

The effects of Customs Union with European Union on Turkish Foreign Trade

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Sammendrag

This study aims to find out short-run effects of customs union on a joining country, specifically the effects of the Customs Union Agreement between Turkey and the European Union (EU) on Turkish trade. Turkey is the first country that have joined the Customs Union without being a member of EU. The Customs Union agreement gives Turkey closer relations with EU than any other non-member country, except Norway and Iceland. The entry into the customs union means primarily the elimination of tariffs on trade between Turkey and the EU countries and the adoption of common external tariffs that is applied to the non-member countries by EU. The volume changes of Turkish imports and exports with the European Union and the Rest of the World as a whole as a result of the entry is found by using a mathematical model where customs tariff rates and export subsidies are parameters which affect prices and therefore trade flows.

The sources of data for the study are Foreign Trade Statistics, Input/Output tables, Tables of Tariff from EU and Turkey. Most of data that has been used are for the year 1985 and they are aggregated to 16 sectors.

After summarizing history of the relation and customs union agreement between EU and Turkey, the problem is discussed first with one-good model, then a mathematical model is derived using properties of constant elasticity of substitution functions (CES). A partial equilibrium model is developed to a linear equations system with structural and simplifying assumptions.

With underlying assumptions and relying on other econometric studies for estimates of substitution elasticities, the solution of the model finds an increase in total world trade with Turkey. Furthermore it is found that as a result of customs union, the demand for domestic produced good decreases while total supply increases by some amount. Contrary to expectations, replacement of low-cost products with high-cost products in imports to Turkey is not found to be the case because of lower Common External Tariffs (CET) of European Union in comparison to high initial tariffs of Turkey to the Rest of the World.