "victory" slogans (Özkan, 1999: 96). That is why it does not seem to be possible to talk about an association relationship between Turkey and the EU, beginning from this period.

While the last necessary steps on the way to Customs Union were being taken, there were dissenting voices from the organizations. Turkish Textile Exporters Association has been claiming that the textile industry export of Customs Union and Turkey to the Union would be doubled and come up to 10 billion dollars in a short time. In fact, apart from going wrong, the textile industry has receded (Gümrükçü, 2002:136). State Planning Organization (DPT) was one of the organizations, which has been suspicious with Customs Union. State Planning Organization (DPT) Chairman Özfırat has stated that the trade gap against Customs Union and EU memberstates would increase up to 4% and this would affect the industries which manufacture automobile, electronics and electronic goods. (Gümrükçü, 2002: 132)

It is being understood that no extensive evaluations and analysis have been made before Customs Union in Turkey. The inability in this subject has reflected to the protocols. The general meeting proposals of Members of the Parliament



about the Customs Union have been put on the agenda on 21 February 1995 Tuesday. Members of the Parliament have stated that Customs Union has become the most important agenda topic in Turkey, but the subject has not been discussed in all its aspects. (Grand National Assembly of Turkey, Minutes of General Meetings, 1995: 22)

Differing greatly, the attitudes of political parties can be analyzed in two blocks, in general. While DYP, ANAP and SHP-CHP party line have been supporting the actions to be taken for Customs Union, DSP and RP have been acting with deliberation. Entering to the Customs Union before DSP Chairman Ecevit obtains promises from EU about the manpower, service roaming and monetary assistance, would affect Turkish economy negatively. According to Ecevit, although Customs Union would provide some advantages in the long term, problems would not come to an end for Turkey unless a full membership was not guaranteed. RP has been claiming that Turkey's dependency to the EU would increase as a result of the Customs Union (Tekeli & İlkin, 2000: 414-420).

#### 2.1.2.3.2. Association Council's Customs Union Decision

Turkey's relation with Europe has taken yet another turn with a decision in the Association Council 6-7 meeting on March 1995. The Customs Union has been declared to be completed in Association Council on 6 March 1995 and thus, the transition period has come to an end and the last period has begun.

Although Turkey has been stated as conforming the Customs Union criteria to some exceptions, the requested regulations have been included in this meeting of Association Council. Besides, it was being understood from the EU's requests that the situation would not be able to be degraded to any commercial extent. In their declarations after Association Council, the EU has been requesting Turkey to improve the relations with Greece, to progress on Cyprus as part of the EU, and to show a marked improvement on the democratic rights, reminding the arrested DEP members of the Parliament (Tekeli & İlkin, 2000: 426).

Turkey's improving relations with the EU have reflected on Five Years Development Plan VII of Turkey. In the opening speeches of the plan entitled as "Developments in the World and Turkey", a general evaluation has been made about the global economic system and Customs Union has been evaluated as a great opportunity. In the plan, it has been stated that Turkey had to make fundamental changes in the communication substructure and manpower market (Turkish Ministry of Development, 1995: 2).

The transition period has come to an end with the approval of Association Council about Customs Union on 30 October 1995 and the related decision voting of European Parliament on 13 December 1995. Beginning from 1 January 1996 in the full membership stage, Turkey has entered the Final Period by providing the Customs Union in the industry goods and processed agricultural goods.

#### 2.1.2.3.3. Basic Characteristics of Association Council Decision No. 1/95

Association Council Decision No. 1/95 (Customs Union Decision) is composed of 6 sections and 66 clauses. There is free circulation of goods, and regulations related with the trade policy in the first section of Association Council Decision. The second section of the Decision presents that the decisions related with Customs Union will be applied for the goods except the agricultural goods, and that regulations related with the agricultural goods are presented in the second section of the decision. According to the third section, the goods being manufactured in Union and Turkey, the goods that are obtained by completely or partly using the ex-third country goods which are in free circulation in the Union and Turkey and the ex-third country goods which are in free circulation in the Union and Turkey are in the scope of free circulation (Turkish Foreign Ministry, 1995).

As per the 4<sup>th</sup> clause, of the Decision, the parties have invalidated the customs data, equivalent effect tax and pictures. Besides, elimination of quantitative restrictions and equivalent effect measures have been removed in clause 5 and hence the obstacles to Customs Union have also been removed (Turkish Foreign Ministry, 1995). A five years' time has been given to Turkey, to be able

to include the Union documents about removing the technical obstacles to trade, into the Turkish domestic law system, by means of Clause 8 of Association Council Decision (Turkish Foreign Ministry, 1995).

As stated in the second section of Association Council Decision No. 1/95 which presents the regulations related to the agricultural goods, an extension of time is needed to be granted for the free circulation of agricultural goods. As per the clause no. 25 of the Decision; while Turkey tries to adapt its agriculture policy to the Common Agriculture Policy of the European Union, the Union takes Turkey's benefits into the consideration (Turkish Foreign Ministry, 1995).

There are inclusion of agricultural goods to the free circulation up to the end of 1995 and the related regulations in the clause no. 33 of Additional Protocol (Turkish Ministry of Finance, 1970). Besides, the EC member states have declared in the year 1980 that they have agreed to annihilate the exportation customs of agricultural goods in a "six years period, gradually", but they have insisted on the decisions related to the quantity and schedule. Difficulties of those changes' being able to be implemented, shows that there is a big amount of economic interests of European side about the free circulation of agricultural goods (Gümrükçü, 2002: 140).

The compliance to the Common Customs Tariff which has been discussed in the Common Customs Tariff and Preferential Tariff Policies of Association Council's Decision No. 1/95, has always been evaluated as part of sovereignty rights in the Customs Union discussions. The studies about Common Customs Tariff have also started in the transition period like the customs discounts. Turkey has committed to implement Common Customs Tariff, against the third countries with Association Council Decision No. 1/95. In the clause 14 of the Decision, Turkey has agreed to abide by the decisions of Union about Common Customs Tariff (Turkish Foreign Ministry, 1995) and thus, Turkey has become the only country which has to obey the decisions and directives of the EU without being represented in the decision making bodies of the EU (Gümrükçü, 2002: 141).

It is possible to evaluate that no significant regulations about free circulation of manpower have been included in the Association Council decision, as a result of the EU policy which Turkey has been implying beginning from the end of 1980s. The necessary steps have not been taken before Europe about the free circulation of manpower and monetary assistance in accordance with the governments' turning the Customs Union into a domestic policy material in Turkey.

## **2.2. COMMENTS ABOUT CUSTOMS UNION**

Turkey's Customs Union period has been honored to the interest of various social classes especially after the Association Council Decision No. 1/95. All of the social classes have supported or criticized the Customs Union between Turkey and the EU for different reasons. It is deemed suitable to analyze the aforementioned groups under various titles to discuss those reasons with a complete evaluation.

### **2.2.1. Comments of Political Parties about the Customs Union**

Acceptance of Association Council Decision No. 1/95 which is named as Customs Union Convention by European Parliament in 13 December 1995, has been interpreted in various ways by the political parties, civil society organizations and academicians in Turkey.

President Süleyman Demirel, Prime Minister Tansu Çiller, CHP Chairman Deniz Baykal and MHP Chairman Alparslan Türkeş have been evaluating that Customs Union would bring positive results to Turkey in short, medium and long term as it stands. Turkish General Staff has been one of the corporations which have positive thinking about Customs Union. Besides, Turkish Industry and Business Association (TÜSİAD), Ankara and Ege Chambers of Industry, Union of Turkish Agricultural Chambers, Turkey Union of Chamber of Merchants and Craftsmen, Foreign Capital Coordination Association, Turkish Clothing Manufacturers Association, Foreign Economic Relations Board, Confederation of Turkish Trade Unions and Confederation of Progressive Trade Unions have been leaning towards the Customs Union (Tekeli & İlkin, 2000: 518).

ANAP Chairman Mesut Yılmaz, DSP Chairman Bülent Ecevit and RP Chairman Necmettin Erbakan have come out against Customs Union. Erol Manisalı and Yahya Sezai Tezel have been carrying the banner for the contrariety to the Customs Union, among the academicians.

Public opinion about the Customs Union has been displayed by a survey which has been published in Sabah Newspaper on 13 December 1995. According to the Sabah Newspaper who has transferred the survey which has been published by Turkish Daily News Newspaper, 76.2% of the public have been granting approval to the Customs Union (Denk, 2011: 297).

President Süleyman Demirel has interpreted the approval of the Customs Union as “fulfilling the conventional obligation between Turkey and the EU”. Thanking to those who have contributed for obtaining the result, Demirel has stated that the last period would be full of difficulties, but all difficulties would be faced nationally and devotedly (Denk, 2011: 311).

European Parliament’s approval of the Customs Union was placed on top of the agenda of the political parties in Turkey, before the general elections on 24 December 1995. Prime Minister Tansu Çiller has described the approval of Customs Union as a big success. Çiller has presented her opinion about the Customs Union by saying that: “Today, a cherub is born. We will raise him. Today, we are starting the War of Independence” (Milliyet Newspaper Archive, 1995). Çiller was sure that the relations between Turkey and European Union would be taken further by means of Customs Union. Prime Minister Çiller has been claiming that Turkey would enter the European Union probably in three years (Tekeli & İlkin, 2000: 515).

Deputy Prime Minister and Foreign Minister Deniz Baykal has stated that “From now on, workers, farmers, tradesmen, craftsmen and industrialists of Turkey will not make production just for 60 million people in Turkey, they will make production for 400 million people in Europe” and that nobody should walk around with the thought that they have succeeded in taking Turkey in the Customs Union themselves. According to Baykal; Atatürk, İsmet İnönü, Adnan Menderes and Turgut Özal were the owners of this victory (Denk, 2011: 307).

MHP leader Alparslan Türkeş has stated that the Customs Union would have a positive effect on Turkey and Europe especially on medium and long term. Türkeş has also stated that no concessions would be made for the Southeast and Cyprus. Türkeş has told that a referendum would be able to be hold for the subject (Milliyet Newspaper Archive, 1995).

Basically having positive opinions about the Customs Union, ANAP leader Mesut Yılmaz has stated that Turkey has entered the Customs Union under very bad conditions and they would negotiate the subject again when they come into power. Yılmaz has emphasized the conditions which Turkey has entered Customs Union: “As ANAP, we will negotiate the conditions of the EU and Customs Union after the elections on December 24, when we grab the power. We will be insistent for providing the opportunities which have been given to the other countries, to realize this bold step with a minimum cost” (Denk, 2011: 319).

Conservative wing has taken the Customs Union as a “serrility project”. RP leader Necmettin Erbakan has said that “They do not let Turkey in, because they are afraid from the probability of Turkey’s entering the Islamic Union. They tie Turkey on a pile not to escape. Today they are celebrating the Customs Union in our country. In fact, this is a serrility festival” (Milliyet Newspaper Archive, 1995). Independent Industrialists and Businessmen’s Association (MÜSİAD) has also been approaching the subject in the same way. According to Independent Industrialists and Businessmen’s Association (MÜSİAD), Turkey was not able to implement the free market economy conditions in its own domestic market. They have stated that Turkey would not be able to advance to higher level country standards without a strong industry substructure (Tekeli & İlkin, 2000: 518).

### **2.2.2. Comments of Mainstream Media about the Customs Union**

Customs Union has been passionately supported by the mainstream media. Sabah newspaper has introduced the approval of Customs Union by the European Parliament with the headline: “Now We are European”. Hürriyet newspaper has evaluated the subject in its “Customs Union Special” page and

its headline was “We are Officially European”. On 14 December 1995, the subheading of Milliyet newspaper was “Europe at Last”, the subheading of new Yuzyl newspaper was “Turkey is in the Premier League Now” and the subheading of Zaman newspaper was “Let’s Hope for the Best” (Denk, 2011: 307-317).

Newspaper columnists have seemed to be indecisive related with the subject in this period and they have been mostly giving place to the persons making academic studies related with Customs Union in their columns. On 11 February 1995 Melih Âşik, on 16 February 1995 Hasan Pulur and on 12 April 1995 Nazlı Ilıcak has announced the negative conditions which Customs Union would bring, in Milliyet and Meydan newspapers, to the public (Manisalı, 2008: 57-70).

### **2.2.3. Comments of Employers about the Customs Union**

Customs Union has been also supported by the businessmen. Istanbul Chamber of Commerce (İTO) Chairman Mehmet Yıldırım has stated that the year 1996 would be the year of expectations by means of Customs Union. According to Yıldırım, small and medium establishments will take their share from the funds when the EU fulfills its obligations. YASED Chairman Yavuz Canevi has asserted that the trust in Turkey would increase by means of Customs Union, and this increase in the trust would be reflected on the foreign investors. MESS has been among the organizations which have acted with deliberation. Secretary General İsmet Sipahi has stated that Turkish industry would come to a bad end in case it has not been ready for the competition (Denk, 2011: 337).

Economic Development Foundation has been one of the organizations which leaned towards Customs Union and which took Association Council Decision no 1/95 as an important step for Turkey’s full membership to the EU. According to İKV Chairman Meral Gezgin Eriş, Customs Union’s functioning would play an essential role in resolving some of its fundamental problems. Besides, if Turkey fulfills its responsibilities in the Last Period, it would be able to join the Union as a member (Manisalı, 2008: 180).

Some of the industrialists had a negative standpoint regarding Customs Union. Mr. Mümtaz Zeytinoğlu, The President of the Chamber of Industry in Eskişehir, states that the Additional Protocol has never been a tool to be used in the way towards industrialisation in Turkey. What Turkey sought was industrialisation rather than seeking new markets for its present industry. The Additional Protocol which has been the basis of Turkey's relations with the EEC was far from providing new tools for industrialisation; or rather Turkey lost some of the fundamental factors needed for industrialisation (Zeytinoğlu, 1981, 86:87).

The relationship between Turkey and the EEC has been an unequal one. This unequal relationship is associated with the continuation of protective policies by the EEC. The EEC seems to be an advocate of free trade on one hand, but on the other hand it protects itself in the agricultural field with new protective measures (Zeytinoğlu, 1981:90).

The Chamber of Industry of Eskişehir is also of the same opinion: The Customs Union has been initiated with the Additional Protocol without profoundly taking the results into account. No serious preparation was made as far as the documentary side of the agreement was concerned, so the Chamber of Industry. The aim of Turkey in regards of a rapid industrialisation was also not taken into consideration during the preparation phase of the related lists. No studies were available for the Authorities, even after signing the Protocol, regarding the protection rates and durations of different industrial branches. For this reason the Additional Protocol has been described as a step taken towards darkness (Chamber of Industry of Eskişehir, 1981: 42:44).

#### **2.2.4. Comments of the Trade Unions about the Customs Union**

European Parliament's approval of Customs Union has been welcomed positively by the trade unions. Confederation of Progressive Trade Unions and Confederation of Turkish Trade Unions have conducted lobbying activities for Customs Union to be approved in European Parliament. Confederation of Progressive Trade Unions has requested the Customs Union not to be left as a commercial integration. It should be an integration whose political and social side would outweigh. Confederation of Turkish Trade Unions has defined



the Customs Union as the way to the EU; but it also stated that small and medium scaled enterprises could have difficulties and Turkey could become an open market (Tekeli & İlkin, 2000: 518).

### **2.2.5. Comments of Academics on the Customs Union**

According to Erol Manisalı who defines the approval of Association Council Decision No. 1/95 in the European Parliament as Turkey's losing its economic independence, the most destructive effect of Customs Union, has been originated from the decisions related to the trade with third countries. As per the Association Council Decision No. 1/95 clause 16, Turkey has to adhere to the agreements which EU signs with the third countries (Turkish Foreign Ministry, 1995). Turkey had to implement EU's foreign trade policy without being involved in the upper level organizations which specify the foreign trade, by means of Customs Union. Without a full membership, such a dependency prevents the interests of Turkey to be reflected to the EU's decision making bodies (Manisalı, 2002: 96).

When clause 16 of the agreement is interpreted together with the other clauses, it shows that Turkey had to obey the future agreements (Manisalı, 1995: 72). The agreement has been also depriving Turkey of making free trade conventions with the third countries. Since the goods which enter Turkey, also enter the Customs Union zone, it affects the EU and this situation is creating privileged position to the detriment of Turkey. In this case, if any one of the EU members brings the subject to EU Supreme Court of Justice, it can invalidate this implementation (Manisalı, 2002: 97). Since Turkey was not a full member, it has to implement the decisions of the EU Supreme Court of Justice which does not have judges, about Customs Union (Manisalı, 2002: 98).

According to Manisalı, the EU did not fulfill its obligations for Turkey, especially in the period between 1983 and 1995. Financial protocol was not engaged, free circulation rights were not given to the workers in the year 1986, quota system was continued to be implemented against Turkish goods in textile and Turkish export was damaged because of anti-dumping implementations (Manisalı, 2002: 90).

Due to these reasons, the textile exporters who have leaned towards Customs Union before 1995, have changed their minds in 2000s. TEKSİF Chairman Halit Narin has chastised the Customs Union on April 2001; Apparel and Clothing Exporters' Union Chairman Süleyman Orakçioğlu has stated on 23 November 2006 that Customs Union should have been changed (Manisalı, 2007: 136).

Manisalı states that Turkey should continue its relations with the European countries by means of free trade agreements which are the different types of integration, instead of customs union (Manisalı, 2002: 101). When we look at the subject in the context of Turkey's alignment to the EU's preferential trade policy after the Customs Union, we see that the foreign trade volume improves with the countries with whom the free trade conventions signed<sup>11</sup>. While Turkey's export rate to the countries with whom Free Trade Convention were signed has increased by 376% import rate has increased by 264%. If we express the aforementioned rate in terms of finance, it can be seen that exports in Turkey have increased from 2 billion dollars to 9.6 billion dollars, and imports have increased from 2.9 billion dollars to 9.6 billion dollars. However bilateral trade balances show that the trade with EFTA is on behalf of EFTA itself. Trade in favor of Turkey is with the countries like Croatia, Egypt, Morocco, Israel and Bosnia-Herzegovina which are labelled as the transition economies and developing markets (DTM, 2007: 350-352). This gives us some clues about the situation which could have appeared in case underdeveloped countries integrate between each other.

One of the academicians who look at the matter of Common Market with suspicion is Gülten Kazgan. As far as Kazgan is concerned a membership of Turkey in the EEC would increase the under-development. This phenomenon results from the fact that countries having different competitive conditions are

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<sup>11</sup> The countries which sign Free Trade Agreement are EFTA, Israel, Macedonia, Croatia, Bosnia-Herzegovina, Palestine, Tunisia, Morocco, Syria, Egypt and Albania, and Bulgaria and Romania which have been the EU members on 1 January 2007 (DTM, 2007: 350). Currently, Turkey is in a Free Trade Agreement with 19 countries. In addition to the mentioned countries, Free Trade Agreement has been signed with Georgia, Montenegro, Serbia, Chili, Jordan, Lebanon, Mauritius and South Korea. The Free Trade Agreement with Lebanon, Mauritius and South Korea will come into force when the domestic approval process is completed. Free Trade Agreements with ten of the countries of Central and Eastern Europe are repealed because of those countries' membership in the European Union (Turkish Ministry of Economy, 2012).

subjected to the same competitive conditions rather than the hypothesis that foreign countries would batten on Turkey (Kazgan, 1973:296).

Kazgan underlines the connection between the Ankara Agreement which is the basis of the Additional Protocol and the 1838 Baltalimanı Trade Convention. Both agreements are based on the same standpoint: Free trade between countries having different economic development is to the benefit of both parties (Kazgan, 1973:109).

Kazgan also emphasizes the correlation between the character of industrialisation and modern imperialism as she defines the economic load of an eventual membership of Turkey in the EEC to the detriment of Turkey. The industrialisation in Turkey and in other under-developed countries are not realised to create a national industry as it happened in countries like Japan and Germany; it aims rather to satisfy the needs of high income classes in the society. Thus an industry creating technology cannot be realised in these countries. This is the fundamental difference between Turkey and the EEC countries (Kazgan, 1973:154). These arguments comply with the argument of national industry addressed in the previous chapters.

Oktar Türel is another academician who regards Customs Union suspiciously. Türel affirms that institutions and organizations such as WTO and the EU which channelled international trade have restricted Turkey's manoeuvre room in a substantial manner. In this way Turkey lost many of the tools to be used in the way to industrialisation (Türel, 2008:2). Such organisations like the WTO intervene in the internal trade policies more than its antecedent GATT did and regional trade agreements such as Customs Union restricts the radius of action in regards of contacting countries (Türel, 2008:10).

Yahya Sezai Tezel is among the people who consider the Customs Union as a dishonor certificate. While the countries whose the EU membership has not been unascertained have been invited to Essen Summit on December 9-10, 1994, Turkey's not being invited shows the considerations of Europe for Turkey. Turkey has been evaluated under the title "Mediterranean Policy" in the

memorandum after the summit, and it is classified not as a common member (associated member), but as a trade partner (Tezel, 1996: 58).

According to Tezel, entering to the customs union without the EU full membership means consenting to the decisions of the EU about Turkey from the beginning. Since it is the transfer of right of independence, aforementioned agreement should be discussed and approved in TBMM (Tezel, 1996: 52).

Another basic argument about the customs union is that the savings investment gap which has been expected to increase after the Customs Union would be paid off with the foreign capital input. This fallacious argument (according to Tezel), is far from realizing the real reason of the savings investment gap. Since the basic reason of savings investment gap is the current expenditure gap of public sector which reaches up to significant aspects, and since customs union has nothing to bring a government system which does not waste the country sources, aforementioned claims do not reflect the reality (Tezel, 1996: 50).

Especially in the sector where multinational companies operate, customs unions and free trade agreements can increase the intra-industry trade. In case there is an income from the scale, in other words, in case the unit cost of the good decreases when the production volume increases, the intra-industry trade provides advantage to the parties. Automotive industry is one of those sectors. While before the integration, the multinational companies in each of the national economies try to produce the products of the industry they are in as much as possible, after the integration, the aforementioned industry can lean to producing some of the products in one country, and the others in another country. It shows that far from collapsing after customs union, automotive industry could be among the sectors leading to a growth in exportation<sup>12</sup>. However the main competition after Customs Union will affect the small and medium scaled multinational companies and nonpartner small and medium

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<sup>12</sup> That is why producing and selling a product of high technology like automobile, do not show the eradication of underdevelopment notion, but a transformation based on its quality. Since producing and exporting some of the products via associations which the companies like Fiat, Renault and Opel constitute with local partners (Tezel, 1996: 68) will be evaluated with intra-industry trade notion, it cannot be interpreted as breaking the underdevelopment circle for Turkey.

scaled companies. Since the bigscaled companies are in a partnership relation with the multinational companies (for example Tofas and Fiat, Arcelik and Beko, Eczacıbaşı and Artema) are not worried about the Customs Union (Tezel, 1996: 67-69).

According to Can Baydarol who evaluates the Customs Union relation between Turkey and European Community as “*sui generis*” in other words a unique relation type, Turkey has made some critical mistakes when handling the Customs Union subject. The first mistake was mentioning Association Council Decision No. 1/95 as an “Agreement”, according to Baydarol. The fundamental agreements on the relation between Turkey and the EEC are Ankara Agreement and the Additional Protocol. The organization in which the Customs Union has been established with Turkey is not the EU, it is EC. Besides, Turkey has not participated in the Customs Union of the EC. Customs Union stands on common actions in the common trade policy, in other words decision making processes, legal system and budget issues. In this unique relation between Turkey and the EC, common action is not aforementioned in those areas. Besides, Customs Union which has been the responsibility of Turkey, not just a right, has started not on 1 January 1996, but on the days which the Additional Protocol has been signed and come into force, in other words actually on 21 November 1971, and legally on 1 January 1973 (Baydarol, 2007).

In the Customs Union process, the universities have announced their comments to the public by means of a memorandum, and they have claimed that Customs Union has been binding Turkey to the EU unilaterally. Erol Manisalı, Yahya Sezai Tezel, Türkel Minibaş, İzzettin Önder, Taner Berksoy, Sina Akşin, Toktamış Ateş, Oktay Sinanoğlu, Oktar Türel and Gülten Kazgan have signed the notice which has had the signatures of 46 professors from 8 universities and which has been reflected in the newspapers as “An Academic Memorial to the Union” (Manisalı, 2008: 149).

Korkut Boratav, Bülent Tanor and Sina Aksin have stated that comparing the customs union with 1838 Baltalimanı Trade Convention which has collapsed Ottoman Empire’s industry would be misleading; but they also stated that such

a relation which has been constituted with the EU would paralyze the economic policy tools. According to this statement, it was necessary to drift away from economic mentality which has left its mark on the period since 1980, to put the targets like development, industrialization, structural change, economic independence and social justice on the agenda (Tanör, Boratav & Akşin, 2000: 213).

There are some opinions which compare the relation between Turkey and Customs Union with the relation between EU countries and their old colonies. According to those opinions, European Union is improving its relations in the wide area from Morocco to Jordan with nonpartner companies as a part of MEDA. As in the Lome Agreement (1975) which takes Africa, Caribbean and Pacific are as under the protection of Europe, the main purpose of MEDA is increasing the EU influence in the area by contributing to the economic transformation in the Mediterranean countries (European Union [web], 2012). Turkey is also included in MEDA countries which are mostly composed of the old colonies of the EU (European Union [web], 2012). Turkey's unilaterally joining the EU by means of a customs union, shows an important point related to the characteristics of relation between Turkey and the EU. This unilateral relation shows that Turkey is in the status of the EU's old colonies (Manisalı, 2002: 64).

As a result of the analysis in the second part, it has been stated that the Additional Protocol which has been the application of a transition period between Turkey and the EEC, in the period that the accumulation crisis which was based on Fordism, became deeper. Turkey which has not been included in the NICs as a result of the general level of prices and some reasons related with the economic structure, has removed the obstacles in front of the circulation of goods by means of the Additional Protocol. The reason for the EEC giving some time to Turkey about the customs discount can be associated with the difference in performance between the EEC and Turkey.

Turkey's Customs Union process has taken the support of most of the political parties, employers and Trade Unions. There are dissenting opinions in the

Mainstream Media and Academy. DPT has been taking the lead in opposing the process. It has been realized as a part of those opinions that:

1. Political parties have made the subject a domestic policy material and have prevented Customs Union's being perceived as a phase in integration process; and also the political parties have prevented the necessary steps to be taken about the free circulation of manpower and monetary assistance, as well.
2. Employers have taken the Customs Union as a step on the way to the full membership. They have supported the process on the grounds that foreign investments and monetary assistance would increase with the Customs Union.
3. Labor organizations have also taken the Customs Union process as a step on the way to the full membership. Trade unions have supported the process on the grounds that they would get some acquisitions about the social rights as a result of the EU membership, and benefit from the free circulation rights.
4. There are various opinions related to the process among the Academy and Mainstream Media. Erol Manisalı has been carrying the banner of the Customs Union opposition in the Academy. Yahya Sezai Tezel has emphasized the future changes in the relative prices related with the Customs Union and stated that the process was being enforced without understanding adequately.
5. DPT has stated that the Customs Union without full membership would be harmful for Turkey's economy and this harm would mostly be by means of third countries.

## CHAPTER III

### CUSTOMS UNION: A DEPENDENCY RELATION

To examine the effects of the Customs Union process with the EU to Turkey's economy, in terms of underdevelopment and dependency relation, and to be able to make evaluations in this context, it is necessary to put the argumentations related with the content of "development" concept into a theoretical review process. Since integration and dependency relation will be evaluated as a commercial transformation, the theoretical frame which the Neo-Marxist theories bring, will be taken as a foundation.

It is not possible to comprehend the dependency relation between the core and its periphery without understanding which epistemological and ontological base the development notion is founded upon. Therefore, the phases of development/development literature should be shortly reviewed. Development literature, which takes the commodity tool as the basic parameter and which uses it as the dominant criteria in the development evaluations, suggests some recipes like integration with the underdeveloped countries, overseas expansion, freedom and flexibility; and it uses the improvement and development notions which it has mythicized, as the tools for legitimizing its hegemony over the underdeveloped countries. Therefore the criticism of basic arguments of progressive rhetoric which reduces a multi-aspect subject like underdevelopment into quantitative values can be evaluated as the first steps to break the underdevelopment circle.

#### 3.1. MODERNIZATION-ENLIGHTENMENT

The Enlightenment process, which has been started in Europe by means of Renaissance and Reform and which can be evaluated as a particular attitude of human against the limiting effects of environment and spiritual systems, has made the human his own master in its first stages. With the transition of human from the created to the creator, radical changes have happened in the



economic field as in the other fields and sustainability of development has been tried to be provided with the economic development idea. Although the enlightenment idea, which promised freedom and improvement, has enabled the existence conditions of human being in the first stages of modernism, it has got further away from its liberating character with the capitalism's domination in every field and it has collected the community under hierarchy.

Beginning from the 19<sup>th</sup> century, modernism which has been redefined in accordance with the improving dynamics of capitalism, has taken rationalism on the center of the economic activities. In this process, labor has separated from the other vital activities and has become a subject which has been defined in the individual market concept. Individuals have separated from the communal with the mechanization of individual relations and proliferation of bureaucracy as the most rationalist regime for Weber and in time, it has become an object which has been reduced only to production activity. In this period in which the interpersonal relations have become relations between goods, the enlightenment idea which promises freedom to the people has been abraded and freedoms have given their place to hierarchy and discipline.

This emphasis to the human mind and the effects of rationalism related to all processes of life, has constituted the basics of modern episteme. Modern episteme which has asserted that the data from mental ways has been periodical, changed with capitalism. The priority of rationalism has not only managed the scientific processes, but the science has taken the place of all knowing styles. According to Derrida, the mental based approach which is an ethnocentric metaphysics, constitutes a hierarchy by defining the other condition with reference to its own existence condition. The notions which define the form / substance, east / west and culture / nature are obtained by isolating from daily experiences and the dominant term builds its own existence via the term which it defines by negating (Ercan, 2009: 56).

The founders of modernization theory like Durkheim, Weber and Parsons who explain the basic parameters of "development" or "capitalist development" and present various explanations about how the development/transformation

process has happened, have been impressed by the Darwinian Theory and they have considered that the communities would change like the living organisms. Finally they have come to the conclusion that development is linear and inevitable (Cirhinlioğlu, 1999: 27-52). While the comparative analysis which the Evolution Theory uses and the modernization theoreticians who compare the communities in same standards, have taken evaluating the communities in other words “the others” which they have been calling as undeveloped, as granted, they have taken the history as a linear process to the absolute development point.

### **3.1.1. Profiling of Development Literature**

After classifying some of the communities as underdeveloped according to some criteria, the analysis regarding those communities have been again by means of disciplines which have been separated by strict boundaries. In this process which could be defined as the second period of development literature, the “development” literature has been divided into sub disciplines like “development economy”, “development sociology” and “development diplomacy” and used to explain and transform the sociological and economic structures of countries which have gained independence after the World War II.

After the World War II, taking the continuity of colonization as a benefit/cost problem, Western countries have started the transition process from the colonization to the new colonization by means of development economy. In Kothari’s words, “development has taken over from colonization” and has undertaken the representation of notions like advancement, modernization and westernization<sup>13</sup> (Başkaya, 2000: 26)

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<sup>13</sup> The only reason for the rise of Development Economy after the World War II is not because the old colonies have gained independence. In this period, in an environment where Soviet Union has become a center of attraction for the community of the colony, the independence movements of colonies have had risks for the West. The competition between “economic modernization based on central planning” which has been proposed by the Soviet Union and “open market, free competition” paradigms which have been proposed by the West, has caused the importance which the West gives to the development notion, to increase. Another reason of the rise of the development notion can be evaluated as the widening of the effective area of American hegemony which has started to rise after the war and repudiating the status quo which has limited the movement area of the USA capital, accordingly. The independence

### 3.1.2. Economic and Sociological Aspects of Development

Development economists and development sociologists have analyzed the development problems of the countries/communities which they have defined as underdeveloped. The sociologists like A. J. Levy, who divides the communities as relatively modern communities/relatively non modern communities; N. J. Smelser, who evaluates the modernization as a structural differentiation process; Coleman who researches the relation between political modernization and differentiation; S. M. Lipset who analyzes the relation between economic development and democracy; D. McClelland who discusses the modernization process on an individual level; Inkeles who analyzes the effect of modernization on the individuals; and Bellah and Davis who examines the development in Japan; have studied the communal aspect of underdevelopment (Cirhinlioğlu, 1999: 52-89).

Economists like R. Nurkse, A. Lewis, J. M. Fleming, P. Rosenstein-Rodan and Rostow have discussed the economic aspects of development. The basic specialty of theories, in other words development theories which will provide going out from the conditions that vicious circle thesis sets forth, is their enabling the foreign aids for development. Since the problem is taken as reaching to a new balance on a higher level from the underdevelopment balance, a private and public investment process based on foreign financment should be started (Başkaya, 2000: 51-67).

The basic specialty of this thesis which is based on positivist and researcher elements that also affect the early period Marxist approaches has been their building the communities, inevitably, as structures which keeps going on various stages, on a certain development target. According to this approach, the development of countries has been determined by their internal dynamics (Özdemir, 2010: 111). Based on their own internal dynamics, when the economies which adopt the capitalist production style establish superiority on the pre-capitalist economies, they were becoming the determiners of world

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movements of colonies are supported by the USA, provided that they adhere to the free market economy (Başkaya, 2000: 28-29).

policy and occupants which pursue the raw materials and markets (Özdemir, 2010: 112). According to the developmentalist nationalism, they were becoming the last target of the ones who have been coming from behind.

Development economists, who take the development and growth as identical notions, and who degrade the growth to industrialization, have asserted that poverty and income distribution would disappear when growth happens. Development economists have associated the fast growth of underdeveloped countries, with the concentration of economic, commercial and cultural relations with the West (Başkaya, 2000: 46).

### **3.1.3. Reflection of Developmentalism in Turkey**

In this period the economic situation of Turkey which uses the import substitution industrialization model, presents the costs of developmentalist understanding and foreign aids. This industrialization type which has been likely to decrease the external dependence in time, has given a contrary result by increasing the dependency of economy to the importation (Boratav, 1998: 97). In this period, the reason of being able to sustain a high growing tempo is the foreign resources (Boratav, 1998: 98).

In 1970s, this rise in the development economy has ended with an economic crisis which has come up with a slump in the profit rates, high unemployment and inflation rates, in the central capitalist countries. While the development notion, which takes its ontological and epistemological basics from the continuous development rhetoric of modernism, has been disfavored in 1970s, the rising neo-liberalism has been redefined according to the needs of central capitalist formations.

The neo-liberal rise which coincide with the years when Turkey has signed the EU and the Additional Protocol and in time when it has made a commitment to remove any kind of protectionist implementation, has caused in long term for Turkey and many underdeveloped country to be subject to the West, and for the gap in the development levels between the center and surroundings to increase.

### **3.2. NEO-LIBERALISM AND NEW MODERNISM: TRANSFORMATION IN THE DEVELOPMENT RHETORIC**

After 1970s, the central capitalist countries accumulation crisis has necessitated some changes to be made in the current paradigm and the regulations in the fordist production period to be changed radically. Reorganization of productive or speculative multinational capital in the global scale has caused some of the pre acceptances belonging to the developmentalist period to be abandoned; and development problem has started to be handled as a problem to be solved only by the relations in the market, far from any foreign interventions.

In the period when the productive capital has been reorganized, some regulations in other words, economic integrations for the free movement of goods and capital, have been performed for removing all boundaries limiting the movement of capital. Besides, up to 1970s, the “infant industry” type arguments which the development economy that intends to take the underdeveloped countries into the world capitalist system, suggests to the underdeveloped countries, have been abandoned since they had not compromised with the new international dynamics (Ercan, 2009: 112).

#### **3.2.1. Relation between Neo-liberalism and Customs Union**

Removing implementations like customs taxes which limit the movement of international trade and capital and supporting all dynamics related with the free foreign trade, can be seen not only in the relations between Turkey and the EU, but also in the foreign trade policy of many underdeveloped countries. For example, between years 1980 and 1987, average customs tariffs have been reduced from 82% to 30% in India, and from 25% to 12% in Brazil. China has reduced the average customs tariffs which have been 43% in 1993 to 18% in four years (Ellwood, 2007: 32).

It should not be evaluated as a coincidence for the medium and further stages of Turkey’s Customs Union process, to synchronize with the rise of neo-liberalism which removes the obstacles in front of the foreign trade, which suggests an export-oriented development strategy to the underdeveloped

countries, and which adjusts the work life to the flexible production conditions. The decline in the development notion and its falling off the agenda have been the same in Turkey as in most of the underdeveloped countries, import substitution industrialization model has been left and export based industrialization model has come.

Removing implementations like customs taxes which limit the foreign trade, as part of liberalization of trade, has again served to the central capitalist countries' interests and caused downside effects on the policies related with the reorganization of capital. According the calculations of the WTO, the organization which has got the best of the liberalization of trade up to the year 2000 (assuming a 30% decrease in customs and subventions) has been the EU with 80 billion dollars. In GATT/WTO winners ranking, China is the second with 40 billion dollars, Japan is the third with 25 billion dollars, the USA is the fourth with 22 billion dollars and high income Asian countries is the fifth with 20 billion dollars (Ellwood, 2007: 31).

As a result, although neo-liberalism has objected some of the arguments of developmentalist opinion, it has assumed the epistemological pre-acceptances of modernization which has changed with capitalism, as data. Therefore there have been no changes for the commodity-based approaches with neo-liberalism; success and failure have continued to be measured over commodity production and the structures which enter into unequal relations in the freemarket have been accepted as equal as much as they have been rational.

### **3.2.2. Dependency Relation which Deepens between Core and Periphery**

The cost of commercial liberation between the economic structures which have an unequal relation, for the underdeveloped countries has been the customs taxes and external debts which have been renounced in the name of liberalization. External debts' exceeding the development aids and exportation incomes, has caused the dependencies of underdeveloped countries to the core in political aspect, to increase. While the net transfer from central capitalist countries to the surrounding countries related with debts has been 49 billion dollars between the years 1980 and 1982, surrounding countries have

transferred 242 billion dollars to the central countries between the years 1983 and 1989 (Ercan, 2009: 120).

The opinions which discuss the development problematic on the unequal relations basis by going completely out of dominant paradigm, associate the reason of underdevelopment to the exploitation mechanism between the countries and country groups. This emphasis against the basic arguments of neo-liberalism about the development has caused the place of reference to the internal dynamics of developing countries; and a foreign dynamics set to take the place of all of them in the name of a world-system (Özdemir, 2010: 126).

The approaches which attribute the exploitation mechanism between central economies/countries and surrounding economies/countries upon unequal change, profit transfer and power of use of trade and finance center (Özdemir, 2010: 126), come out as basic parameters on questioning the center oriented dependency of Turkey as a result of Customs Union.

To be able to evaluate the relation with the EU as a semi-peripheral economy on the basis of the production and consumption structure of Turkey, as a dependency relation between the center and surroundings, Dependency School's comments which object to the basic arguments of development literature should be taken into consideration. So, it will be clearly understood which theoretical grounds the positive changes on some of the economic parameters related with Turkey's membership in Customs Union, sit on.

### **3.3. DEPENDENCY SCHOOL**

Dependency School, which stands on two basic theoretical traditions of Marxism and structuralism, can be divided into two separate groups taking the theoretical grounds they are founded upon into the consideration: a Marxist wing which maintains the ECLA wing and Baran path or Neo-Marxist Theories. Although the ECLA wing which is affected by the Latin America structuralism uses the notional sets of Marxism, it is not directly in contact with Marxism (Özdemir, 2010:194). Neo-Marxism can be evaluated as an attitude against the traditional development economy and analyses of the ECLA wing. Therefore,

the analysis of Dependency School should be performed in two parts as the ECLA and Neo-Marxist Underdevelopment Theories.

While asserting that the political and commercial relation between Turkey and the EU creates a “dependent development” because of the Customs Union, the meaning of notions like dependency and dependent development should be emphasized. ECLA wing and Neo-Marxist Theories which diverge in the basic items like notional sets used and disengagement from capitalism for development, have also separated to various sub units in themselves. While reviewing the Customs Union process of Turkey on the basis of dependent development arguments, it is important to mention the comments of both wings of Dependency School to be able to evaluate the dependent development healthily. Therefore, the comments of both wings about the free trade and exchange will be reviewed.

### **3.3.1. ECLA Wing**

The wing of Latin America Structuralism which has affected the Dependency School, has evaluated the development differences between the countries on the basis of industrialization and international division of work, and has claimed that the current economic structure has been preventing the development of some of the countries. According to Prebisch, who has acceded to ECLA at the end of 1940s, it would be useless to approach to the problems of underdeveloped countries as the traditional economy approaches. Besides, in opposition to the Comparative Advantage Theory’s claims, it is not true that international trade would bring positive results for everyone (Özdemir, 2010: 194-195).

According to the ECLA wing, the underdeveloped countries’ entrepreneurs do not have the power to compete with the developed countries’ entrepreneurs which they meet in the free international market conditions. Another element to support this unequal relation is that the underdeveloped countries are focused on the sales of primary clauses. The underdeveloped countries which are experts in the sales of raw material and fabricated material, increase the



competition in capital intensive durable consumer goods specialization and it leads the underdeveloped countries to trouble (Kaynak, 2011: 154).

According to the ECLA group which emphasizes the importance of preservationist implementations like customs taxes (Cirhinlioğlu, 1999: 133), import substitution is the only direction that should be followed by the Latin America countries. Besides, while the productivity growth in the production reflects to the prices in the developed countries, this is not true in the underdeveloped countries. Since the underdeveloped countries are far behind in the subjects like technology and manpower organizations, they cannot take the advantage of productivity growths. The developed countries which reflect their productivity growths to the prices, raise the prices of the capital intensive commodities that they produce accordingly. As a result, the importation costs of underdeveloped countries increase and international terms of trade deteriorate (Kaynak, 2011: 152).

According to the analysis of ECLA wing, instead of producing technology and propagating to the whole economy, the underdeveloped countries import technology from the industrialized countries and they put this technology into service for the sectors producing raw material or fabricated material on the purpose of exportation (Başkaya, 2000: 70). Therefore, the technology production which has a big role in breaking the underdevelopment circle is being abandoned. In short, acting as per the guidance of technology-oriented economies, becomes a production element which allows the underdeveloped countries to make production in the pre-determined sectors, in the international trade.

The economists like Furtado, Sunkel, Singer and Prebisch who constitute the ECLA wing of the Dependency School have suggested import substitution for surpassing the problems they have ascertained. Thus, they have consulted for the winners of peripheral capitalism about the accumulation strategies (Özdemir, 2010: 196).

### 3.3.2. Neo-Marxist Theories

Apart from the ECLA wing, the most fundamental speciality of Neo-Marxist theories is that they attribute the condition of development of the underdeveloped economies/countries to the disengagement from capitalism. Another speciality is that underdeveloped countries, together with Neo-Marxist thesis settle in the center of theoretical analysis themselves. Capitalist propagation is not evaluated as a positive and progressive thing in the Neo-Marxist thesis. Therefore, it would not be wrong to say that it is a relative disengagement from the European centralization (Başkaya, 2000: 76).

Although the Neo-Marxist approaches have been started in the literature with Baran's literary work named as *The Political Economy of Growth*, Jose Carlos Mariategui from Peru who sees the underdevelopment problem being based upon neo-classical and modernizationist opinions is the first person to formulate most of the dependency thesis which Neo-Marxists allege. According to Mariategui, the problems of underdeveloped countries cannot be resolved with the policies based upon neo-classical and modernizationist theories; on the contrary, problems will get deeper. Capitalist development is in fact the development of the monopoly capital. Since Feudal and semi-Feudal structures are also in the service of monopoly capital, it would be wrong to expect the pre-capitalist relations to be eliminated (Başkaya, 2000: 78).

The evaluations of the authors which constitute/maintain the Neo-Marxist line about the world-system are pervading in a wide area. However, since the subject is the underdevelopment theories in Turkey's Customs Union process, the aforementioned authors' comments about international trade will be emphasized.

#### 3.3.2.1. Paul Baran: *The Political Economy of Growth*

Baran states that the capitalism propagates by means of colonization policies and that the capital accumulation process of the Western Europe countries cannot be actualized in the colonized countries, and emphasizes the mechanisms which take the surplus value out of underdeveloped countries.

According to Baran, surplus value is being spent not only by transferring from third world countries to the central countries, but by withdrawing of lumpen bourgeoisie, semi-developed industrialists, foreign companies and governments in those countries (Cirhinlioğlu, 1999: 128).

According to Baran, those four dominant classes who disstrain on the residual do not profit from the transformation of peripheral economies and industrialization. Therefore capitalism, which causes economic developments before in the core countries in different conditions, loses this dynamism in the underdeveloped countries (Kaynak, 2011: 164). In addition, underdeveloped countries are not able to develop, because of reasons like economic surplus' going to the industrialized countries or the dominant class' being used in the luxury consumption in the underdeveloped countries, competition's not allowing the infant industry to develop, industrialization's obtaining a monopolist condition from the beginning and foreign companies' transferring an important part of the profit out of the country in relation with the dominance of foreign capital (Başkaya, 2000: 81).

#### 3.3.2.2. Andre Gunder Frank: Metropolis-Satellite Relation

According to Andre Gunder Frank, who considers the development ideas of modernist progressive opinion, not on the basis of social class relations, but international trade and changes, capitalism has caused two basic structures to be created; metropolis and satellite in the international system. Today, the reason of the trouble which we call as underdevelopment is based on the unequal relation between metropolis and satellite.

According to Frank, distraint practices for the economic residual which cause development in the metropolitan centers, and underdevelopment in the surrounding satellites, originate from the internal conflicts of capitalism (Özdemir, 2010: 197). Therefore capitalist propagation is itself the reason of underdevelopment. Because the basic speciality of the communities who have not meet with capitalism is not underdevelopment, but undevelopment.

According to Andre Gunder Frank, who claims that capitalism is always a development for the minority and underdevelopment for the majority (Başkaya, 2000: 84), the basic condition of development is breaking off the relation between the center and commercial relations. According to Frank, the countries which have the closest relation with the West are the poorest countries today. However in this period, the Latin America countries, whose relation with the center have been weakened after the World War II could develop further (Cirhinlioğlu, 1999: 142).

#### 3.3.2.3. Samir Amin: Distorted Development

Although the metropolis-satellite distinction of Andre Gunder Frank has become core-periphery with Amin, it has not changed in essence. Over developed exportation sector is the basic speciality which defines the peripheral countries developing according to the needs of core countries (Kaynak, 2011: 169). The growth which is foreign-oriented and irregular in the surrounding structures, is mostly because of different structures' being together in the country. So, while productivity increases in the sectors which produce for exportation, it remains constant or decreases in the areas where pre-capitalist relations go on (Başkaya, 2000: 86).

According to Amin, the industrial products which are imported from the center collapse the economy in the surroundings. This is another factor which connects the underdeveloped countries to the developed countries. However in some conditions, industrialization is an expected situation in the surrounding structures. According to Amin, industrialization in the surrounding structures, is based on light industry which uses advanced techniques (Başkaya, 2000: 86-90).

#### 3.3.2.4. Cardoso: Dependent Capitalist Development

Being founded by Cardoso, and detailed by Evans and O'Donnell, the approach points to a partial separation from the Neo-Marxist line. Apart from the opinions which claim that the capitalist propagation and developing international trade accordingly causes the underdevelopment, according to Cardoso, capitalist

development creates a partial development; however, this development is called as a dependent development and it serves to the needs of core.

According to Cardoso, the purchasing power should increase for the multinational companies to sell consumer goods to the surrounding country's people. According to the increase in the purchasing power, development in some of the consumer and industry goods is a matter of fact to be expected. Being up to the technological opportunities which are given by the centercountries, this development will allow the countries which have sold only raw materials, to be able to produce industry goods (Başkaya, 2000: 154).

### 3.3.2.5. Emmanuel and Unequal Exchange

Starting from the analysis of Prebisch and Singer which shows that the foreign trade breaks down against underdeveloped countries, Emmanuel has explained the break down in international terms of trade, by means of Marx's labor theory of value (Kaynak, 2011: 91). The reason of transfer mechanism which is defined as unequal change is that the labor power to produce same amount of labor value creates different prices in different countries (Keyder, 1979: 91).

According to Emmanuel, when the free trade is plied between the countries with different price levels, the aspect of the exploitation increases. According to Emmanuel which states that a few of the authors like Kindleberger, Nurkse, Linder, Perroux, Weiller, Rosenstein-Rodan, Gendarme and Prebisch have deeply examined the basics of free trade, (Emmanuel, 1972: 38), unequal exchange is inevitable in the free international trade between the economic structures in which there are differences in the price levels.

According to this approach which takes the unequal exchange as the only exploitation and value transfer mechanism that is necessitated structurally by the world economy notion, price levels are the only parameter to show the development level. Although the per capita income is high, since the labor wages are low in the countries like Kuwait and Saudi Arabia in which underdevelopment still go on, the per capita output cannot be completely spent

in the country and development criteria cannot be reached accordingly (Keyder, 1979: 91-100).

#### 3.3.2.6. Wallerstein: World-Systems Analysis

Wallerstein's World-Systems Analysis has several characteristics in common with Frank's metropolis-satellite dichotomy which is based on the differentiations of specialization worldwide. However, Wallerstein discusses the international economic relations in a wider historical perspective.

According to Wallerstein, international system is composed of the relations of three structures like core, periphery and semi-periphery. The core which withdraws the surplus value from the weak countries, makes the international market unequal in favor of itself. Periphery remains standing by exporting low price goods (Cirhinlioğlu, 1999: 164). Semi-periphery between the two groups has more capital intensive industrial structure than the periphery. Semi-peripheral countries should be evaluated in the dependent development model of Dependency School with their continuous dependency to the core (Özdemir, 2010: 212).

It is possible for a country to change its status (for example from semi-periphery to core) in the current hierarchical system. According to Wallerstein, it is possible to upgrade from semi-peripheral to core status by methods like finding the possibilities which allow the production of more goods for cheaper prices and protecting the internal production by strictly keeping the importation under control (Cirhinlioğlu, 1999: 167).

While discussing Turkey's customs union process in terms of dependency and underdevelopment, it will be analyzed on the basis of comments of Dependency Ecole theoreticians which focus on the international unequal relations which are shortly summarized above. It will be possible to understand if the theoretical discussion which Dependency School has developed as part of unequal relation-unequal change overlaps with the relation of Turkey with the EU by evaluating the process by means of some parameters.

### **3.4. EVALUATING THE CUSTOMS UNION WITHIN THE SCOPE OF DEPENDENCY ECOLE**

While explaining the mechanisms creating the underdevelopment, Dependency Ecole theoreticians have emphasized some aspects of free international trade and have evaluated the dependency relation between the core and periphery by means of several parameters. The most important ones among those parameters are: foreign trade and international terms of trade, growth and productivity, technological evaluation/comparison, new commodity production character and political dependency. Since Turkey's customs union process has been discussed in terms of dependency, it has been deemed suitable to add the parameters like effect of trade with third countries, tax income losses and ecological change, in the analysis.

#### **3.4.1. Evaluating the Effects of Customs Union on Foreign Trade within the scope of Dependency Ecole**

The effects of international economic integrations on the foreign trade have been mostly reviewed by the ECLA wing of Dependency School. The economists which belong to ECLA have performed their evaluations especially about the trade limits over industry goods and raw materials and have claimed that the underdeveloped countries which were not protected by various customs regulations would end up a loser from the trade with developed countries.

When the effects of Customs Union with the EU are evaluated in terms of static effects in Turkey's economy, it becomes obvious that the EU is more beneficial than Customs Union. Trade creation effect which is one of the static effects of Customs Union and which is also described as the prosperity creative effect, is in favor of EU (Morgil 2000; Demir & Temur 1998; Uyar, 2001; Akkoyunlu-Wigley, 2000). Since the trade creation effect happens in the chemistry, metal products and paper products industries in which the EU has a comparative superiority (Karakaya & Özgen 2012), the share of production in the de facto consumption in those sectors has decreased, but the share of importation from the EU has increased. As a result domestic production has been substituted with importation from the EU (Akkoyunlu-Wigley 2005).

Although a continuous increase has been seen in the exportation from Turkey to the EU after the Customs Union, a distribution can be seen in favor of importation (Seki, 2005). In the studies which examines the continuous increase in the exportation related with Customs Union (Aktaş & Güven, 2003), it has been concluded that the most important variable to affect exportation has been importation. As a result, the increase in exportation depends on importation. In the studies which examine Customs Union in a longer period like 1984-2001 (Dura, 2003) it has been stated that while Turkey's power to finance the importation of the same direction with the EU oriented exportation has been 82% at the beginning of the period, it has decreased to 60% at the end of the period. Hence liberalizing the Turkey-EU trade by means of Customs Union, has affected the trade of Turkey towards the EU, negatively against Turkey in the long term (Yıldırım & Dura, 2007).

After the Customs Union which has been constituted with the EU, there have been some changes in terms of exchange which Dependency School theoreticians have emphasized, in addition to the trade creation effect's being in favor of the EU after Customs Union which has been constituted with the EU and foreign trade balance's becoming unbalanced in favor of importation. Although the number of studies about terms of exchange is rare in the literature, general opinion is that the terms of exchange effect has changed against Turkey (Temiz, 2009: 124; Erk, Ateş & Direkçi, 1999). According to Erk and the others, the number of observations should be increased to understand if this change is structural or not (Erk, Ateş & Direkçi, 1999)

In Turkey, the situation which is seen specific to the terms of exchange as a result of Customs Union can be evaluated on Dependency School's "dependent development" paradigm axis. The analyses of Cardoso, Evans and Gereffi who take a different development line from Frank, Dos Santos and Amin (Özdemir, 2010: 201), explain the improvement in specific industries of Turkey after Customs Union. This change against Turkey in the international terms of trade comes out related with the economic integration between different economic structures like Turkey and the EU and creates a situation in favor of the EU which has a technological superiority.



Aspects of this change in terms of exchange about the productivity which is against Turkey, verify another analysis of Dependency School. Dependency Ecole theoreticians have claimed that the increase in the labor productivity related with the weakness of labor organizations, would not be the same in the prices in the underdeveloped countries. In Turkey, the increase in the labor productivity in some of the sectors related with the imported input (Akkoyunlu-Wigley, Mihci & Arslan, 2006: 13) is not reflected on the prices. This situation can be explained by the weakness of organized manpower state, after the Customs Union. It can be seen in Turkey that the competitive companies are trying to lower the prices because of the pressures and carrying out subcontracting works (Taymaz, Voyvoda & Yilmaz, 2008: 94).

When Turkey's entering into economic integrations like Customs Union and European Union; and the proliferation of the flexible competitive working styles in relation with the environment (Mahiroğulları, 2001:188), are evaluated together with the decrease in the syndication rate in Turkey (Confederation of Progressive Trade Unions (DİSK) -Sosyal İş, 2012: 3); it is being understood why the rise in the productivity does not reflect on the prices. The competition between Turkey which falls behind the EU countries according to the number of workers as part of collective labor agreement (BETAM, 2009: 2); and the CEE countries which produce similar goods as per the capital-technology intensity (Carchedi, 2009: 312) stand on such grounds. Since the competition superiority happens by lowness of the prices and subcontracting relations, an unequal change comes out in favor of the center and the dependency relation in the process is reproduced.

While evaluating the commercial relations between Turkey and the EC, the parameters which directly affect the labor markets like subcontracting relations and flexible employment should be taken into consideration. The tendencies to support the subcontracting relations in the EU and various forms of flexible production, should be evaluated on the neo-liberalism axis. Hence flexible production and subcontract relation are being supported for reducing risk in the production markets, reducing the fixed and variable capital need for technology

and advantages related with labor; and they are offered to the underdeveloped countries as a recipe (Ercan, 1996: 661-693).

Being observed in the commercial relation between the EU and Turkey, this situation can be evaluated as an example for the relation between metropolis and satellite, with its Dependency School terminology. In the 1970s, together with the internationalization of the capital, production's separating into different stages and evaluation of the most suitable conditions on the global scale, have deeply influenced the international work-sharing. The Fordist production crisis in the metropol formations has been tried to be overcome by means of recipes like the improvement of subcontracting relations and flexible production. In such a structure, low risk and low labor costs in relation with the high unemployment rates in underdeveloped countries have a great importance for the metropolis. As a result, subcontracting relations and flexible production have satisfied the needs of center, by articulating with the internationalization of the capital and the new international work-sharing. In this process, development notion has also been redefined and small scaled production has been presented as a recipe for the underdevelopment.

As a result customs union which is an advanced stage of commercial liberalization between Turkey and the EC, satisfies the needs of core, as long as it causes subcontractorization and flexible production, and creates a dependency relation between Turkey and the Community. Dependent development argument of Dependency Ecole, which is being conceptualized by the theoreticians like Cardoso, Evans and O'Dunnell, defines not a complete development in all sectors of the economy, but the development in the sectors which are exported by the core or which contribute directly on the development of the core. Therefore as in the Newly Industrializing Countries, according to the process being lived in Turkey in which the government does not directly respond, Turkey's not being able to enter in the new industrializing countries, does not create a dilemma for the dependent development argument.

### **3.4.2. Evaluation of Customs Union's Growth and Productivity Effects**

The studies which examines the effects of Customs Union over growth and productivity, have emphasized on the subjects like labor productivity and general factor productivity, and have reviewed the changes in the trade structures of Turkey. Erzan, Filiztekin and Zenginobuz have concluded that labor productivity whose growth rate has been 8.5% between the years 1989-1995 has decreased to 6.8% in the years when customs union has come into force, in other words between the years 1996-1999. In this period, the total factor productivity has decreased from 4.49% to 0.88%. However, this change has not only been related with Customs Union, but also the general performance of the economy (Erzan, Filiztekin & Zenginobuz, 2002: 9). Akkoyunlu-Wigley, Mihci and Arslan have concluded that the importation incomes based on customs union, have increased the labor productivity and this effect has been significant (Akkoyunlu-Wigley, Mihci & Arslan, 2006: 13).

According to Lohrman, who has concluded that the Customs Union has changed the trade structures of Turkey and that Turkey has turned towards specialization in capital-skill intensive goods, Turkey has gained a comparative superiority in the skill intensive sectors (Lohrman, 2000: 42). However, when taking the fact into consideration that there has been no changes in the foreign capital investments in relation with the non-full membership in the Customs Union and the EU (Loewendahl & Loewendahl-Ertugal, 2000: 32-33, Hadjit & Moxon-Browne, 2005: 336-337, Basar & Tosunoğlu, 2005: 222) this change points not to the technology transfer or technology production, but to specialization in the sectors which are exported by the core and which anticipate the use of intensive technology. The actual process has not been only special to Turkey; a similar picture has appeared in the trade between the EU and the CEE countries which have similarities with Turkey as of the economic structure in the same period, and while the aforementioned countries have increased their exportation for the high technology products, they have also increased their importation to a large extent, as well (Carchedi, 2008: 312).

The developments which are expressed above should be evaluated as part of “new industrializing country” notion. Internationalization of productive capital and new industrializing country notion which is relevant directly, do not match exactly with the Customs Union process of Turkey. This situation is related with the price level which the new goods are produced. Specializing in the capital-intensive goods in relation with Customs Union, has constituted the exact opposite of the development which the new industrializing countries show in the labor-intense sectors, in the beginning. Another factor to pose an obstacle for being NIC, is the competition between NIC. Turkey and the CEE countries being experienced in similar qualified goods, should be evaluated in this context.

In this condition, it is not possible to conclude that there is no dependent development, looking at the increasing productivity in some of the sectors related with the importation or changing structures of specialization. When we convert the analysis unit from nation base to the economic formations like core and periphery, it comes out that the situation in Turkey related with Customs Union is being seen in the similar peripheral or semi-peripheral formations (For example the CEE countries).

In semi-peripheral countries, the products to be manufactured are up to the guidelines which the world-system has determined and bounded. Being produced in the semi-peripheral countries, the goods’ including a more advanced technology in time, in other words an increase in the capital intensity, is an expected situation. For example in 1930s, while exporting agricultural products and importing finished goods, the structures’ having been transformed during the World War II and started to sell consumer goods (automobile, refrigerator, etc.) of higher technology, does not point to a hierarchical scale. Since the semi-peripheral structures which come out as a must in terms of the sustainability of the system, make production in the sectors which are exported by the core, it is only the quality of the exploitation to change.

Turkey’s specializing on the goods whose capital compound is relatively intense in the advanced stages of economic development and in this context after

Customs Union, does not point to a change in the semi-peripheral status, and should not be evaluated as an inconsistency in terms of the world-system. This evaluation is related with how the profit maximization in neo-classical economy is performed on the company level. In opposition to the claim of neo-classical economy like “labor power-capital can be used in different rates in a production level”, it is known that the goods which are produced in various ways, lose their own characteristics. In a period where consumers become conscious and the world market dominates, type of production whose technology is widely used, determines the norm of goods (Keyder, 1979: 52).

Therefore the capitalist, who will invest abroad, will go towards to the sectors in Turkey like automobile, electronic appliances and iron and steel whose capital intensity is relatively high, either because of the infrastructure needed for production, or because of the price level (However it is observed in Turkey that the added value has decreased in the aforementioned sectors).They will transfer the production in the sectors with higher labor intensity, to the countries like China, whose syndication and price levels are lower than Turkey. In short, Turkey’s specialization in the products of higher technology after Customs Union does not change the direction of the dependency relation.

Therefore, an increase in the exportation of relatively advanced technology products, which Turkey emphasizes frequently in the Customs Union discussions, does not point on a change in the hierarchical structure. Turkey’s using a standardized technology in some of the sectors in relation with Customs Union, is not an unanticipated situation in the global economic system. As such a development can be defined, in Cardoso’s words, as a dependent development, it also solidifies the position of Turkey in the hierarchical scale and reproduces the dependency relation.

### **3.4.3. The Relation between Customs Union and Technological Superiority of the Core**

While reviewing the dependency relation between core and periphery or between core and semi-periphery, Dependency School theoreticians have emphasized on the unequal change between different economic structures.

While basing their opinion on unequal relations, they tried to explain the dissociation of new good producing technologies between different economic structures and reasons of this dissociation on the basis of capital accumulation processes.

Producing the technology-intensive goods in the core countries on high price level with high added value, is the result of the accumulated process between capital formation and research, development and technological innovations. Technological initiators sell cheaper by means of this advantage they have (Carchedi, 2008: 197). Based on its technological progress, the core seizes systematically the value which the dependent countries in technological backwardness have created, by means of international price system. Thus a capital accumulation is maintained, new investments are made for technological innovations, and technological leadership is solidified (Carchedi, 2008: 208).

In this process, the peripheral or semiperipheral economies make production on the sectors which are exported from the core with several reasons and they make their production on the standardized technology axis. The development style which Dependency School theoreticians call as dependent development, is not a phenomenon to exclude a partial technological development in the peripheral formations or a production based on upper intermediate technology.

When we look at the situation of Turkey based on its technology production level, as a semi-peripheral formation, it is easy to see that the ratio of research and development expenses to Gross Domestic Product increases regularly. Being 0.53% in 2002, this rate has increased to 0.53% in 2011 (TÜBİTAK [web], 2012). However being meaningless to determine individually, this rate should be evaluated in the international scale.

Hence it can be seen that there is a significant difference based on the shares only for research and development between the center and Turkey which conducts commercial relations with the EU as part of Customs Union. Patent applications which are another parameter of technology production, paint a similar picture. According to data from Turkish Patent Institute, 7056 foreign patents have been applied for 4543 domestic patents, in the year 2012 (Turkish

Patent Institute [web], 2013). According to the data obtained from TÜBİTAK, there is a decrease in the share of domestic patent registrations (TUBITAK [web], 2013).

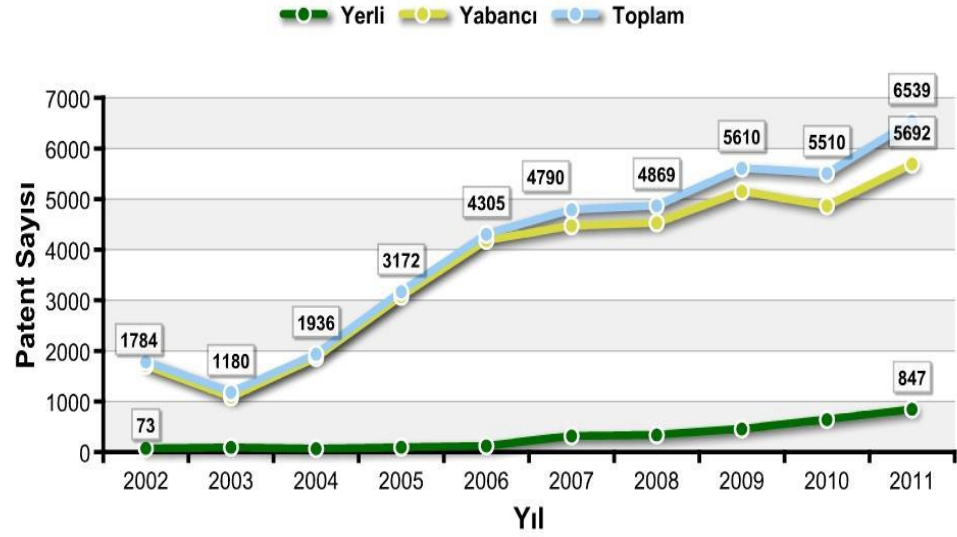
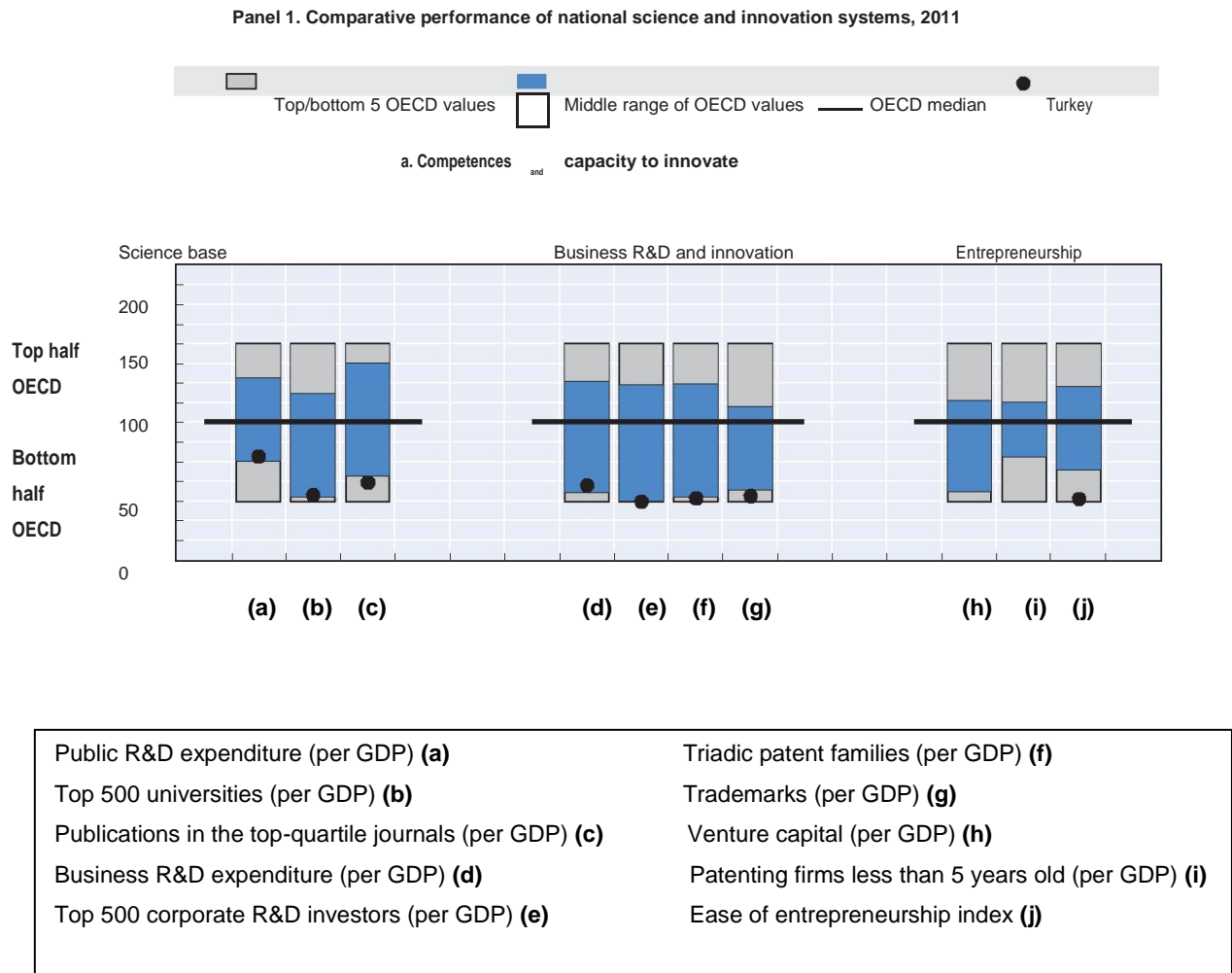


Chart 1. Distribution of Patent Registrations from TPE by years

After 2012, when we look at the tables of the OECD about science and technology, we can see that Turkey is under the OECD average in all areas(OECD [web], 2013).

Figure 10.41. **Science and innovation in Turkey**



From this point of view, it is possible to claim that Science, Technology and Innovation (STI) Systems are not good in Turkey. Being specialized in production of goods of medium and relatively high technology, the competitive sectors of Turkey are automotive, machinery and manufacturing. Patent applications which are taken as the most important criteria about technology production are below the OECD average with a rate of 7%. In the light of previous data, we can say that a big amount of this rate is of foreign origin (OECD [web], 2013).



It is not easy to determine how much the current situation about technology production of Turkey depends on the Customs Union. However, it is possible to have an idea about the subject from an indirect point of view, in other words looking at the policies and implementations of some of the developing countries.

There are not many publications in the literature about “technological advancement effect” which is one of the dynamic effects of Customs Union. The basic speciality of current publications is transfer of basic arguments of international economic integration theory and pre-acceptances directly to the academic environment. Hence, since the customs unions create a competitive environment, the research and development activities will increase and give way to the technology production (Temiz, 2009: 12). Explaining the customs union process of Turkey as part of “technological advancement effect” is separated into two basic groups: technological advancement and technology management (Yıldırım & Dura, 2007: 166). However apart from the technological advancement which would take us to the analyses of Dependency School, those limited studies have taken us to the technology management.

Apart from all kinds of preservationism of Customs Union between Turkey and EU, the opinions which claim that international trade improves the competitive environment and that they are the vital factors of technological development and modernist economy (Uzun, 2006: 558), do not match with the current technological position of Turkey. It is revealed indirectly by the empirical data that a relation between Turkey’s technology production capacity and commercial liberalization, and Customs Union which should be evaluated under commercial liberalization and in contrary to the claims, this relation does not allow Turkey to produce technology. In this process, Turkey has removed all kinds of government intervention in the name of neo-liberalism and has left the technology production completely to the foreign organizations. As a result, nearly all of the patent registries have been of foreign origin.

While Turkey is in such a freedom process, the position of China (which takes the international trade as part of some preservationist precautions) related with the developing Research & Development activities, have a big importance for

the underdeveloped countries. According to Yuan, the competition power that is developed by China (which can be shown as an example to the other underdeveloped countries) in relation with the Research & Development is related with the Chinese government and Chinese companies. Therefore the underdeveloped countries which are willing to produce technology should be canalized to their own resources (Yuan, 2005: 115).

#### **3.4.4. Political Dependence and Effect of Customs Union on Turkish Economy via Third Countries**

Dependence creating effect of Customs Union reflects on the foreign trade structure of Turkey in two ways; directly and indirectly. As a result of direct dependence, Turkey is deprived of the opportunity to develop foreign trade policies independent from the EU. Articles No. 54 and 55 of the Association Council decision No. 1/95 may be shown as an example of direct dependence. Indirect dependence takes place via third countries and it is based on the Article No. 16 of Association Council decision No. 1/95. Therefore, political dependence and effect of Customs Union on Turkish economy via third countries must be assessed under the same heading.

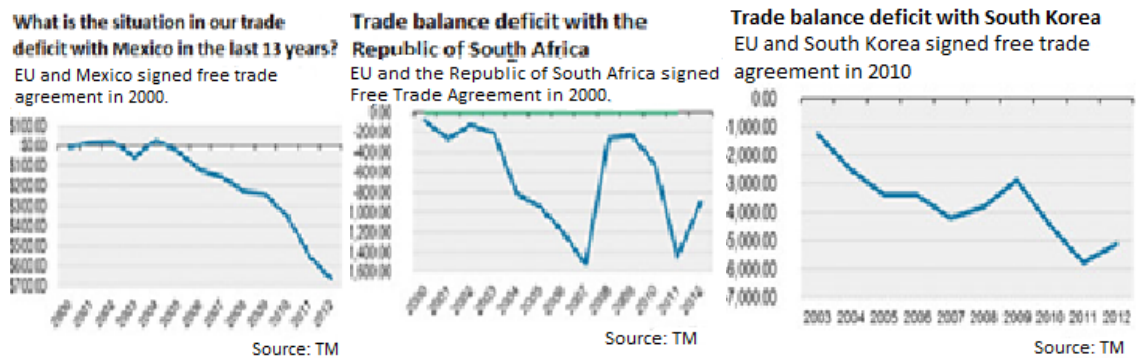
One of the other characteristics of Customs Union that creates dependence is Turkey's inability to pursue independent foreign trade policies following effective date of Customs Union. Since Turkey is not a full member of the EU, it does not rank among the institutions that constitute the trade policies of the EU, and therefore, it may not reflect its national commercial interests to the decision making process. It is emphasized in the Article No. 64 of the Customs Union (Ministry of Foreign Affairs [web], 2013) and in various articles available in the agreement that Turkey must comply with the decisions that the EU shall take in relation with Turkey's foreign trade (Manisalı, 2008: 57). The obligation of Turkey, who is not included in the decision making processes of the Union, to implement the decisions that are taken by the Union, even if they are against the national interests of Turkey, must be assessed as political and economic dependence.

It would not be inaccurate to assess that Turkey's Customs Union process is a reflection of dependence relationship between core and semi-periphery on political plane and one of the components that create dependence relationship in economic terms personally. Article No. 55/2 of the Association Council decision No. 1/95 must also be assessed within the same framework. According to this article, European Communities Commission communicates the copies of their offers to Turkey when they are submitting an offer to the Council of the EU. The following statement available in the Article No. 55/1 of the Association Council decision shows the participation level of Turkey in decision making processes; "Regarding decisions that shall be taken in relation with the Customs Union, the Commission ought to informally consult Turkey". Consequently, Turkey is not in a position to act independently on issues that affect its foreign trade directly.

This form of Turkey's dependence to the EU showed itself via free trade agreements that are signed particularly with third countries. In the Article No. 16 of the Association Council decision No. 1/95, it is decided that Turkey shall align its commercial policy with the commercial policy of the Community. This article also covers the preferential commercial agreements that the EU signed with third countries (Ministry of Foreign Affairs [web], 2013). Approving agreements that the EU signed/shall sign with non-member countries is important for Turkey to fulfill the obligations it had undertaken within the scope of Customs Union.

However, while approving this obligation, in order not to be a party to the commercial agreements that may be signed between the EU and Greek Cypriot State in the future and therefore, in order to not to recognize Cyprus, Turkey stated that it shall not be a party to commercial agreements that the EU shall sign with third countries. Accordingly, Turkey was not accepted as a party to the Free Trade Agreements that were signed between the EU and Southern Africa and Mexico in 2000 and between the EU and South Korea in 2010. Consequently, countries that signed a Free Trade Agreement with the EU may enter goods to Turkey free of duty via Common Customs Tariff; on the other hand, Turkey has to pay tax to the same countries (Wall Street Journal [web], 2013).

6, 7 of Turkey's trade balance deficit with the total of 84 billion dollars as of late 2012 sourced from only Mexico, South Africa and South Korea. Turkey's trade balance deficit with Mexico increased 64 times in 12 years. Deficit that sources from trade with South Africa increased 11 times. Trade transactions made with South Korea caused a deficit with the amount of 5 billion dollars (Wall Street Journal [web], 2013).



**Source: Wall Street Journal**

The EU continues to make negotiations with various countries in recent years in order to sign Free Trade Agreements. Free Trade Agreement that is likely to be signed with India shall not only affect Turkish pharmaceutical industry, but also several other underdeveloped countries that are dependent on India in terms of drug production. As a result of the aforementioned Free Trade Agreement, India, who produces 80% of the drug requirement of developing countries in a cheaper way, shall withdraw from this sector on the basis of patent rights (EU News [web], 2013). In case the EU, who continues to negotiate with Japan (Reuters [web], 2013) and the USA (Bloomberg [web], 2013) on the terms of Free Trade Agreement, reaches an agreement with the same, it is likely that Turkey's trade balance deficit that shall occur as a result of Common Customs Tariff shall increase and that dependence relationship shall become deeper.

### 3.4.5. Effect of Customs Union on Tax Revenues

Togan was the first person to examine the possible effects of Customs Union on tax revenues in 1997. According to Togan, Customs Union shall cause losses in

tax revenues (Togan, 1997). Arslan, who studied this argument of Togan on the basis of data obtained in 2002, reviewed the period between 1989 and 2001 from different perspectives, and calculated customs tax losses of Turkey as 10,77 billion dollars. Customs Union revealed structural changes in importation and gave damage to Turkish economy in general. The cost of Customs Union which works against Turkey in terms of creating trade creation and trade diversion effects is 8,5 billion dollars on the basis of only static effects (Arslan et al., 2002).

The issue of by using which channels shall the revenue losses that emerge on the basis of Customs Union be closed gives us clue on another characteristic of economic development. According to Bekmez, the decrease that emerged in GDP in the ratio of 2% and in state revenues in the ratio of 8% may be recovered by increasing tax rates. Accordingly, if tax rates are increased in the ratio of 22,8%, such losses may be recovered (Bekmez, 2002).

Consequently, Turkey, who pursues a competition policy based on cheap labour, shall face income distribution imbalances in long term if it decreases indirect tax rates in order to recover customs tax losses, as set forth by Harrison, Rutherford and Tarr (Harrison, Rutherford & Tarr, 1993), and shall neglect one of the basic components of development. Practices that shall be implemented and measures that shall be adopted without considering that these losses that are experienced in connection with Customs Union are a result of the uneven change between centre and environment shall cause income distribution to be distorted even more and shall consolidate Turkey's dependent development.

#### **3.4.6. Ecological Aspect of Customs Union**

As it is emphasized earlier, Turkey's making production in certain sectors by using intermediate-advanced technology depending on the Customs Union indicates a structural transformation. This situation sources from the fact that periphery or semi-periphery transfers of certain sectors that have relatively high capital intensity were realized on the basis of re-structuring of capital on

international scale. In brief, being economical is the primary determinant component in terms of capital.

Exportation of technologies that are not in the character of a new commodity, i.e. that allow production of commodities the norm of which are determined by technology, as well as the business lines (iron-steel, chemistry etc.) of the first industrial revolution is economic and also important from the perspective of ecological criteria. Exportation of these business lines that cause air pollution and damage on the environment to underdeveloped countries or semi-peripheral areas means exportation of environmental problems to underdeveloped countries.

These concepts require assessment of Customs Union in the context of pollution haven hypothesis. According to this hypothesis, developing countries become a pollution haven when they enter into regional integrations or free trade, and exportation of industries that are defined as dirty industries increase. Akbostancı, Tunç and Türüt-Aşık divided industries into two categories as clean and dirty industries, and reviewed the importation and exportation of subject matter industries. As a result of the research, pollution haven hypothesis is verified by determining that the exportation of clean industries decreased in connection with Customs Union, and that the exportation of dirty industries increased (Akbostancı, Tunç&Türüt-Aşık 2006).

Consequently, the EU countries considered ecological elements as well as economic components, while exporting certain sectors that carry risks in environmental terms. This dimension of development becomes meaningful when it is assessed in the frame of “uneven distribution of risk” as emphasized by U. Beck. Accordingly, underdeveloped countries that take a low share from welfare began to take more share from the risk that is generated (Ercan, 2009: 107). The fact that Turkey is specialized on dirty industries in connection with customs union, it seems to verify Beck’s hypothesis.

## CONCLUSION

International economic integration means eliminating limitations that block trade in order to realize the objective of establishing a common market. Economic integrations that must be assessed as the liberalization and standardization of trade passed through various stages in historical process. In connection with the rise of the bourgeoisie in Europe and its increasing impact on the state, the objection against the trade blocking elements caused the termination of various customs practices within the same area via the nation-state. This structure that refers to an archaic form of economic integration indicates economic integration only within specific borders.

Although it differs from country to country, during the mercantilism period that began mainly in Europe in the 16th century and continued until mid-way through 18th century, customs walls became a tool that countries used to turn trade balance to their advantage. Although mercantilism was followed by liberalism, and liberalism was followed by neo-mercantilism, the quality that continued to define these periods is that industrialized countries supported various forms of protectionism up to a certain level of development. For example, England imposed a customs tariff on manufacturing industry goods in the ratio of 40% in the 1840s before decreasing tariffs on finished goods and removing bans on importation, and maintained its local industry by prohibiting importation of machinery from abroad.

Following the World War II, in addition to coordination established with institutions on financial and monetary issues, such as the IMF and the World Bank etc., works on liberalisation of international trade were accelerated, and a new framework was established in relation with reciprocal tariff discounts in 1947 as a result of GATT. Regional Economic Integrations were supported and considered as consistent with the basic principles of GATT since they were a reflection of the international trade philosophy.

Arguments asserted by Smith, Taussing and Torrens in relation to the liberalisation of international trade and territorialisation trends in international economy were institutionalized by J. Viner and J.E. Meade, and thus, Theory of Customs Union, alias Static Integration Theory had emerged. Viner and Meade approached the effects of customs unions on world welfare on two levels of analysis: trade creation effect and trade diversion effect. Dynamic effects of customs unions were also added to these processes that are defined as static effects of customs unions in the long term, such as competition, technological progress, economies of scale and investments, etc. Therefore, these parameters must be considered while assessing effects of Customs Union on Turkish economy.

These changes that are observed in international trade deeply affected many countries such as Turkey, and GATT's principle to not to make any differentiation between countries that are engaged in external trade affected underdeveloped countries the most. Trade liberalisation did not solve the development problems of underdeveloped countries. It also deepened the existing discrimination. The core that advised liberalisation of trade to Periphery and Semi-Periphery gave support to certain manufacturing sectors where it lost its competitive power, such as textile and garment industry, etc., and adopted a negative attitude during GATT meetings that were held in Tokyo between 1973 and 1976 on issues such as imposing low tariff on products of underdeveloped countries. Consequently, from the perspective of several countries such as Turkey, the aforementioned process revealed economic results of international economic integration that is realized between underdeveloped countries and core.

However, while participating in such an extensive economic integration, Turkey did not assess the results of economic and political integration with Europe in detail because of reasons such as the Soviet threat and particularly Greece's application to become a member of the EEC, and the (assumed) requirement to be in Western Block at all costs. Ankara Agreement which forms the legal framework of the relations between Turkey, who applied to become a member of the EEC on 31 July 1959, and the EEC was signed on 12 September 1963.



In consideration of the difference between development levels of Turkey and the EEC, Ankara Agreement based Turkey's membership to the Community on a three stage process, namely preparatory, transitional and final stages. Final stage that is defined as Customs Union began on 1 January 1996 following completion of transitional stage with the duration of 22 years.

Effects of the Customs Union on the Turkish economy are examined by several researchers since adaptation of the Association Council decision No. 1/95 up to the present. It is observed that a significant number of the academic studies made on this issue generated arguments within the framework of developmental rhetoric, and that they build the economic result of Customs Union on commodity production. As emphasized above, the effects that economic integrations which may be defined as a tool for increasing social welfare made on social classes that constitute society may not be understood when the concept of development is reduced to only quantitative values. Therefore, assessing the effects of the Customs Union on the basis of only commodity tool prevents us from observing the dependent relation between Turkey and the EU, i.e. the semi-periphery and the core. This critical attitude is derived from the fact that the general view of capitalist social relations and social relations that are of great significance in terms of underdevelopment may not be observed when reduced merely to production activity. Commodity and money cover up self-described social relations. According to the definition asserted by Debord, what is visible is not only the relation established with commodity, nothing else may be observed, except for commodity. "Visible world is the commodity world" (Ercan, 2009: 27).

This ontological structure integrates with the epistemology that examines human actions by using various disciplines. Consequently, economics is becoming a discipline that is only focused on national income increase that carries the reflections of rationalism on the micro level and in brief, is transformed into a discipline that aims at rationalization of production, as well as increase in profits. Such approach does not only assess developed countries, but also brings along assessment of underdeveloped countries from the same perspective. Therefore, production and consumption norms of developed world

and the validity of the legal statements of the same must be rejected (Özdemir, 2010:198). Although it made production on the basis of a similar epistemology, analyses of the Dependency School that approaches underdevelopment problem from a peripheral perspective gained importance for this reason.

The Customs Union, which is only one of the stages that must be passed through in the process of Turkey's political integration into the EU, has become one of the mechanisms that is used in order not to allow Turkey to become a full member. Turkey, who is not included to decision making mechanisms since it is not a full member, must comply with the decisions that the EU adopts in relation with external trade, even if such decisions are against its national interests. This situation that may be shown as an example of political dependence between Turkey and the EU would effect Turkey more deeply in the following years, if the EU executes free trade agreements with countries, such as the USA, Japan and India.

As the effects of the Customs Union on Turkey are assessed in terms of static effects, it is observed that the EU comes out better off from Customs Union. The trade creation effect of the Customs Union is in favour of the EU. Although a continuous increase is observed in Turkey's exports to the EU following the Customs Union, distribution is in favour of imports. In addition to the facts that the trade creation effect is in favour of the EU and that the external trade balance is in favour of imports, exports made by Turkey to the EU is also dependent on imports.

External trade restrictions, an issue that Dependency School regards as one of the basic mechanisms that generate underdevelopment, against underdeveloped countries is a phenomenon that the Customs Union consolidated. Although few studies are observed in the literature in relation with terms of trade, it is accepted in general that the effect of terms of trade changed against Turkey. Subjects like Turkey's tax income losses, structural changes observed in importation and ecological distortions that emerge in connection with the Customs Union must be added to the aforementioned economic results.

The Customs Unions which are historical results of international economic integration and the international free trade approach should not be assessed independently from Neo-Liberalism. Therefore, although the increase that is observed in subcontracting and flexible production forms and the current situation of Turkey in terms of technology production are not directly assessed as a result of the Customs Union, it shall give us an idea on the dimensions of dependence to the extent where it is assessed on international free trade scale. Turkey, who is specialized on the production of certain commodities in connection with the international division of labour on which Customs Union is also based, competes with economies that produce similar goods by using facilities provided by flexible production and subcontracting. In Turkey, where labour organization level is low, ensuring competitive advantage via labour costs reflects a development approach that is built on commodity, and would bring development problems in the long term. It becomes meaningful in terms of international division of labour when one considers that technology production is performed by foreign companies in Turkey and almost all of the patent registrations are obtained by the same.

The prevailing standpoint in Turkey in the '70s years as the Additional Protocol was signed between Turkey and the EEC was industrialisation and development, as was the case in many peripheral formations in those years (the Union of Chamber of Industries, 1976:29). The model of import substituting industrialisation was used to this end. The strategy which was based on the production of consumer goods created problems in the balance of payments. However many people were of the opinion that this process would lead to a production of capital goods in the course of time. In this way Turkey would also be able to produce technology (Türkcan, 1981:237). In the reports of that time it was frequently reported that the import substitution of the capital goods would solve the industrialisation/development problem in Turkey in the course of time. According to this, Turkey has the capacity to enter into competition in the global markets (Zeytinoğlu, 1981:43). Nonetheless, the import substitution has never had a development verifying the optimistic standpoint in this matter.

Taking all the arguments stated above into consideration we can say that at the beginning of '70s years Turkey did not want to remain as a periphery country and she had an industrialisation goal.

In the years following the Additional Protocol and coupled with the rise of Neo-Liberalism, the notion of development fell off the agenda; it was in those years that "dependent industrialisation" (Kazgan, 1973:150) got deepened and intensified. The economic structure created by this dependent industrialisation paved the way to dependent development, as it is defined by the School of Dependency.

The political dimensions of this matter turn out to be clearer as the new situation created by the fall of the Berlin Wall and dissolution of the Soviet Union are taken into account. The threat of the Soviet Union disappeared in the '90s years and consequently the importance of Turkey decreased in a substantial manner and the procedure of Customs Union has been degraded into a relationship solely with economic dimensions. In the course of time the Customs Union has become a mechanism of not accepting Turkey as full member; shallow political calculations of political parties in Turkey also played a role in this procedure. This procedure also continues nowadays.

The issue must also be assessed from the perspective of sectoral competition that is managed by global regulative centres/organizations of capitalism. Accordingly, economies of underdeveloped countries are engaged in competition in areas of cheap labour and a price race that proceeds downwards begins. Although it is not assessed as one of the direct results of Customs Union, in connection with the system which also includes Customs Union, Turkey has not become a part of the generation of newly industrialized countries. Although Turkey scythed price increase, it could not transform its economy in the axis of certain policies, such as cheap labour, raw material and transportation etc.

Consequently, the situation that emerged as a result of Customs Union process which was initiated as an integration form between the EU and Turkey but was squeezed in the field of economics, supports the analyses of Dependency

School. As a result of the Customs Union that is being implemented for sixteen years between the Core and the Semi-periphery, trade creation effect is realized in favour of the EU, external trade balance is increased in favour of imports, tax income losses are experienced, terms of trade are distorted and amount of exports in dirty industries by the core increased. Furthermore, subcontracting relations and flexible production became extensive, and technology production is dominated by foreigners. In consideration of all of these results, “dependent development” argument of writers from Dependency School, such as Cardoso, Evans and Gereffi (Özdemir, 2010: 201) is the most suitable approach directed towards understanding the change in Turkey’s economic and political structure in connection with Customs Union.

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