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The Effects of the EU Customs Union with Turkey on the Turkish Textile and Clothing Sector

Abstract
The movement of globalisation, which is proceeding at increasing speed all around the world, is causing serious problems, especially for developing countries whose sectors have a low competition level. Because it is known that regional co-operation and integrations will help to prevent the ill economical, social, political and technological effects of globalisation's which affect developing countries, movements of regional co-operation are expanding together with that of globalisation itself. One of the most important such integration movements is the European Union. The Customs Union Pact, which was affected by the great integration movement of European Union and Turkey and has been in operation since 1996, still has the distinction of being the most important economic integration pact in Turkey's history. This pact has both positive and negative effects on many sectors of the Turkish economy, such as the textile and clothing sectors, which are among the most important areas of the country's industry. Aspects of these effects can provide us with important information about the future of these sectors.

Key words: *customs union, Turkish textile and clothing sectors, European Union, foreign trade of textile and clothing.*

Introduction

Turkey entered the global market with its textile and clothing sectors, which have been its primary exports since the 1980s, and are still such in the 1990s and now at the beginning of the twenty-first century. Despite showing some ups and downs in production before 1997, employment and exports since then have accelerated in an exemplary manner for the model of developing countries such as Turkey. The textile and clothing sectors have remained an economic driving force in production, employment and exports.

The sector was characterised almost exclusively by imports until 1950 in the textile market, and clothing until 1970, while production was principally focused on the domestic market until the 1980s. However, it grew rapidly together with the increasingly outward-looking policies in the later 1980s, and especially in the 1990s, and showed great increases in exports, thus becoming an indispensable part of production, employment and exports for the whole of the country's economy.

In this period, the Customs Union Pact which Turkey concluded with the European Union in 1996, was a turning point not only for the Turkish textile and clothing sectors but also for the Turkish economy as a whole. Turkey has become very hopeful in a wider sense for its sector of textile and clothing, which has a great chance for competition, against those sectors which have a low chance to do so. So far, the textile and clothing sector has met all of these expectations in general, and contributes a great deal to the volume of Turkey's foreign trade with the European Union. However, in spite of this, some local representatives of the sector think that the sector has been hampered because of some of the provisions of the Pact. In this case, the fact that the effects of the Customs Union Pact were not analysed in advance, and also the necessary policies and protection were not implemented (although the Turkish government had a long time to prepare), had considerable effects. Exports were supposed to increase after the accession to the Customs Union, and are indeed continuing to do so, but they have fallen behind the accompanying increase in imports.

This paper examines both the positive and negative contributions of the Customs Union Pact to the Turkish textile and clothing sectors, and also gives information about future strategies by analysing the results of the Pact on the sector.

Customs Union Pact

This pact, which was created as a partnership between Turkey and the European Economic Council, was signed by Inönü's government in Ankara on 12 September 1963. The pact, which came into effect on 1 January 1964, provides for a developing customs union between Turkey and the European Union. The aim of the Ankara Pact was identified in the second article of the pact as being "to encourage the strengthening of commercial and economic relationships continuously and in balance between the sides by making allowance for the accelerated development of Turkish economy and the necessity of raising the life standards of the Turkish people." It was predicted that a developing customs union would be established according to the cases & methods which are described in articles 3, 4 and 5 in order to realise the aims which were specified above. The partnership was also predicted to unfold in 3 stages, namely arrangement, transition and result.

A Customs Union is when two or more countries give each other the right to move goods freely between their lands and apply the same taxes for other countries. It was predicted that the right would exist to free movement of goods between those countries in the Customs Union, that other goods coming from other countries would be taxed, and that the level of those taxes would be decided by those countries in the union. On this basis, a Corporate Customs Price List was formed. In addition, it was predicted that no limitation and protectionist obstacle preventing the free movement of goods between the countries in the Customs Union could be applied.

A general evaluation of the Turkish textile and clothing industry according to the European Union

The European Union, which has an important place in the foreign trade of Turkey, is also important for the trade of Turkish textile and clothing goods.

Turkey's textile and the clothing exports to the EU-15 (Belgium, France, Germany, Italy, Luxembourg, Netherlands, Denmark, Ireland, United Kingdom, Greece, Portugal, Spain, Austria, Finland, Sweden) showed an amount-based increase of 277% and a value-based increase of 206% between the years 1995-2004 (Table 1). In the same period, imports from the EU showed an amount-based increase of 349% and a value-based increase of 261%. Between 1997 and 2002, the amount-based increases were greater than the value-based increases in both exports and imports. The decrease which was seen in the global economy in this period, the Southeast Asian crisis in 1998, and the subsequent Russian crisis all affected Turkey deeply, and were important causes of this situation. As of 2002, and in contrast to the previous years, textile and clothing trade between Turkey and EU has shown value-based increases greater than the amount-based increases in both exports and imports. The reasons for this include the price increases for products and services since the crisis, preferring high-value-added products in trade between Turkey and the EU, and choosing the East or Southeast Asian countries such as China for low-value-added products. Following the establishment of the Customs Union Pact, in 1996 and 1997, while Turkey's textile and clothing imports from the EU were showing increases at greater ratios than exports (71.7% and 17.5%), by the year 1998 exports had increased at a greater ratio than imports. Before the Customs Union, while Turkey's foreign trade surplus with the EU was US$4.5 billion in 1995, it shrank to US$4.2 billion in 1996 and 1997. However, it then started increasing again, to US$5 billion in 2000, US$6 billion in 2002, US$8.9 billion in 2004, and US$4 billion in the first five months of 2005. This is a real indicator of the success of Turkey's textile and clothing sectors. According to data for 2003, the textile and clothing sectors have a share of 39% of Turkey's exports to the EU-15 group, and 6% of imports from that group. This reflects the great importance of the clothing and textile sectors on trade between Turkey and the EU.

In parallel to this, Turkey is one of the EU's most important textile and clothing suppliers, with a share of 1.7% of the EU-15's textile and clothing exports, and 6.3% of its imports.

When we look at the figures (Table 2) which reflect the development of textile and clothing foreign trade between the EU-25 (Belgium, France, Germany, Italy, Luxembourg, Netherlands, Denmark, Ireland, United Kingdom, Greece, Portugal, Spain, Austria, Finland, Sweden, Czech Republic, Cyprus, Estonia, Hungary,

***Table 1.** Turkey's Annual Textile and Clothing Exports & Imports to the European Union (EU-15); **Source:** TURKSTAT, *Data for 2005 is between January-May.*

Years	Export				Import			
	Quantity, kg	Change, %	Value, US$	Change, %	Quantity, kg	Change, %	Value, US$	Change, %
1995	1,330,538,344	-	5,378,433,635	-	189,564,775	-	847,784,022	-
1996	1,377,180,680	3.5	5,686,592,287	5.7	381,276,301	101.1	1,454,881,487	71.6
1997	1,894,182,445	37.5	5,959,913,206	4.8	511,864,135	34.3	1,709,501,454	17.5
1998	2,123,659,809	12.1	6,493,962,536	9.0	458,323,544	-10.5	1,560,415,913	-8.7
1999	2,418,233,284	13.9	6,403,890,015	-1.4	507,458,981	10.7	1,428,103,528	-8.5
2000	2,684,934,328	11.0	6,517,353,085	1.8	559,568,266	10.3	1,522,832,830	6.6
2001	2,827,446,303	5.3	6,754,317,712	3.6	531,566,659	-5.0	1,368,775,328	-10.1
2002	3,178,051,081	12.4	7,698,366,849	14.0	651,968,938	22.7	1,711,855,646	25.1
2003	3,673,471,825	15.6	9,704,298,650	26.1	630,211,478	-3.3	1,949,776,938	13.9
2004	3,690,489,210	0.46	11,094,291,923	14.3	662,696,811	5.2	2,218,522,368	13.8
2005*	1,629,779,403	-	4,930,417,008	-	264,108,514	-	912,845,214	-

***Table 2.** Turkey's Annual Textile and Clothing Exports & Imports to the European Union (EU-25); **Source:** TURKSTAT, *Data for 2005 is between January-May.*

Years	Export				Import			
	Quantity, kg	Change, %	Value, US$	Change, %	Quantity, kg	Change, %	Value, US$	Change, %
1995	1,477,076,064	-	5,804,104,753	-	205,419,925	-	890,637,968	-
1996	1,478,487,852	0.1	6,014,137,450	3.6	390,686,426	90.2	1,481,781,701	66.4
1997	2,061,373,474	39.4	6,333,079,028	5.3	521,296,070	33.4	1,732,571,049	16.9
1998	2,293,540,130	11.3	6,845,819,882	8.1	467,445,930	-10.3	1,585,680,425	-8.5
1999	2,566,952,571	11.9	6,645,894,681	-2.9	525,996,609	12.5	1,457,576,620	-8.1
2000	2,822,853,564	10.0	6,690,157,809	0.7	593,380,045	12.8	1,561,913,421	7.2
2001	2,984,659,550	5.7	6,972,809,336	4.2	558,478,541	-5.9	1,403,887,065	-10.1
2002	3,380,556,357	13.3	7,969,516,817	14.3	697,445,291	24.9	1,768,995,757	26.0
2003	3,875,066,286	14.6	10,037,833,745	26.0	684,849,180	-1.8	2,026,492,904	14.6
2004	3,913,883,907	1.0	11,536,542,713	14.9	718,361,820	4.9	2,307,749,947	13.9
2005*	1,733,571,645	-	5,139,808,924	-	284,457,048	-	951,035,496	-

Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia) and Turkey, a similar development to that in Table 1 is seen. In the period from 1995 to 2004, when the exports of textile and clothing to the EU-25 group underwent an amount-based increase of 243% and a value-based increase of 198%, the imports of textile and clothing in this group underwent an amount-based increase of 349% and a value-based increase of 259%. Table 2 reflects the foreign trade of textile and clothing between Turkey and the EU-25, and shows that the foreign trade surplus has risen year after year, as for the EU-15 group, and reaches the level of US$10 billion annually. Especially since 2001, the Turkish textile and clothing sector has preferred the high-value added products, and also favours the international markets because of the lack of domestic demand, while showing many new developments in the fields of fashion, design and marketing. These are the important reasons for the foreign trade surplus.

While the volume of foreign trade between Turkey and the EU-15 (Table 3) was about US$35 billion in 1996, the introduction of the Customs Union caused this increase to accelerate rapidly, reaching the level of US$85 billion in 2005. Although the volume of foreign trade did not increase significantly in the period from 1996 to 2000 because of the global recession and the negative growth of the Turkish economy, starting from 2001 the mutual trade showed rapid improvement. After the financial crisis Turkey underwent in 2001, imports rose quickly together with exports. From this point, because the speed of imports exceeded that of the exports, Turkey's foreign trade deficit with the EU started to increase, and reached a level of US$10 billion in 2004.

Table 4 reflects the foreign trade relationships between Turkey and the EU-25, and runs in parallel with Table 3. The relationships of Turkey with the ten countries (Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia) which had entered the European Union in 2004 have developed in parallel to the development of their relationship with EU. However these relationships still remain insufficient.

The reasons for this are the low level of volume of foreign trades between these countries, and the fact that Turkish enterprises have only very recently begun paying any commercial attention to these countries. The effect of the ten new EU members on Turkey's exports and imports is about 5-8%.

When we look at Table 5, which shows the textile and clothing exports and imports of the EU-15, it is seen that imports of textile products outnumber exports. As for the annual development of textile imports and exports, both of them have regularly decreased, with the exception of 1998. It is also clear that imports and exports had increased considerably again by 2002. It is apparent that the EU-15 group remains a net exporter of the foreign textile trade.

When we look at the clothing foreign trade of the 15 EU members, this 15 group proves to be a net importer of clothing at increased levels and high ratios. The foreign trade deficit is increasing continuously because the increase in clothing imports is higher than the increase in exports.

Table 6 shows the textile and clothing foreign trade of the EU-25 countries; we

Table 3. *Turkey's Annual Total Exports and Imports to the European Union (EU-15) (US$ thousands);* ***Source:*** *TURKSTAT, * Data for 2005 is between January-October.*

Years	Export		Import		Volume of trade
	Value	Change, %	Value	Change, %	
1996	11,556,029	-	23,138,296	-	34,694,325
1997	12,248,355	6.0	24,869,762	7.5	36,998,147
1998	13,503,938	10.3	24,074,736	-3.2	37,578,674
1999	14,351,728	6.3	21,400,783	-11.1	35,752,511
2000	14,510,384	1.1	26,610,307	24.3	41,120,691
2001	16,118,232	11.1	18,820,410	-29.3	34,938,642
2002	18,458,533	14.5	23,321,035	23.9	41,779,568
2003	24,484,137	32.6	31,695,936	35.9	56,180,073
2004	32,573,846	33.0	42,359,420	33.6	74,933,266
2005*	28,961,580	-	37,041,473	-	66,003,053

Table 4. *Turkey's Annual Total Exports and Imports to the European Union (EU-25) (US$ thousands);* ***Source:*** *TURKSTAT, * Data for 2005 is between January-October..*

Years	Export		Import		Volume of trade
	Value	Change, %	Value	Change, %	
1996	12,097,757	-	23,516,813	-	35,614,570
1997	12,900,069	6.6	25,316,043	7.7	38,216,112
1998	14,131,655	9.5	24,570,118	-2.9	38,701,773
1999	14,922,458	5.6	21,833,210	-111	36,755,668
2000	15,085,668	1.1	27,387,566	25.4	42,473,234
2001	16,854,124	11.7	18,948,801	-30.8	35,802,925
2002	19,468,204	15.5	24,518,620	29.4	43,986,824
2003	25,898,731	33.0	33,494,705	36.6	59,393,436
2004	34,435,664	33.0	45,443,720	35.7	79,879,384
2005*	30,932,028	-	40,068,752	-	71,000,780

Table 5. *Total Annual Textile and Clothing Exports & Imports of the European Union (EU-15) (US$ millions);* ***Source:*** *WTO.*

Years	Textile				Clothing			
	Export		Import		Export		Import	
	Value	%	Value	%	Value	%	Value	%
1995	62,196	-	57,227	-	48,457	-	74,184	-
1996	61,479	-1.2	55,481	-3.1	52,627	8.6	78,759	6.2
1997	59,178	-3.7	53,902	-2.8	50,965	-3.2	78,927	0.2
1998	60,366	2.0	56,018	3.9	52,822	3.6	82,888	5.0
1999	55,360	-8.3	51,037	-8.9	50,216	-4.9	82,203	-0.8
2000	52,955	-4.3	48,741	-4.5	47,504	-5.4	80,179	-2.5
2001	51,638	-2.5	46,671	-4.2	48,463	2.0	81,002	1.0
2002	52,961	2.6	47,091	0.9	51,917	7.1	86,366	6.6
2003	58,938	11.3	52,534	11.6	59,947	15.5	101,294	17.3

Table 6. *Total Annual Textile and Clothing Exports & Imports of European Union (EU-25) (US$ millions);* ***Source:*** *WTO.*

Years	Textile				Clothing			
	Export		Import		Export		Import	
	Value	%	Value	%	Value	%	Value	%
2000	56,456	-	55,408	-	53,273	-	83,034	-
2001	55,391	-1.9	53,650	-3.2	54,478	2.3	84,256	1.5
2002	57,040	3.0	54,510	1.6	57,958	6.4	90,231	7.1
2003	64,907	13.8	62,098	13.9	68,455	18.1	108,352	20.1
2004	71,287	9.8	67,972	9.5	74,921	9.4	121,656	12.3

Table 7. *Total Annual Exports and Imports of European Union (EU-15) (US$ millions);* ***Source:*** *WTO.*

Years	Export		Import	
	Value	Change, %	Value	Change, %
1995	2,083,745	-	2,050,935	-
1996	2,154,900	3.4	2,101,330	2.5
1997	2,140,890	-0.7	2,089,635	-0.6
1998	2,233,600	4.3	2,212,010	5.9
1999	2,237,460	0.2	2,262,500	2.3
2000	2,316,290	3.5	2,404,870	6.3
2001	2,318,780	0.1	2,361,115	-1.8
2002	2,466,270	6.4	2,463,105	4.3
2003	2,926,630	18.7	2,946,560	19.6

Table 8. *Total Exports And Imports Of European Union (EU-25) For Years (US$ millions);* ***Source:*** *WTO.*

Years	Export		Import	
	Value	Change, %	Value	Change, %
1999	2,344,455	-	2,403,135	-
2000	2,437,355	4.0	2,560,175	6.5
2001	2,451,845	0.6	2,525,815	-1.3
2002	2,617,920	6.8	2,647,035	4.8
2003	3,123,905	19.3	3,179,370	20.1
2004	3,714,225	18.9	3,790,985	19.2

see that textile products exports increase more than imports do, and a foreign trade surplus of about US$3 billion has arisen in 2004. In spite of the increase in textile exports, the imports of clothing products increased more than exports has done and a foreign trade deficit of about US$46 billion has arisen in 2004. It can be said that although the ten countries which have just entered the EU has a low effect on textile and foreign trade, they have caused foreign trade deficit to increase.

This situation shows the importance of the EU in world trade for both the textile and clothing sectors, despite all the negative developments. It may be said that EU as well as Turkey has not and will not surrender these sectors.

Tables 7 and 8 show the total import and export data of the EU; it can be seen from them that the situation is in balance, and the increases of exports and imports are at the same levels. It is shown that the EU's textile and clothing exports and imports have a share of 5-8% in total exports and imports. At the same time, in parallel to the changes in general production policies, imports are increasing faster than exports, especially in recent years, and this causes a small increase in foreign trade deficit.

Conclusion and evaluation

We can summarise the situations which have occurred in the period of 15 years since the Customs Union Pact between Turkey and the European Union became effective in 1996, from the perspective of the textile and clothing sectors, as follows:

1. After the Customs Union Pact, the exports of Turkish textile and clothing firms to the countries which at those times were the members of EU have increased by 106%.
2. With the Customs Union Pact, the experience and competition potential of Turkish textile and clothing firms have developed, which in turn promotes the product alternatives, profitability and international expansion.
3. Turkish textile and clothing firms have made great developments in the quality of their products and production, and their conformity to international standards. Their tendency to high value-added products has increased with the Customs Union Pact, and Turkey has thus become one of the major textile and especially clothing suppliers to the EU.
4. Since the Customs Union Pact came into effect, strategic co-operation and investments of Turkish textile and clothing firms with the textile and clothing manufacturers and suppliers of the EU have developed. This has made great contributions to the development of technologies for production, management and marketing.
5. The most important disadvantage of the Customs Union Pact for the Turkish textile and clothing sector is that the customs pacts which are used by the EU for third-world countries, because these pacts also include Turkey and so unfair competition regulations arise because of the indirect commercial contacts.
6. To keep alive this competition, new brands, marketing strategies, designs and strategies to increase operational efficiency should be devised, and should continue to develop. It is also essential to give importance to links between firms & actions strategic co-operation and both national & foreign firms.
7. The public authorities should support enterprises by lowering those costs (such as energy costs, tax rates, social security costs etc.) which decrease their competitive advantages; in addition, they should combat product dumping from third countries in the domestic and international markets. In addition to this, Turkey should discuss the topics which cause unfair competition at foreign trade with these third countries, and devise new strategies concerning the limitations and customs taxes of products coming from these countries.

In conclusion, despite all the negative evaluations, the Customs Union Pact provides important advantages to the sector, and has made great contributions to reconstruction.

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