

WTO Public Forum, WTO Chairs Programme Session: Case Studies from WTO Chair Holders

"Impact of Regional Integration on Inclusive Trade Liberalisation, Competitiveness and Welfare: The Case of Turkey-EU Customs Union"

Istanbul Bilgi University WTO Chair

27 September 2016



Outline and purpose

1. Introduction
2. Economic aspect
3. Legal & institutional aspect
4. Social aspect

Purpose of study: Analysing the pros and cons of the existing Customs Union between Turkey and the EU and projecting over its potential enhancement as to be more inclusive and welfare enriching for both parties



1. Introduction

■ Research questions

Type of impact
Economic impact
Trade in goods
Trade in services
FDI
Public procurement
Impact on SMEs
Impact on consumers
EU budget
Impact on LDCs and developing countries
Legal/regulatory impact
Regulatory convergence
Rules of origin
Dispute resolution
Social impact
Employment, wages, household income, poverty reduction
Decent Work Agenda
Working conditions
Gender issues
Environmental impact
Environmental quality, natural resources, biodiversity
Trade in environmental goods and services



2. Economic Aspect

- Answers the question: What would Turkey's trade regime be, absent an enhanced partnership and simply based on Customs Union & with what economic impact?
- Essential factors
 - Bilateral tariffs / Third party one-way FTAs / GSP
 - Goods NTBs
 - Regulatory harmonization



2.1 Goods NTBs



- Border costs:
 - Customs Union drove customs/border measures
 - Turkey has similar “Trading Across Borders” scores as Romania/Bulgaria, and better than regional average
 - In absence of Customs Union, raise Turkey’s costs to regional average?
- Regulatory harmonization
 - Customs Union brought along some degree of harmonization (qualitative assessment to suggest how much)
 - In absence of Customs Union, impose an NTB to capture effect of higher transactions costs



2.2 Ex Ante Analysis for future enhancement

- Deepening the Customs Union
 - Goods NTB reduction)
 - Services NTB reductions
 - FDI NTB reductions
 - Government procurement



2.3 Goods NTBs

- Level of goods' NTBs on a sectoral level can be found in;
 - OECD/UNCTAD data bases
 - complemented by the qualitative and econometric analysis of non-implementation or poor implementation of CU measures
 - Assumptions concerning the degree of reduction possible under a trade agreement is subject to discussion
 - Ideally, a more modern CU or FTA could be deployed to overcome the hurdles



Welfare gain producing impact of CU

- Driven by the trade gains, the CU has impacted positively on both the EU and Turkey, both in terms of increasing real output and in terms of expanding economic welfare.
- The gains are substantially greater for Turkey in both percentage and value terms, reflecting the much greater impact of the CU on it compared to the impact of the CU on the EU.
- The main source of impact of the CU comes from the reduction of trade costs under the CU from the lapsing of the requirements associated with compliance with rules of origin (ROOs).



2.4. Challenges for SMEs through NTBs

- The commitments to open up to global trade and investment led to an important phase in Turkish manufacturing due to the realization of the need to achieve international standards as the level of sophistication of Turkish products grew. The changing nature of Turkey's export basket also forced Turkish exporting firms to address the need to meet technical TBTs. Thus it became a necessity for Turkish authorities to upgrade technical domestic regulations, though it was not an easy task for many Turkish small and medium enterprises (SMEs), which represented a majority of domestic producers, to comply with the costly and onerous transformation process.



Challenges for SMEs

- As a general observation, the CU improved matters for SMEs producing CU-eligible industrial products due to the absence of ROOs requirements. The fixed-cost component of ROOs requirements creates a disadvantage for SMEs which ship smaller quantities, less frequently in taking advantage of trade opportunities compared to larger firms, including in e-commerce trade.



Challenges for SMEs

- Second, by lowering the cost threshold for entering into international trade, the CU encouraged SMEs in both the EU and Turkey to take that step, which an extensive literature demonstrates drives productivity improvements for the new exporters and firms that import intermediate inputs. Compared to the preceding preferential trade arrangements, the CU helped level the playing field for SMEs vis-à-vis their larger competitors, helping them attain greater scale, and generally improved their performance both in the domestic and export markets.



Challenges for SMEs

- Erzan and Filiztekin (1997) studying the expected impact of the CU on SMEs concluded that the CU could improve conditions for SMEs by reducing economic instability, which had been a particular problem for Turkish SMEs compared to their larger competitors.
- The main inference that may be drawn from the analysis is that the CU did favour Turkey's exports of textiles, clothing and footwear. Since this sector is mainly comprised of SMEs in Turkey, the CU will have had a positive impact in terms of enabling Turkish SMEs to engage in trade.



Challenges for SMEs

- Nonetheless, the evidence on under-performance of Turkish SMEs (World Bank, 2011) leads to the conclusions that, while the CU helped SME performance, the effect was not sufficiently powerful to overcome other factors that have resulted in general under-performance of SMEs in Turkey.
- Turkish SMEs lagged in growth behind larger enterprises in Turkey and SMEs in comparator countries. Moreover, the gap in firm size is larger in Turkey than in comparator countries. And Turkish SMEs lag in their use of modern methods, technology and business practices (World Bank, 2011: 48).



2.5 Major impediments to improved SME performance in Turkey

- Access to finance (which is typical across many countries)
- Weak technological development (Notably, by favouring textiles, clothing and footwear production – a sector that is not technology-intensive – the CU may have contributed to intensifying Turkey’s comparative advantage in non-technology-intensive production. While this contributed to job creation – the textiles and clothing sector is highly labour-intensive – it may have worked to slow Turkey’s progress up the technological ladder.)

2.6 Services NTBs

- Quantifying services NTBs would need to take into account:
 - Actual reduction of barriers to cross-border services trade;
 - The impact of binding market access; and
 - Recent estimates of the level of overall NTMs to services trade compiled by the World Bank (Jafari and Tarr, 2014).

2.7 Services NTBs based on OECD STRI

- The OECD STRI covers 18 services sectors as of end-2013 (OECD, 2014) five policy areas:
 - restrictions on foreign ownership and other market entry conditions;
 - restrictions on the movement of people;
 - other discriminatory measures and international standards' barriers to competition and public ownership; and
 - regulatory transparency and administrative requirements.
- The STRI database covers all trade-related domestic regulation; moreover, each measure is verified with the country and peer reviewed by all other countries.



2.8 Example of STRI Coding

Measure	Fields	Turkey - Rail freight transport
Commercial presence required in order to provide rail freight transport	Source	6461 Türkiye Demiryolu Ulaştırmasının Serbestleştirilmesi Hakkında Kanun, 2013 (6461 Law About The Ending Of State Monopoly On Railway Transportation In Turkey) Articles 1 and 2 Turkish Link to Law: http://www.resmigazete.gov.tr/main.aspx?home=http%3A%2F%2Fwww.resmigazete.gov.tr%2Feskiler%2F2013%2F05%2F20130501.htm&main=http%3A%2F%2Fwww.resmigazete.gov.tr%2Feskiler%2F2013%2F05%2F20130501.htm
	Comment	The articles states that the services can be provided by the companies established according to the Turkish Commercial Code



2.9 Impact of Potential Trade Agreement

- Establishment of a company according to the Code requires presence in Turkey.
- This restriction falls under the STRI measure “Commercial presence required in order to provide rail freight transport”.
- Sample Trade Agreement Text on Local Presence (TPP):
 - No Party shall require a service supplier of another Party to establish or maintain a representative office or any form of enterprise, or to be resident, in its territory as a condition for the cross-border supply of a service.

Such a text in a new CU would improve Turkey’s total score in CBS-RI.



2.12 Impact of Trade Agreement Text

- Even though this measure does not have a discriminatory impact, it is still part of the FDI-RI since it restricts the flow of trade in services and falls under the measure “sole proprietorship is prohibited” in FDI-RI.
- Following sample below on market access could be inserted in the CU to improve Turkey’s FDI-RI:
- No Party shall adopt or maintain, either on the basis of a regional subdivision or on the basis of its entire territory, measures that: ... (b) restrict or require specific types of legal entity or joint venture through which a service supplier may supply a service



3. Legal and Institutional Aspect

- **Research question:** The analysis of the performance of the Customs Union from a regulatory, institutional and administrative perspective, including factors affecting its success and weaknesses and possibility for improving the performance:
 - Regulatory convergence analysis
 - Commercial policy convergence analysis
 - Institutional framework



3.1 Commercial policy convergence

- **Question:** To what extent has Turkey's commercial policy been aligned in accordance with Customs Union requirements – in particular RTAs with 3rd countries?
- **Methodology:**
 1. Identify RTAs (Turkey: 19 notified to WTO, 16 post-1995; 5 concluded but not yet notified; 14 ongoing)
 2. Textual analysis of RTAs (as well as of WTO TPRs) over time
 3. Analysis of Turkey's commercial policy documents
 4. Summary assessment and recommendations for enhancement



3.2 Analysis of BPTF institutional framework

- **Question:** How well have Customs Union institutions functioned (asymmetries)
- **Methodology:**
 1. Review of document, agreements regulating the CU
 2. Review minutes and other documents produced by Customs Union institutions
 3. Compare Customs Union provisions with other EU FTAs (including the ones on dispute settlement)
 4. Summary assessment and recommendations for enhancement

4. Social aspect

- Evidence-based analysis of the impact of the current EU-Turkey Customs Union's on various social aspects
 - (un)employment
 - wages and incomes/poverty distribution
 - gender issues
 - job quality/working conditions, ILO's Decent Work Agenda



Thank you....

