



## ECONOMIC ASPECTS OF TURKISH- EUROPEAN UNION (EU) RELATIONS

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### Abstract

Turkey's relationship with the EU is long-standing and this relationship appears to never lead to the membership of Turkey to the EU. An important aspects of the EU is economic and it has been progressing towards a unique political structure, which cannot be captured completely by any organisational model of international economics, becoming a self-sufficient entity. In light of this, this article aims to seek evidence that Turkey's economy is dependent on the trade with the EU to a great extent, and not necessarily vice versa. The article draws on evidence from the detailed examination of trade relations between Turkey and the EU over a long period from both parties' perspectives. It is evident that the EU has been the largest and most important trading partner of Turkey over the years. As such, it is suggested that Turkey cannot afford to be outside the enlargement process of the EU. Given that the long-standing relationship with Turkey, the EU also has shown willingness to improve its economic relations with Turkey as a useful trading partner.

### 1. Introduction

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## **1. Introduction**

Turkey's relationship with the EU is long-standing dating back to the early 1960s. The application for full membership by Turkey in 1987 was rejected by the EU in 1989. No date yet was set for the re-opening of full-membership negotiations. Nevertheless, Turkey has showed determination that she has to find a place for herself within the enlargement process of the EU. As some argue, this is not only the battle given to prove to be European. Since inception, the EU has been progressing towards a unique political structure, which cannot be captured completely by any organisational model of international economics. An important aspect of the EU is economic. This encompasses the European Single Market for goods, services, capital and labour. Given that Turkey is a neighbouring country to the EU region, she cannot afford not to have a place within the EU. Moreover, the Turkish people believe that the evaluation of Turkey's application for membership was significantly influenced by political issues, over the perhaps more important economic and social considerations. To this end, it is useful to examine the economic aspects of Turkish - EU relations over the years in parallel with the progress that has been made in the long-standing relationship between Turkey and the EU. This study aims to bring to light the economic tie between Turkey and the EU by studying the relevant statistics regarding the two parties.

A brief history of fundamental developments in the long-standing relationship between Turkey and the EU was presented in Section 2. In the following section, an important economic aspect of this relationship is examined. More specifically, foreign trade figures for the EU are examined, highlighting both intra- and extra-EU trade and Turkey's share of this. In order to gauge the importance of the EU to



Turkish trade, Turkey's main trading partners are briefly analysed. In addition to this, the development of Turkish-EU foreign investment is considered. In the final section, some conclusions are drawn from the study.

## **2. Background to Turkish-EU Relations**

In the post-war period, Europe was divided into two blocks; East and West. Turkey's position appeared as a "front-line State" in the emergence of the bipolar, cold-war atmosphere, in which the West was trying to create a unified front against the East. In this climate, from the Turkish policy makers' point of view, the inclusion of Turkey in all Western organisations was regarded as a security precaution. It was also a way of benefiting from the richness of Western material and technical resources, which could help the development of the Turkish economy. Thus the involvement of Turkey in the EU was a natural extension of Turkey's inclusion in other Western organisations, such as: NATO; the Council of Europe; the OECD.

Motivated by mainly political<sup>2</sup> and economic issues, on the 12th of September 1963, Turkey signed the Ankara Agreement (The Association Agreement) regulating Turkey's association with the EU. The Association Agreement went into effect on the 1st of December, 1964. Along side the Turkish-British Trade Agreement of 1838, Treaty of Lausanne in 1923, it is regarded as one of the most important agreements concerning foreign trade and political relations that Turkey has ever

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" An influential factor in Turkey's inclusion as an associate member of the EU was that Greece had taken steps towards gaining membership. It was believed at that time, that Turkey had to be present on each and every platform that the Greeks were associated with, in order to prevent them from taking any unopposed actions and to keep track of any plans that could be harmful to Turkey's progress. See, Eralp, A. (1993); "Turkey and the EU In the changing post-war international system" in C. Balkir and A. M. Williams (eds.), *Turkey and Europe*, London: Pinter Publishers Ltd., pp. 26-28.



signed.<sup>3</sup> Turkish foreign policy envisaged the agreement as leading to full membership.<sup>4</sup> However, according to article 28 of the Association Agreement, automatic accession to the EU is not unconditional, the agreement being rather an option not a claim by right, which may be realised if and when the country concerned is deemed capable of entirely taking over the relevant obligations.<sup>5</sup>

The Association Agreement between Turkey and the EU aimed to achieve two major objectives. Firstly, it outlined three phases of progression consisting of a preparatory, transitional, and then a final phase. Secondly, it proposed to achieve three fundamental goals: (i) Free movement of goods and services between Turkey and EU member countries (ii) Free movement of Turkish workers, and (iii) Financial aid from the EU to Turkey.

The preparatory phase was required to be not less than five years and not more than eleven years, during which Turkey did not have to undertake any obligations. Effectively the preparatory phase ran between 1963 and 1972, proceeding relatively smoothly with the trade volume between Turkey and the EU increasing significantly over this period.

Before completion of the preparatory period, the Additional Protocol, which set out the procedures and terms of the next (transitional) phase, was signed on the 13 of November 1970. It stipulated the main aim of the transition period, which started on the 1st of January 1973, to be the gradual establishment of a customs bridge

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<sup>3</sup> Zaim, S. (1990), [in Turkish] " The EU matters of Turkey, the answer of the EU and new choices", *Aydinlar Ocak Magazine*, Ankara, p. 38.

<sup>4</sup> Ozal, T. (1991), *Turkey in Europe. Europe in Turkey*. Ankara: K.. Rusdem Brothers. p. 312.



between Turkey and the EU. This entailed immediate abolition by the EU of custom duties on Turkish industrial products, and a gradual elimination of custom duties by Turkey on EU products. Over the first years of the transitional phase Turkish industrialists showed concern, pressing the Turkish government with claims that Turkish industry was not ready to start reducing customs duties. As a result, the Turkish government presented a plan to revise the terms of the Association Agreement in 1978, asking for a five-year period by which it hoped to honour its initial tariff concession obligations. This was done to protect Turkish industry, but was seen by the EU as a step by Turkey to freeze the terms of the Association Agreement and hence, decelerate progress towards full membership. This contributed to a cooling off of Turkish-EU relations at a historically critical time, which saw Greece along with Spain and Portugal preparing for full membership accession. Compounding this, during the early 1980s Turkey was heavily occupied with overwhelming internal conflicts and economic problems, including the military coup of 1980, and heavy foreign debt, which had been accumulating since the 1960s. As such, Turkey lagged behind these other Southern Mediterranean countries in terms of re-enforcing relations with the EU. During this period, Turkish political issues acquired increasing weight within EU circles. There was increasing conceptual diversification on issues concerning constraints on Turkish exports and the free movement of Turkish workers within EU member countries. This was supplemented by a decline in the trade volume between the two parties, the blockage by Greece of EU financial aid to Turkey and the emergence of a debate on Turkish political issues. The EU followed a wait-and-see attitude in its relations with Turkey, pushing Turkey to strengthen ties with the USA and Islamic countries in order to sustain economic development.

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<sup>5</sup> Kramer, H. (1994), "EU-Turkish Relations: Unfinished Forever?" in P. Ludlow (ed.), *Europe and the Mediterranean*, London; BPC Wheatons Ltd., p. 205.



Despite the general election held in 1983 restoring democracy in Turkey, the dialogue between Turkey and the EU did not progress over the period 1983-1986, with many of the issues mentioned above remaining unresolved. Some of these issues, including the free movement of Turkish workers and the financial aid that the EU is obliged to provide any country in the transition process for full membership, are still debated.

In 1986, Turkey successfully called for the reactivation of the Association Agreement. Although there was still heavy debate concerning the normalisation of Turkish -EU relations, the Turkish government applied for full membership on the 14th of April 1987. Her application was based on Article 237 of the Treaty of Rome, which states that any democratic European country with a market economy should be eligible to apply for full membership.<sup>6</sup> After more than two and half years, the Commission finally responded to Turkey's application on the 18th of December, 1989. Effectively, Turkey's application for full membership was politely shelved. The Commission showed that it was reluctant to welcome the application of a new country at that stage, suggesting that new accession negotiations with any country should not start before 1993 at the earliest, except in exceptional circumstances. Furthermore, the Commission pointed out that according to specific analysis, Turkey was not ready to undertake the economic and political obligations that would ensue accession to a full membership. The economic problems highlighted included macroeconomics imbalances, major structural disparities in both agriculture and industry, a high level of industrial protectionism and a low level of social protection. The ongoing Cyprus issue, persistent disputes with Greece, ethnic problems and political instability were underlined as the political barriers to Turkey's accession.

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<sup>6</sup>"The Economist (1990), "The makings of a new constellation", vol. 316, no. 7666, p. 31.



No specific date to re-open membership negotiations was proposed in the Commission Report of 1989. However, the Council approved the reactivation of the Association Agreement and strengthened ties with Turkey. The Commission proposed an extension of the Customs Union (CU) to include Turkish industrial products by the end of 1995, promising to develop co-operation with Turkey in the spheres of agriculture, financial services, energy, environment, science and technology, in the framework of a "package of co-operation".<sup>7</sup> Under these circumstances, Turkey chose to complete the envisaged CU with the Community. Talks began in 1994 and were finalised on the 16 of March 1995 at the Turkey-EU Association Council.

With the entry into force of the CU, Turkey abolished all duties and equivalent charges on imports of industrial goods from the EU. Furthermore, Turkey has been harmonising its tariffs and equivalent charges on the importation of industrial goods from third countries with the EU's Common External Tariff and progressively adapting itself to the EU's commercial policy and preferential trade arrangements with specific third countries. This process was completed in 5 years. It is noteworthy that preferential trade regime for agricultural products was adopted on January 1998. Moreover, Turkey is progressively adopting many aspects of the Common Agricultural Policy.

In 1995, the Member States of the EU and 12 Mediterranean partner countries (MPC-12)<sup>8</sup> signed the Barcelona Declaration aimed at strengthening Euro-Mediterranean relations. One of the objectives of Declaration was to establish by

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<sup>7</sup>Kramer (1994),pp. 212-215,

<sup>8</sup> MPC-12 countries: Syria, Algeria, Turkey, Morocco, Tunisia, Egypt, Jordan, Lebanon, Israel, Palestinian Authority, Cyprus, Malta.



2010 a Euro-Mediterranean free trade area comprising the 15 member States of the EU and MPC-12 countries. This clearly indicates that the EU is willing to strengthen the trade links with Turkey as well as other Mediterranean countries.<sup>9</sup>

At the Association Council of the 29th of April 1997, the EU reconfirmed Turkey's eligibility for membership and asked the Commission to prepare recommendations to deepen Turkey-EU relations, while claiming that the development of this relationship depended on a number of factors relating to Greece, Cyprus and human rights.

The Commission, however, excluded Turkey from the enlargement process in its report entitled "Agenda 2000" which was disclosed on the 16th of July 1997. While the report conceded that the CU was functioning satisfactorily and that it had demonstrated Turkey's ability to adapt to the EU norms in many areas, it repeated the same political and economic arguments against Turkey and made no reference to Turkey's full membership objective. At the Luxembourg Summit held on the 12th of December 1997, Czech Republic, Slovakia, Hungary, Estonia, Romania, Poland, Bulgaria, Lithuania, Latvia, and Southern Cyprus were recognised as candidate countries to the EU membership. The day after the Luxembourg Summit reflecting the contents of the Commission's "Agenda 2000", the Turkish government criticised the EU's attitude in a statement and in line with this statement Turkey did not participate in the inaugural meeting of the European Conference held in London on the 12th of March 1998,

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<sup>9</sup> Note that Syria, Algeria and Turkey accounted for almost two thirds of total trade between the EU countries and MPC-12 countries. See [www.europa.eu.int\(13.06.2002\)](http://www.europa.eu.int(13.06.2002))





The Helsinki European Council held on the 10th of December 1999 produced a breakthrough in Turkey-EU relations. At Helsinki, Turkey was officially recognised without any precondition as a candidate state. Thus, Turkey, like any other candidate states, will reap the benefits from pre-accession strategy to simulate and support its reforms. Turkey will also participate in Community programs open the other candidate countries and agencies. Turkey will be invited to the meetings between candidate states and the Union in the context of the accession process. Turkey's recognition as a candidate country to the EU membership also created a single framework for coordinating all sources of EU financial assistance by the approval of the Accession Partnership by the Council on the 26 th of February 2001. These developments led Turkey to the adoption of its own "National Program for the Adoption of the EU" on the 19th of March 2001. Suffice to say that the formation of the Helsinki European Council can be regarded as a watershed in the given long-standing relationship between Turkey and the EU which has been developing since 1964.

#### EU-Turkey Financial Cooperation

In order to bring out the complete picture of Turkish-EU relationship over the years, It is also important to state the developments in relation to financial cooperation between Turkey and the EU. Financial cooperation between Turkey and the EU can be chronicled into four periods: a) Prior to the CU (1964-1995); b) In the framework of the CU (1996-1999); c) Earthquake assistance (1999-2000); d) Post-Helsinki period(2000-....)



Prior to the CU, Turkey received 1.05 billion Euro /Ecu in total from the EU. This included 78 million Euro/Ecu as grants and 927 million Ecu/Euro as low-interest credits within the framework of the Four Financial Protocols, the Supplementary Protocol and the Special Aid, respectively.<sup>10</sup> Following the military intervention in 1980, the EU decided to freeze the part of 75 million Euro/Ecu which had been granted for the financing of specific projects until 1987. Table 1 shows the financial protocols and other aid packages signed between Turkey and the EU over the period 1964-1995.

**Table 1: Financial Cooperation between Turkey and the EU (1964-1995)**

<b>Financial Instrument</b>	<b>1<sup>st</sup> Financial Protocol</b>	<b>2<sup>nd</sup> Financial Protocol</b>	<b>Supplementary Protocol</b>	<b>3<sup>rd</sup> Financial Protocol</b>	<b>Special Aid Package</b>	<b>4<sup>th</sup> Financial Protocol</b>	<b>Gulf War</b>	<b>Special Financial Coop.</b>
<i>Period</i>	1964-1969	1971-1977	1971-1977	1979-1982	1982-1986	1982-1986	1991	1993
<i>Type of Assistance</i>	Credit	Credit	-----	Credit	Grant	375 Grant 225 Credit	Credit	Grant
<i>Amount Million Eufo/Ecu</i>	175	220	47	310	75	600	175	3

*Source: <http://www.mfa.gov.tr/grupa/ad/adc/TR-EU.finan.coop1.table.htm>*

<sup>10</sup> It is also interesting to note that over the period 1966-1998, although Turkey as an associate member received 705 million Euro/Ecu, other Mediterranean countries which had only signed commercial agreements with the EU received more aid. For instance, between 1978-1991, Egypt and the former Yugoslavia were granted 895 million and 800 million Euro/Ecu in aid, respectively. See Tore, N. (1990), "Commentary : Relations between the EU and Turkey", *European Access*, no. 3, p. 9. *Economie Dialogue* (1986), p. 19. <http://www.mfa.gov.tr/grupa/ad/adc/TR-EU.finan.coop1.table.htm> (21.06. 2002)



In the framework of the CU. Turkey received an amount of 376 million Euro/Ecu in grants and 544.5 million Euro in loans Under MEDA I (Mediterranean Development Agency I) and the Mediterranean Partnership.

In the post-Helsinki period, the European Commission has taken a number of decisions to increase the financial support of the EU to Turkey. In the framework of Turkey's accession to the EU, Turkey's allocation has been doubled and amounts to 889 million Euro in grant aid and 1,470 in loans under MEDA II (2000-2006). Grant aid will in future amounts to about 170 million Euro per year, double that of previous year. Additionally, a package of 15 million Euro in grants and an additional loan of 450 million Euro were approved by the Commission and the European Investment Bank, respectively. The Commission also adopted a further package of 135 million Euro in grants for the period 2000-2002. Furthermore, the Commission agreed to provide financial support, amounting to 51 million Euro in grants and 600 million Euro in loans to be used in earthquake related areas.

To this end, it appears that the EU's planned and/or committed financial aid to Turkey amounts to 1,478 million in grants and 3,391.5 million in loans in total since 1964. <sup>11</sup>These figures should be considered in light of the substantial loans received by Greece, Spain and Portugal during their pre-membership and post-membership periods up to 1988, amounting to 12 billion Euro/Ecu, 6 billion

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<sup>11</sup> These figures do not include the humanitarian aid to Turkey by the E.U. [www.euturkev%20-%20Communication%20Platform..htm](http://www.euturkev%20-%20Communication%20Platform..htm) (19.06.2002)



Euro/Ecu and 2.5 billion Euro/Ecu respectively.<sup>12</sup> This amount of financial aid, for a country with a population of roughly seventy million, is by no means sufficient.<sup>13</sup>

### **3. Economic Aspects of Turkish-EU Relations**

Table 2 gives a general summary of EU intra and extra foreign trade between 1960 and 1999. It can be seen that in 1960, just three years after the Treaty of Rome was signed, almost 38 percent of EU imports were intra-EU. At this time, intra-EU exports accounted for around 41 per cent of total exports. In the years that followed, the weight of intra trade in the EU's total foreign trade increased considerably, reaching around 50 per cent in the 1970s, around 57 per cent in the 1980s and over 61 percent in the 1990s. This was of course at the expense of decreasing extra-EU trade.

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<sup>12</sup> Economic Dialogue (1986), January, Turkey.

<sup>13</sup> Although the Fourth Protocol signed in 1980, set out a loan of 600 million Euro/Ecu, this financial aid was not processed due to the subsequent suspension of democracy in Turkey over the period 1980-83 and then the persistent Greek veto since 1983. *The Economist* (1996), "A Survey of Turkey", vol. 339, no. 7969, p. 17.



Table 2: Developments in EU Extra and Intra Foreign Trade (% of total imports and exports)

	1960	1965	1970	1975	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	
Intra-EU Imports	37,92	44,86	50,29	49,49	53,36	57,75	58,78	58,12	58,17	58,79	58,60	59,31	61,91	62,40	63,61	62,60	61,20	61,50	61,30	
Extra-EU Imports	62,08	55,14	49,71	50,50	46,64	42,25	41,22	41,88	41,83	41,21	41,40	40,69	38,08	37,59	36,38	36,90	38,50	38,00	38,20	
Share of Turkey																				
% of Extra-EU Imports	0,66	0,69	0,57	0,46	0,79	0,93	1,10	1,12	1,23	1,28	1,26	1,34	1,61	1,66	2,03	1,98	1,82	1,90	1,85	
% of Total EU Imports	0,41	0,38	0,28	0,23	0,37	0,39	0,45	0,47	0,52	0,53	0,52	0,55	0,61	0,62	0,74	0,72	0,69	0,70	0,71	
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	
Intra-EU Exports	40,85	49,56	53,36	52,42	54,90	57,17	58,66	59,36	59,98	60,74	61,64	61,29	62,82	63,06	63,79	62,10	60,80	61,70	62,10	
Extra-EU Exports	59,11	50,44	46,64	47,57	45,10	42,83	41,34	40,44	40,02	39,26	38,36	38,71	37,17	36,93	36,20	37,50	39,10	37,90	37,60	
Share of Turkey																				
% of Extra-EU Exports	1,10	0,77	0,94	1,66	1,41	1,37	1,62	1,42	1,34	1,82	1,92	1,88	2,93	2,08	2,96	3,69	3,45	3,28	2,82	
% of Total EU Exports	0,65	0,39	0,44	0,79	0,64	0,59	0,67	0,58	0,54	0,71	0,74	0,73	1,09	0,76	1,07	1,37	1,32	1,21	1,03	
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	

Source: Eurostat, External Trade and Balance of Payments Statistical Yearbook, Brussels, various years and Eurostat(2002), Yearbook 2002, Brussels.

Note: Intra-EU corresponds to the sum of the transactions declared by EU Member States with other EU Member States whereas Extra-EU denotes to transactions declared by EU Member States with countries outside the EU. It is noteworthy that the sum of Intra-EU and Extra-EU transactions, plus a remainder that cannot be allocated are equal to world transactions.

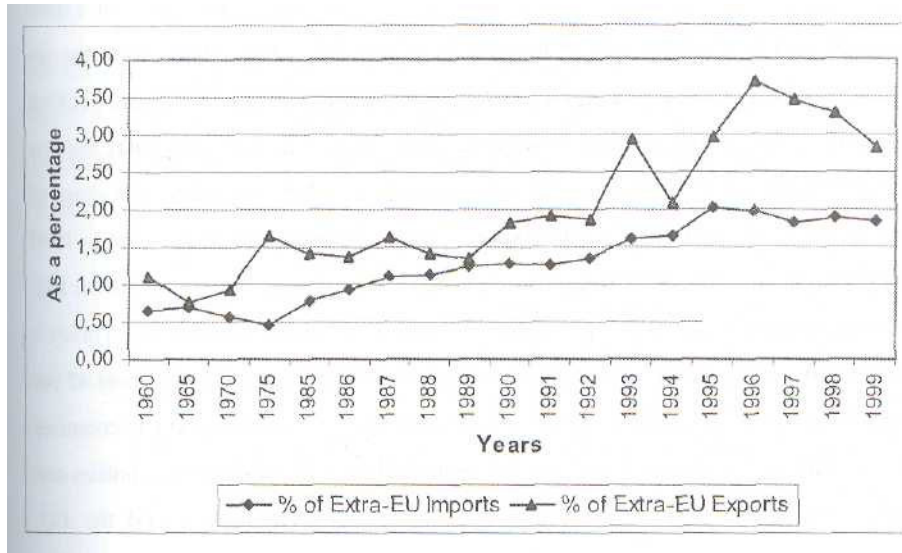


Figure 1 below illustrates the development of the EU foreign trade with Turkey. The Association Agreement of 1963, concerning Turkey's association to the EU, aimed to bring collaboration and harmonisation in economic relations between Turkey and the EU, leading to more intense trade between them. However, despite a lowering of custom duties on imports over the period 1963-1972, the portion of imports from Turkey in the EU's total imports decreased continuously until 1985. Over the same period however, EU exports to Turkey showed an upward trend. Despite the Turkish economic liberalisation programmed initiated in 1980, the tenuous political relations between Turkey and the EU during the period 1980 to 1986, resulted in a levelling off of trade. Since the re-activation of the Association Agreement in 1986, EU imports from Turkey grew considerably, while EU exports to Turkey remained almost constant until 1989. From 1993, the level of trade between Turkey and the EU showed noticeable improvement. The portion of imports from Turkey and exports to Turkey in the EU's total foreign trade increased appreciably from 1.23 per cent in 1989 to 2.03 per cent in 1995, and from 1.34 per cent in 1989 to 2.96 per cent in 1995, respectively. Despite the steady decrease in general extra-EU foreign trade over the period 1989-1995, extra-EU trade with Turkey increased steadily, especially after 1989, which can be attributed to the positive effects of trade liberalisation, and the export-led policies followed by Turkey.

In the following years starting from 1996, when Turkey gained full accession to the EU, EU imports from Turkey remained almost intact whereas EU exports to Turkey jumped to the level of 3.69 per cent.



Figure 1: EU Foreign Trade with Turkey



With the aim of establishing Turkey's main trading partners and hence, to illustrate to what extent Turkey's foreign trade is dependent on the EU, Turkey's foreign trade figures are now considered.<sup>14</sup> EU countries have always played an important role in the foreign trade of Turkey, especially following the liberalisation of Turkish foreign trade in 1980. Tables 3 and 4 below detail Turkey's imports and exports by country, as a percentage of total imports and exports, for the period 1980-2001 -

<sup>14</sup> For details relating to Turkey's foreign trade see Toga, S. (1996) "Trade liberalisation and competitive structure in Turkey during the 1980s", in S. Toga and V. N. Balasubramanyam (eds.), *The Economy of Turkey since Liberalisation*, London: Macmillan Press.



Despite the initiation of outward-looking economic policies by Turkey in 1980, the damage to Turkish-EU relations ensuing the military coup of 1980 and the imposition of non-tariff barriers on Turkish exports, led to a decline in export revenues and a levelling off of imports from the EU, until 1986. After the re-activation of the Association Agreement in 1986, and as a result of outward-looking economic policies, the portion of imports from the EU in Turkey's total imports increased from 28 percent in 1980 to 41 percent in 1986. However, the share of exports to the EU in Turkey's total exports only increased from 43 per cent in 1980 to 44 percent in 1986, indicating a foreign trade improvement in favour of the EU. In 1990, Turkey's exports to EU countries constituted more than half of Turkey's total exports. In the same year, imports from EU countries constituted almost 42 per cent of Turkey's total imports. After 1992, trade between Turkey and EU countries slowed. The increasing trade volume between Turkey and non-OECD countries can explain the aforementioned dampening of trade between Turkey and the EU. Overall however, it is evident that EU markets constitute Turkey's main trading partners, accounting for almost half of Turkey's total foreign trade in 1995. On the contrary, Turkey's portion in the EU's total trade was only 2.49 percent in this year. The money value of Turkey's exports to the EU amounted to 6.39 percent of Turkey's GDP and that of imports 9.72 percent, in 1995. From this perspective it is clear that Turkey's foreign trade, and correspondingly her economy, is very dependent on the EU markets. However, in the following years this picture seemed to change significantly. For the period 1998-2001 Turkey's imports from the EU countries ranged between 52,46 per cent and 44,58 per cent, pointing out that Turkey's importance as an import market for the EU countries has almost remained intact. On the contrary, Turkey's export to the EU countries did not present a steady upward trend for the given period. For this period, Turkey channelled her exports to non-OECD countries, mainly consists of Russia and new Turkic Republics. It





cannot be ignored that Turkey was able to enter into new markets and compete in those markets.

Of the EU countries that trade with Turkey, Germany is ranked top, both in terms of imports and exports, followed by Italy, the UK and France. Trade relations with countries like Greece and Portugal remained constant over the period considered, as a result of their familiar product profile.

**Table 4: Turkey's Imports (CIF) by Country (percentage of total imports)**

	1980	1987	1988	1989	1990	1991	1992	1993	1994	1995	1998	1999	2000	2001
<b>I- OECD Countries</b>	45,30	65,84	63,80	64,44	62,77	63,78	66,86	67,43	67,67	65,80	68,42	72,89	65,47	62,27
<b>II- EU Countries</b>	27,85	41,17	40,02	41,12	38,34	41,83	47,02	46,59	47,14	46,91	45,57	52,46	48,82	44,58
as % of EU Countries														
Germany	37,89	38,76	37,22	34,84	36,40	37,49	32,66	35,23	32,67	33,40	33,10	30,36	27,46	29,69
Belgium-Luxembourg	7,17	6,78	7,11	8,11	7,32	5,61	5,63	5,17	4,92	4,87	5,40	4,99	5,29	2,43
France	17,07	11,93	10,73	14,06	12,30	14,37	12,40	12,68	14,07	13,36	11,87	12,59	14,61	6,23
Holland	9,28	5,78	6,48	6,53	7,35	6,14	6,49	6,55	6,27	6,78	6,32	6,00	6,14	3,28
Spain	3,41	3,61	4,12	4,13	3,70	3,23	3,00	3,11	3,48	3,48	3,48	0,00	0,00	0,00
Italy	13,57	18,93	18,99	17,07	17,69	18,51	18,64	18,01	18,44	18,41	18,96	17,64	14,90	6,72
Denmark	0,36	0,83	0,86	0,81	0,64	1,09	0,96	0,91	0,88	0,88	1,15	0,00	0,00	0,00
United Kingdom	14,34	11,34	12,30	12,54	12,02	10,87	11,78	11,14	11,11	10,72	10,76	11,13	10,23	7,65
Ireland	0,05	0,20	0,32	0,29	0,31	0,65	0,43	0,48	0,51	0,83	1,10	0,00	0,00	0,00
Portugal	-	0,33	0,26	0,22	0,17	0,18	0,18	0,23	0,35	0,38	0,04	0,00	0,00	0,00
Greece	-	1,71	2,22	1,41	1,67	1,38	0,78	0,83	0,86	0,96	1,14	0,00	0,00	0,00
Sweden	-	-	-	-	-	-	2,60	2,08	3,09	2,59	3,08	0,00	0,00	0,00
Finland	-	-	-	-	-	-	0,97	0,97	1,28	1,30	1,41	0,00	0,00	0,00
Austria	-	-	-	-	-	-	3,25	2,65	2,30	1,93	1,74	0,00	0,00	0,00
<b>III- EFTA and Other OECD</b>	17,45	24,67	23,78	23,31	24,43	21,96	19,83	20,85	20,73	18,90	22,65	4,61	4,06	16,28
<b>III- Non-OECD Countries</b>	54,70	34,16	36,20	35,56	37,23	36,22	33,14	32,57	32,13	34,20	31,68	27,11	30,38	37,73
<b>Total</b>	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: State Institute of Statistics (SIS), Statistical Yearbook of Turkey, various years.

Note: The European Free Trade Association (EFTA) countries include Iceland, Norway and Switzerland. The category of "Other OECD Countries" includes Poland, Czech Republic, Hungary, USA, Canada, Mexico, South Korea, Japan, Australia, New Zealand. The category of "non-OECD Countries" covers Russia, Former Soviet republics, Middle-East Countries and others.

Table 5 : Turkey's Exports (FOB) by Country (percentage of total exports)

	1980	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1998	1999	2000	2001
I- OECD Countries	57,70	57,53	63,25	57,51	61,72	67,98	65,16	63,52	59,08	59,32	63,71	58,74	65,35	50,96	76,99
II- EU Countries	42,68	43,74	47,77	43,71	46,52	53,19	54,06	53,92	49,50	47,69	51,06	29,26	35,26	26,62	39,69
as % of EU Countries															
Germany	45,55	44,30	44,86	42,15	40,24	44,45	46,44	46,12	48,10	46,55	45,34	22,61	25,54	19,47	29,66
Belgium-Luxembourg	4,43	5,99	6,53	5,18	4,83	4,53	3,92	3,65	3,87	4,30	4,06	2,88	2,91	2,43	3,77
France	13,12	9,15	10,27	9,79	11,00	10,69	9,98	10,20	10,15	9,85	9,32	5,40	7,33	6,23	10,48
Holland	6,76	6,82	5,75	6,89	7,53	6,31	6,46	6,30	6,81	7,19	6,53	3,69	4,35	3,28	4,93
Spain	-	1,81	1,44	2,10	2,42	2,89	3,24	3,78	2,57	2,69	3,23	0,00	0,00	0,00	0,00
Italy	17,55	17,78	17,48	18,73	18,10	18,05	13,23	11,88	9,87	11,97	13,17	6,45	7,87	6,72	12,92
Denmark	0,56	0,63	0,90	1,12	1,37	1,26	1,18	1,17	1,11	1,07	1,21	0,00	0,00	0,00	0,00
United Kingdom	8,37	19,25	11,11	11,30	11,39	10,81	9,20	10,03	10,98	10,28	10,27	7,10	8,55	7,86	12,03
Ireland	0,32	0,25	0,27	0,37	0,35	0,36	0,26	0,30	0,30	0,38	4,28	0,00	0,00	0,00	0,00
Portugal	-	0,52	0,16	0,49	0,46	0,64	0,57	0,53	0,59	0,61	0,05	0,00	0,00	0,00	0,00
Greece	-	2,30	1,21	1,88	2,31	2,02	1,96	1,84	1,85	1,96	1,90	0,00	0,00	0,00	0,00
Sweden	-	-	-	-	-	-	-	-	-	-	-	-	9,55	0,00	0,00
Finland	-	-	-	-	-	-	-	-	-	-	-	-	3,84	0,00	0,00
Austria	-	-	-	-	-	-	-	-	-	-	-	-	2,49	0,00	0,00
EU, EFTA and Other OECD	15,02	13,79	15,48	13,80	16,20	14,79	11,10	9,59	9,57	11,63	12,55	3,63	3,41	5,57	6,43
II-Non-OECD Countries	42,30	42,47	36,75	42,49	38,28	32,02	34,84	36,48	40,92	40,68	36,79	41,25	34,65	49,04	23,01
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

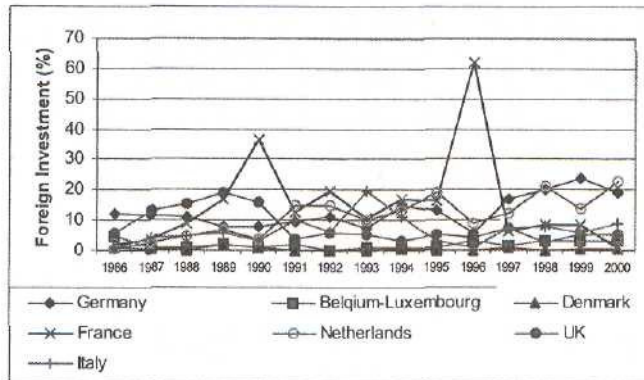
Source: State Institute of Statistics (SIS), Statistical Yearbook of Turkey, various years.

Note: The European Free Trade Association (EFTA) countries include Iceland, Norway and Switzerland. The category of "Other OECD Countries" includes Poland, Czech Republic, Hungary, USA, Canada, Mexico, South Korea, Japan, Australia, New Zealand. The category of "non-OECD Countries" covers Russia, Former Soviet republics, Middle-East Countries and others.



To complete the picture in terms of foreign trade, foreign direct investment between Turkey and EU countries is examined. In this regard, the distribution of foreign investment approvals by the Turkish government is given in Table 1 of Appendix 1, The share of total EU foreign direct investment İn Turkey shot up to 70 per cent in 1990 from 29 per cent in 1986. After following a sharp drop in 1991, the level of foreign direct investment from the *EU* stood at around 58 per cent up to the year 1996. One of the external reason for the sharp fall in 1991 was the emergence of new republics following the breakdown of the Soviet Union and reformation of Eastern and Central European countries, with investment from the EU turning towards these new markets at that time. During the period 1989-1995 60 per cent of direct foreign investment came from Europe. With the inclusion of Turkey into the CU in 1996, foreign investment from the EU countries to Turkey reached the peak at the level of 85.61 per cent over the whole period considered. However, in the following years this level dropped to the level of roughly 65 per cent on average. As many believed that the inclusion of Turkey in the CU has encouraged foreign investment from the EU to Turkey, in that risk is reduced. The relevant figures are also illustrated by country in Figure 2 below.

**Figure 2 : Foreign Direct Investment in Turkey by Country**





A great portion of foreign investment in Turkey, in terms of permission given to a single country, originated from France, with a share of 15.43 per cent on average over the course of 1986-2000. The second largest country in terms of investment permission granted was the Germany, with a 12.99 per cent share on average over the same period. The USA followed France and Germany as the third country with a share of 11.50 per cent.

#### **4. Conclusions:**

Since the 1960s, EU trade with third party countries has died down and the level of intra-EU trade has increased, as a result of trade diversion within the EU and the lifting of intra-EU trade barriers. In light of this, it could be argued that the EU may become a self-sufficient entity, having a high level of trade protectionism. This would not be desirable for those countries in the European region that are heavily dependent on EU markets and those seeking to improve trade volume with the EU, such as Turkey. However, despite the similar product profiles of EU members Greece and Portugal, EU trade with Turkey has increased since the 1980s, following an opposite trend to the overall level of extra-EU trade in total EU trade. In view of this, Turkey may be considered an important market for the EU, not so much in terms of trade volume, but as useful trade partner, it also suggests that, despite political problems, the EU genuinely desires to continue building on its relationship with Turkey, at the very least, on economic grounds.

It is evident from the figures examined that the EU is the largest and most important trading partner of Turkey, accounting for almost half of Turkey's total foreign trade. The general upward trend of trade between Turkey and the EU implies a willingness



of the two parties to continue exploiting the good trade potential between the two. However, the trade relationship between Turkey and the EU has not followed a stable trend over the years.

To this end, it can be said that the economy of Turkey is dependent on the trade with those of the EU member countries to a great extent. Thus, Turkey as a neighbour country to the European region, cannot afford to be an outsider to the EU, while the EU has been progressing towards a self-efficient entity.



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Appendix I Foreign Investment Figures: Turkey-EU

Table 1: Distribution of Foreign Investment in Turkey by Country  
(as percentage of total)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Germany	12,40	11,90	11,40	8,20	7,70	9,80	11,09	7,43	15,01	13,34	5,92	16,82	20,04	23,94	19,05
Belgium-Luxembourg	4,90	1,10	0,90	2,30	1,20	2,10	0,10	0,98	0,87	1,22	2,97	1,83	3,08	3,24	3,40
Denmark	1,30	0,40	0,10	2,10	0,90	0,20	0,21	0,23	0,60	0,13	0,01	0,82	0,26	0,65	0,38
France	2,30	3,90	8,90	17,10	36,70	12,80	19,45	10,59	17,23	16,20	8,86	12,31	21,39	13,82	22,75
Netherlands	0,70	2,40	4,80	6,70	3,90	14,60	15,00	9,98	13,26	19,02	8,86	7,30	2,70	5,18	5,46
UK	6,00	13,40	15,20	19,00	15,70	3,60	5,98	5,41	3,43	5,47	4,31	7,41	7,82	5,59	8,89
Italy	1,30	4,00	4,80	5,70	3,30	10,00	6,59	19,72	11,04	3,36	1,13	7,41	7,82	5,59	8,89
Spain	-	0,30	0,30	0,30	0,50	0,40	-	-	-	-	0,27	0,77	0,56	1,82	0,20
Sweden	-	-	-	-	-	-	-	-	-	-	0,58	0,45	1,17	5,59	0,29
Austria	0,20	0,20	0,60	0,60	0,40	0,40	0,49	0,28	0,26	1,12	0,29	0,50	0,37	0,94	0,95
<b>EU Total</b>	29,10	37,60	47,00	62,00	70,30	53,90	58,91	54,62	61,70	59,86	85,61	61,53	65,92	68,59	63,73
<b>USA</b>	6,70	9,20	16,00	8,90	6,60	23,90	10,82	11,91	10,57	7,86	4,69	10,42	18,06	17,24	9,67
<b>Switzerland</b>	14,60	20,20	13,00	10,70	6,10	5,50	11,20	6,68	3,63	11,16	4,10	3,00	6,17	3,00	1,14
<b>Japan</b>	0,70	8,40	8,10	4,90	5,60	2,80	2,03	11,15	8,48	9,66	0,55	7,57	1,06	0,82	6,27
<b>Other Countries</b>	48,90	24,60	15,90	13,50	11,40	13,90	17,04	15,64	15,62	11,46	14,39	38,47	34,08	31,41	36,27
<b>Total</b>	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

Source: State Planning Organisation of Turkey (SPO), various statistics and The Undersecretariat of Treasury (2002), The Report on Foreign Investment, Ankara

