

THE EU- TURKEY CUSTOMS UNION:
A FAIRY TALE ABOUT TURKISH EUROPEANIZATION

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ABSTRACT

THE EU – TURKEY CUSTOMS UNION: A FAIRY TALE ABOUT TURKISH EUROPEANIZATION

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This thesis examines the historical process which led to the signing of the Customs Union Agreement/Decision between the EU and Turkey. For not only is the positive economic impact of the Customs Union on Turkish economy rather questionable, but also it has meant clear political losses for the country as she had to surrender her trade autonomy and gave significant concessions in the Cyprus issue to make the EU approve it. Via the Customs Union which was introduced by Turkish authorities as a stepping stone to the EU membership, Turkey indeed suppressed all industrial custom duties in her trade with the EU and has started implementing EU tariffs in her trade with the third countries, losing in return a significant diplomatic stake to be used in her full membership negotiations with the EU. This study attempts to analyze different perceptions in Turkey over this issue since the 1970s in order to understand why this unfortunate decision was taken without even the approval of the National Assembly. It will finally argue that besides the incumbent Government's short-term electoral expectations, the Customs Union has paved the way for Turkey's one-sided integration to the EU legislation within the chaotic political atmosphere of the 1990s, and hence helped limit the economic, if not the political, policy options of any future government. Thus, the Customs Union was not about trade relations only but ensured a more comprehensive

framework for political action that locked in Turkey's policy choices to a neoliberal path in a rapidly changing global and domestic political atmosphere.

Keywords: The Customs Union Agreement/Decision, EU – Turkey relations, neoliberalism.

ÖZ

AB – TÜRKİYE GÜMRÜK BİRLİĞİ: BİR AVRUPALILAŞMA MASALI

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Bu tez, 1995 yılı mart ayında Avrupa Birliği ile Türkiye arasında imzalanan Gümrük Birliği'ne giden süreci incelemektedir. Bahsi geçen anlaşma/karar, Türkiye açısından, akademik çalışmalarla net bir şekilde ortaya konabilmiş ekonomik bir kazanıma yol açmadığı gibi, siyasi anlamda da gerek egemenlik hakları ve ticari bağımsızlığın devri, gerek Kıbrıs sorununda doğrudan Türkiye'nin elini zayıflatması bağlamında önemli kayıplara sebep olmuştur. Kamuoyuna AB'ye giden yolda önemli bir adım olarak yansıtılan Gümrük Birliği ile Türkiye, AB'den ithal edilen sanayi ürünlerine uyguladığı gümrük vergilerini kaldırmış ve üçüncü ülkelerle olan ticaretinde AB'nin gümrük tarifelerini uygulama sözü vermiş, böylece üyelik müzakerelerinde kullanabileceği önemli bir kozu da elinden kaçırmıştır. Bu çalışmanın amacı, büyük ölçüde dönemin günlük gazetelerinden yola çıkarak, 70'li yıllardan itibaren konunun Türkiye'de farklı kesimlerce nasıl ele alındığını incelemek ve bu talihsiz kararın hangi gerekçeyle meclis onayına dahi sunulmadan alelacele imzalandığını anlamaya çalışmaktır. Kısa vadeli iç politika hesapları bir yana bırakılacak olursa, Gümrük Birliği anlaşması/kararı, 90'ların karmaşık ortamında Türkiye'nin siyasi ve iktisadi seçeneklerini kısıtlayarak

Avrupa Birliđi mevzuatına uzun vadede tek yanlı bađlanmasına sebep olmuř ve gelecek hkmetlerin siyasi manevra alanını kısıtlamıřtır. Gmrk Birliđi, basit bir ticari anlařma olmaktan te, hızla deđiřen uluslararası ortam ve lke kořullarında kapsamlı bir siyasi hareket alanı belirleyerek neoliberal politikaların bu “milli hedef” uđruna sorgusuzca uygulanmasının kapısını aralayan ok nemli bir anlařma olarak karřımıza ıkmaktadır.

Anahtar kelimeler: Gmrk Birliđi, AB – Trkiye iliřkileri, neoliberal politikalar

In Memory of My Grandfather Süleyman Öz

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CHAPTER I

INTRODUCTION

“The Customs Union is a sacrifice on the way to the full membership. I even don’t want to think about the consequences of being unable to be a full member of the EU.”¹

“Nobody within the EU had considered the Customs Union as a step for full membership... the latter was either Turkey’s own perception or a way of distorting the public opinion.”²

On 6 March 1995, the EU-Turkey Association Council concluded a historic accord to establish a Customs Union between the EU and Turkey as it had been decided by the 1963 Ankara Agreement. This was celebrated in Turkey by fireworks and considered as a big step towards Turkey’s full membership to the EU. However, a careful reading of the EU texts and statements by EU representatives in the same days was indicating that this was either an illusion or wishful thinking at best, or deception at worst. In sharp contrast to the Turkish interpretation, the Customs Union Agreement³ (CUA) was clearly a regressive step on the way to full membership. For even though the preamble of the Ankara Agreement had clearly aimed at facilitating “the accession of Turkey to the Community”, the “1/95 Customs Union Decision” did not contain a single word about Turkey’s EU accession.

¹ Feyyaz Berker, President of TUSIAD’s High Advisory Board, 1995.

² Martin Schulz, member of Social Democratic Party of Germany, 1996.

³ Although the Turkish side is inclined to consider the Customs Union as a decision of the Association Council established by the 1963 Ankara Agreement, the European side considered the latter rather as an “agreement” to be approved by the European Parliament. Therefore, this decision will be referred as “the Customs Union Agreement” in the rest of this thesis. Details about this choice are given in sections 2.2 and 4.5.

Just like this controversy over the impact of the Customs Union on Turkey's prospects for EU membership, its impact on the Turkish economy has also been a sharply debated issue. As the overview of the relevant academic literature below will underline, there are scientific studies available that both approve and disapprove the implications of the Customs Union for the Turkish economy through the help of mathematical calculations. For the critical perspectives, the CUA harmed Turkey's industrialization target and led to the surrender of her trade autonomy. For, by the 1/95 Decision Turkey accepted to implement the EU tariffs in her trade with the third countries which has referred to a huge sacrifice in economic terms even if the political side of the issue is ignored. On the other side, affirmative perspectives to the Customs Union underline its refreshing effect on the Turkish entrepreneurs who have been now forced to compete with their developed European counterparts without state protection. As they have managed to survive, the general competitiveness of the Turkish economy has arguably increased.

Of course, these controversial arguments over the Customs Union did not simply emerge after the signature of the Agreement, but were voiced also beforehand. Indeed, it is important to note that the completion of the Customs Union was realized despite the criticisms coming from analysts working in various state institutions such as the State Planning Organization (DPT) or the Ministry of Trade and Industry as well as domestic producers. Many of the latter spoke out against the CUA underlining the fragility of young Turkish industries. It is quite obvious that the decision makers in Turkey were also aware of the economic and political risks introduced by the signature of the CUA. Given the fact that the competition-increasing effect of the Customs Union was not one to be supported by Turkish entrepreneurs, who cannot be expected to appreciate this for the sake of general economic improvement, then the question of how and why the government was dare enough to implement a plan that was not genuinely supported by any section of the society arises as an important one to be answered.

This thesis will try to answer this question on a historical basis, and make a thorough analysis of the early 1990s through daily news and newspaper articles

as primary sources in an attempt to picture the pre-signature political environment in Turkey as clearly as possible. In this way, the main motives behind this decision were tried to be identified.

On the basis of this analysis, the thesis will finally argue that the motive behind the signing of the CUA was beyond the full membership expectation. It essentially paved the way for Turkey's getting locked onto the neoliberal Western model within the chaotic political atmosphere of the 1990s. Hence, it constituted an important turning point in Turkish political economy which enabled progress in the neoliberal agenda even under conditions of the lack of a strong state to implement the necessary neoliberal reforms and constitutional changes.

The thesis claims to fill a significant research gap as the academic studies hitherto made on Turkey-EU Customs Union process generally provide us with some technical analyses on the possible impact of it. An overview of these studies would be hence a good start to firstly identify this gap.

1.1 Contending Approaches

Most of the literature about the EU-Turkey Customs Union is based on technical analyses and deals with the economic impact of the Agreement on the Turkish economy.

On the one hand, there are many academic studies investigating the trade effect of the CU via different econometric models. For instance, Neyaptı, Taşkın and Üngör conclude that the CU Agreement which is an appendage of trade liberalization process has had positive impact on Turkey's trade.⁴ Togan departs from statistical data and similarly concludes that the Customs Union is progressing satisfactorily between the parties. According to Togan, the completion of the Customs Union refers to the partial satisfaction by Turkey, the

⁴ Bilin Neyaptı, Fatma Taşkın and Murat Üngör, "Has European Customs Union Agreement really affected Turkey's trade?", *Applied Economics*, Volume 39, 2007, pp. 2121-2122.

first condition for the EU membership.⁵ Togan underlines that the CU “has contributed to a significant increase in the contestability of domestic markets through infusing predictability, transparency and stability to trade policy as well as by liberalising market access”.⁶

Kızıltan, Ersungur and Polat analyze trade data over the period between 1985 and 2005 by econometric models with “dummy variables” and conclude that the CU had an increasing effect on foreign trade of Turkey with the EU-12 countries.⁷ They underline that the increasing trade deficit of Turkey is largely due to trade with third countries.⁸ However, this analysis misses a crucial point, and ignores that Turkey’s trade with the rest of the world depends on the EU policies since the signature of the CUA. Karaman and Özkale on the other hand also used econometric panel data modeling to conclude that there is no overall trade diversion or trade creation effects of the Customs Union since different sectors have been diversely affected by developments in the economy.⁹ Lehmann, Herzer, Zarzoso and Vollmer investigate the 16 most important Turkish export sectors and conclude that the CU covering industrial goods has slightly increased Turkish exports to the EU.¹⁰

Akkoyunlu-Wigley and Mihçı argue that the CU created positive effects upon Turkish economy by way of increasing the competitive pressure. Moreover, the export performance of the manufacturing industry vis-à-vis the EU has

⁵ Sübidey Togan, “Effects of a Turkey-European Union Customs Union and Prospects for the Future”, *Russian and East European Finance & Trade*, Volume 36, No.4, July-August 2000, pp.23-24.

⁶ Sübidey Togan, “Trade Policy Review, 2007”, *World Economy*, November 2010, Volume 33 Issue 11, p.1339.

⁷ Alaattin Kızıltan, Mustafa Ersungur, Özgür Polat, “Gümrük Birliğinin Türkiye'nin Avrupa Birliği ile İhracat ve İthalatına Etkisi”, *Atatürk Üniversitesi İktisadi ve İdari Bilimler Dergisi*, 2008, 22(1), p.83.

⁸ *Ibid.* p.96.

⁹ Fatma Nur Karaman and Lerzan Özkale, “Static effects of the EU-Turkey Customs Union”, *Etsg Papers*, 2006.

¹⁰ Nowak-Lehmann, Felicitas; Herzer, Dierk; Martinez-Zarzoso, Inmaculada and Vollmer, Sebastian “The Impact of a Customs Union between Turkey and the EU on Turkey’s Exports to the EU”, *Journal of Common Market Studies*, September 2007, Volume 45, Issue 3, p.739.

improved and the changing market structure has seemed to lead to significant welfare gains.¹¹ Temiz also departs from an econometric model and deduces that although static effects of the Customs Union are indefinite, the long term dynamic effects would rather be positive thanks to Turkey's young and dynamic population, unsaturated domestic market and natural resources. Temiz underlines that the Customs Union led to important developments regarding the regulations on the issue of intellectual and industrial property rights and competition.¹²

There are diverse analyses made in econometric estimates about Customs Union's static or dynamic effects, its impact on foreign direct investments, competitiveness of different sectors, macroeconomic variables, pricing behaviors, market structure and even environment. The main arguments providing that the Customs Union has been or would be beneficial for Turkish economy, emphasize the benefits of trade openness, legislative alignment and a more transparent and competitive domestic market integrated with the global economy.¹³

On the other hand, there are also many technical analyses laying stress on the negative impacts of the CU Agreement. Ulusoy and Sözen use an econometric model to examine the trade creation and diversion effects. Their conclusion contradict some other studies mentioned above, for they stress that there is no evidence that the CU has created new trade volume and Turkey made a badly negotiated political deal with the EU regarding the CU membership.¹⁴ Şafaklı departs from statistical data regarding the evolution of Turkey's foreign

¹¹ Arzu Akkoyunlu-Wigley and Sevinc, Mihci, "Effects of the customs union with the European Union on the market structure and pricing behaviour of the Turkish manufacturing industry", *Applied Economics*, 38, 2006, p.2450.

¹² Dilek Temiz, "Gümrük Birliği ile birlikte Türkiye'nin dış ticaretinde yapısal değişimler oldu mu?", *Ankara Avrupa Çalışmaları Dergisi*, Cilt:8, No:1, 2009, p.138.

¹³ Cengiz Aktar shares also this point of view, interview on February 2011.

¹⁴ Veysel Ulusoy and Ahmet Sözen, "Trade Diversion and Trade Creation the Case of Turkey Establishing Customs Union with the European Union", *European Journal of Scientific Research*, Vol.20 No.2, 2008, p.360.

trade and comes to the conclusion that the Customs Union has acted to the detriment of Turkish trade.¹⁵

Mercenier and Yeldan concluded in 1997 that the CU would have a negative impact on the Turkish economy because of the terms of trade deterioration which would be engendered by the decrease in the tariff rates to be implemented by Turkey.¹⁶ Similarly Lohrmann insists on the development effects and underlines that the CU Agreement influenced adversely the long-term economic development of the country by affecting the production structure.¹⁷ Similarly, Eşiyok considers the Customs Union as a directly contributing cause of the record trade deficit and the underdeveloped industrial structure.¹⁸

Gökdemir and Karaman also conclude that the Customs Union has not led to the envisaged economic results. On the contrary, the industrial development could not be realized and the economic development has become dependent on imported industrial inputs. Moreover, the income distribution has become more unbalanced and regional differences have been accentuated.¹⁹

Tonus also makes the point that although the trade volume increased after the CU Agreement, the share of manufacturing industry in GDP did not change.²⁰

In fact, economic analyses pointing out the negative consequences of the CUA mostly emphasize the ever-increasing trade deficit, development effects of

¹⁵ Okan Veli Şafaklı, “Gümrük Birliğinin Türkiye’nin Dış Ticaretine Etkisi ve KKTC’ye yansımaları üzerine retrospektif tablosal değerlendirme”, *Journal of Social Sciences*, Volume II, No:2, October 2009, p.144.

¹⁶ Mercenier, J. and E. Yeldan, “On Turkey’s Trade Policy: Is a Customs Union with Europe Enough?”, 1997, *European Economic Review*, Volume 41, Issues 3–5, p.879.

¹⁷ Astrid – Marina Lohrmann, “Development Effects of the Customs Union between Turkey and the European Union: Catching-Up--Or the Heckscher-Ohlin Trap?” *Russian and East European Finance and Trade*, July-August 2000, v. 36, iss. 4, p.26.

¹⁸ B. Ali Eşiyok, “Türkiye Ekonomisinde Üretim ve İhracatın İthalata Bağımlılığı, Dış Ticaretin Yapısı: Girdi-Çıktı Modeline Dayalı Bir Analiz”, *Uluslararası Ekonomi ve Dış Ticaret Politikaları* 3(1-2), 2008, p.153.

¹⁹ Levent Gökdemir and Elif Kahraman, “Onuncu Yılında Gümrük Birliği: Ne Beklendi?, Ne Gerçekleşti?”, *Fırat Üniversitesi Sosyal Bilimler Dergisi*, Cilt:18, Sayı:2, 2008, p.292.

²⁰ Özgür Tonus, “Gümrük Birliği Sonrasında Türkiye’de Dışa Açıklık Ve Sanayilesme”, *Dumlupınar Üniversitesi Sosyal Bilimler Dergisi*, Sayı:17, 2007, p.211.

trade integration between unequal partners, negative impact of the CU on industrialization and technological development and on income distribution.

Apart from the technical discussion on the economic aspects of the CUA, there are many studies approaching the issue within the framework of the EU-Turkey relations. Here, the opposing view insists on the fact that Turkey remains out of the decision making mechanisms since the CU is not a separate body but a component of the EU as a whole. The fact that Turkey was forced to implement decisions taken by a decision-making body from which she has been excluded is considered to be very problematic.²¹

It is interestingly remarkable that even analyses in favor of the CU acknowledge this asymmetry which puts Turkey in a politically delicate position. Derviş, Emerson, Gros and Ülgen²² asserted in 2004 that “the challenge for the next years is to make the asymmetry in the Customs Union politically acceptable until accession takes place.”²³ Balkır, Eylemer and Taş assume that even though Turkey has started accession negotiations in 2005, “the CU still forms a fundamental part of the relations between Turkey and the EU.”²⁴ Accordingly, some main features of this relationship are obviously not to the advantage of Turkey; however, the CU should be regarded rather “as an integral part of a gradual process of integration”.²⁵ Öniş asserts that the CU has important positive dimensions such as the acceleration of trade liberalization and domestic economic reforms concerning competition and regulation policy. However, for Öniş, from the economic point of view, “it would have been much more sensible

²¹ Erol Manisalı, “Gümrük Birliği’nin Siyasal ve Ekonomik Bedeli”, Bağlam Yayınları, Ocak 1996, p.71.

²² (Sinan Ülgen) He was a diplomat who participated actively in the Customs Union negotiations between Turkey and the EU.

²³ Kemal Derviş, Michael Emerson, Daniel Gros, Sinan Ülgen, “The European Transformation of Modern Turkey”, EU Neighbourhood Policy, CEPS Paperbacks, September 2004, p.76.

²⁴ Canan Balkır, Sedef Eylemer and İlkey Taş, “Customs Union: An end in itself or a step towards Accession?”, <http://www.ikv.org.tr/images/upload/file/balk%C3%84%C2%B1r-eylem-tas-teblig.pdf>, p.22 (Accessed on 22.06.2011).

²⁵ Ibid, p.21.

for Turkey to sign a free-trade agreement with Europe.”²⁶ On the other hand, from the Turkish point of view, “the political logic underlying the signing of the Customs Union Agreement dominated over the economic logic” since the Customs Union Agreement constituted “the first and necessary step in a transitional period on the path to full EU membership.”²⁷

Even though this point of view is widespread among academics that have different positions vis-à-vis the CU and the EU-Turkey relations, it has not been supported either by statements coming from the EU or by the Agreement itself as none has associated the CUA with full membership. Just the contrary, the membership perspective that was existent in the Ankara Agreement was rendered ambiguous by the 1/95 Decision and at the beginning of 1990s the EU authorities made clear statements about the prospect of future relations. The 1994 Essen Summit was sufficient by itself to reveal the future position of Turkey as desired by the EU authorities. Moreover, given that the 1995 CUA provided the EU with full access to Turkish domestic market, the EU had another good reason to avoid Turkey’s full membership.

To sum up, although technical analyses on the CU are very significant to examine the issue, they remain partial and inadequate to understand the reasons behind the significant political, legal and economic concessions given to the EU by the signature of such an asymmetric agreement. In this study, it will be argued that the true reason behind the signing of the 1/95 Decision was beyond full membership expectation or economic prospects.

1.2 Theoretical and Global Historical Framework

The 1970s and 1980s witnessed a period of major restructuring through the revival of the free market and the rise of neo-liberalism as a new form of ideology. Andrew Gamble underlines that the term neo-liberalism refers to the re-organisation of capitalist relations since the prefix “neo” implies some

²⁶ Ziya Öniş, “Turkey, Europe, and Paradoxes of Identity: Perspectives on the International Context of Democratization”, *Mediterranean Quarterly* 10.3, 1999, p.127.

²⁷ *Ibid.*,p.124.

distinctive new features.²⁸ David Harvey defines the term neo-liberalism as a theory which “proposes that human well-being can best be advanced by the maximization of entrepreneurial freedoms within an institutional framework characterized by private property rights, individual liberty, free markets and free trade.”²⁹ In this regard, the state assumes the role of creating and ensuring an institutional framework favorable for such practices.³⁰ Harvey specifies four main features of the neoliberal project: *Privatization* of public utilities and establishment of the intellectual property rights are enforced through the power of the state, even against popular will. Secondly, the *financialization* and deregulation waves of the late 1980s paved the way for a significant redistributive activity through speculation and fraud. *The management and manipulation of crises* helps the international redistribution of wealth from poor countries to the rich. Harvey underlines that debt crisis in individual countries became much more frequent in the 1980s and 1990s, which compelled them to agree to structural adjustment. On the other hand, *state redistributions* serve for the domestic income redistribution which results in negative consequences for lower classes at least in the long term. Here, the role of the neoliberal state is crucial in order to implement the adjustment policies through active repression, if necessary.³¹

By the early 1970s the philosopher economist Friedrich von Hayek and his students like Milton Friedman sowed the seeds of neoliberal ideology in the University of Chicago.³² The neoliberal doctrine put into practice first in Britain in 1979, under the rule of Margaret Thatcher who was herself a disciple of

²⁸ Andrew Gamble, “Two Faces of Neoliberalism”, *The Neo-liberal Revolution: Forging the Market State* (ed. R. Robinson), London, 2006, p.20.

²⁹ David Harvey, “Neo-liberalism as Creative Destruction”, *Geografiska Annaler: Series B*, Volume 88, Issue 2, 2006, p.145.

³⁰ *Ibid.*

³¹ David Harvey, “Neo-liberalism as Creative Destruction”, *Geografiska Annaler: Series B*, Volume 88, Issue 2, 2006, pp.153-155.

³² Susan George, “A Short History of Neoliberalism”, Conference on Economic Sovereignty in a Globalizing World, Bangkok, March 1999.

Friedrich von Hayek.³³ It is important to note that the first experiment of neo-liberal revolution was realized in Chile following the US-supported Pinochet's coup in 1973. Harvey notes that the Chilean experiment became a model for the formulation of policies both in Britain (under Thatcher) and the US (under Reagan).³⁴ Later, similar military coups in Argentina (1976) and Turkey (1980) set ground for the implementation of neoliberal practices.

The crisis of capital accumulation in the 1970s related to the oil crisis and failure of the Bretton Woods system gave rise to rising unemployment and widespread discontent. The difficulties encountered by the Keynesian regime of the 1970s expressed in the acceleration of inflation and fiscal crisis paved the way for the ideological legitimating of neoliberal policies. Discussions about an alternative economic programme ended towards the end of 1980s via the triumph of neo-liberalism which succeeded to become "the new dominant common sense".³⁵ Many academics consider the latter as the most important accomplishment of neo-liberalism since it has become the major world religion which seemed to be "the natural and normal condition of humankind".³⁶ Gamble underlines that despite some challenges in the 1980s, by the end of the 1990s the neo-liberalism "was unchallenged as the dominant ideology of the new world order"³⁷ Harvey also asserts that neo-liberalism became a hegemonic discourse and naturalized by being "incorporated into the common-sense way we interpret, live in and understand the world"³⁸.

³³ Ibid.

³⁴ David Harvey, "Neo-liberalism as Creative Destruction", *Geografiska Annaler: Series B*, Volume 88, Issue 2, 2006, p.147.

³⁵ Andrew Gamble, "Two Faces of Neoliberalism", *The Neo-liberal Revolution: Forging the Market State* (ed. R.Robinson), London, 2006, p.23.

³⁶ Susan George, "A Short History of Neoliberalism", *Conference on Economic Sovereignty in a Globalizing World*, Bangkok, March 1999.

³⁷ Andrew Gamble, "Two Faces of Neoliberalism", *The Neo-liberal Revolution: Forging the Market State* (ed. R.Robinson), London, 2006, p.24.

³⁸ David Harvey, "Neo-liberalism as Creative Destruction", *Geografiska Annaler: Series B*, Volume 88, Issue 2, 2006, p.145.

In fact, the 1990s witnessed the association of neo-liberalism with the new discourse about globalization and the policies of international institutions such as the IMF, the World Bank and the WTO in order to push the neoliberal agendas throughout the peripheral countries.³⁹ In this era of neoliberal institutionalization, these organizations acted as the agents for promoting national and international structural reforms in order to make it easier for countries to enter the global market.⁴⁰

On the other hand, neo-liberalism involves inherent contradictions related to the role of state in the economy: Although capital has a tendency to universalize, it can not function outside the political context and needs legitimating and the use of coercive capacity of the state.⁴¹

Andrew Gamble also underlines the necessity for a strong and active state in order to carry out neoliberal policies and asserts that capitalist states have never been quiescent or inactive states.⁴² Similarly, Werner Bonefeld argues that the state remains central even in the new capitalist epoch “defined by the global economy as the structurally determined force.”⁴³ For Bonefeld, the transformation of the national state into a transnational state in a globalizing system necessitates a strong state which is a “capable and decisive organizer of the conditions that allow capital to function”.⁴⁴ On the other hand, Bonefeld puts emphasis on *law* which is crucial for the ensuring of private property by the state.

³⁹ Ibid., p.33.

⁴⁰ Ibid., p.34.

⁴¹ Stephen Gill, “Globalisation, Market Civilisation and Disciplinary Neoliberalism”, *Millenium - Journal of International Studies*, Volume 24, No 3, 1995, p.422.

⁴² Andrew Gamble, “The Free Economy and The Strong State: The Rise of The Social Market Economy”, *The Socialist Register 1979* (eds. R. Miliband & J. Saville), London: Merlin, p.5.

⁴³ Werner Bonefeld, “Social Constitution and Critical Economy”, *Global Restructuring, State, Capital and Labour*, Palgrave Macmillan, 2006, p.176.

⁴⁴ Ibid.

He underlines that *order* is the precondition for *law* since the latter is not applicable to social disorder.⁴⁵

Stephen Gill asserts that the concept of “globalization” is part of a broad process of restructuring of the state and civil society, as well as the culture and political economy. This many-faceted and multidimensional concept serves to concretize a global economic system dominated by large institutional investors and transnational firms.⁴⁶ According to Gill, the globalization of neoliberal politic-economic forms is primarily associated with “the constitutional restructuring of domestic and international institutions” and “the means by which individuals are controlled and disciplined in modern societies”.⁴⁷ The constitutional restructuring refers to the concept of “new constitutionalism” which is described by Gill as the political project of attempting to make transnational liberalism the unique model for future development.⁴⁸ The new constitutionalism realizes the latter throughout conferring privileged rights on corporate capital whereas the democratic representation is constrained. Gill underlines the significance of private property rights secured by laws and protected by the coercive capacity of the state.⁴⁹ He maintains that

“...international agreements on trade and investment can be understood as reinforcing national and regional policies to restructure the state and thus lock-in neoliberal reforms politically, thereby securing the rights of investors and property holders”.⁵⁰

⁴⁵ Werner Bonefeld, “Free economy and the strong state: Some notes on the state”, *Capital & Class* Volume 34, No 1, 2010, p.21.

⁴⁶ Stephen Gill, “Globalisation, Market Civilisation and Disciplinary Neoliberalism”, *Millenium - Journal of International Studies*, Volume 24, No 3, 1995, pp.404-405.

⁴⁷ Stephen Gill, “Globalisation, Market Civilisation and Disciplinary Neoliberalism”, *Millenium - Journal of International Studies*, Volume 24, No 3, 1995, p.411.

⁴⁸ *Ibid.*, p.412.

⁴⁹ Stephen Gill, “Constitutionalizing Inequality and the Clash of Globalizations”, *International Studies Review*; Summer 2002, Vol. 4 Issue 2, p.52.

⁵⁰ Stephen Gill, “European Governance and New Constitutionalism”, *New Political Economy* Vol.3, No.1, 1998, p.10.

The early 1990s was marked by new legal initiatives aimed to “lock-in” the power gains of capital and to “lock-out” forces challenging these gains. Gill underlines the enactment of new constitutions in many different countries and the establishment of new institutional arrangements in ways similar to the European economic governance, in this period defined as “the end of history” by Francis Fukuyama.⁵¹

In this context, many academics consider the regional initiatives as means of globalizing neoliberalism, functioning as mechanisms for transmission and institutionalization of the latter. Despite the existence of two different perspectives in the literature on regionalism and globalization, the dominant point of view considers regionalism as complementary to globalization rather than a project of resisting it. Nilgün Önder underlines that the dominance of the complementary or “open” regionalism conception in the literature lies on the current empirical reality.⁵² She defines regionalism as a project which is “typically based on state-led projects which normally lead to formal regional institutions”.⁵³ Önder asserts that not only regionalism enhances participation in the global economy, but also globalization facilitates regionalist projects. On the other hand, Andy Storey focuses on the European Union as a regionalist project and assumes that it has served to “foster the extension and institutionalization of globalization” which is embedded within the European project itself.⁵⁴ Storey argues that neoliberal policies are locked into the structure of the EU: “Instead of a neo-mercantilist and/or social democratic project, EU integration ended up institutionalizing what Stephen Gill has dubbed disciplinary neoliberalism.”⁵⁵ He underlines that not only the state remains an important actor of this regionalism

⁵¹ Stephen Gill, “Constitutionalizing Inequality and the Clash of Globalizations”, *International Studies Review*; Summer 2002, Vol. 4 Issue 2, p.49.

⁵² Nilgün Önder, “The Turkish Project of Globalization and the New Regionalism”, *Alternatives*, Volume 7, Number 2&3, Summer&Fall 2008, p.87.

⁵³ *Ibid.* p.88.

⁵⁴ Andy Storey, “The European Project: Dismantling Social Democracy, Globalising Neoliberalism”, Paper for conference “Is Ireland a Democracy?”, National University of Ireland Maynooth, 2-3 April 2004, p.2.

⁵⁵ *Ibid.* p.5.

project, but also European citizens' capacity to change state policy becomes more restricted.⁵⁶ Similarly, Bonefeld describes an economic liberalism at EU level which is "institutionally embedded and legally regulated" and which undermines the European social model.⁵⁷ "The EU is today the conduit through which the neoliberal social and economic model is being institutionalized in Europe" asserts Wahl, on his side.⁵⁸

An interesting approach regarding the European regionalism is introduced by Dorothee Bohle. She argues that the EU has "exported a more 'market-radical' variant of neoliberalism" to its eastern partners which "serves the interests of transnational capital, and helps to preserve the order of 'embedded neoliberalism' within the old EU."⁵⁹

Gamble argues in the same line, that the leading capitalist powers "have always found it easier imposing neo-liberal prescriptions on the 'failed states' of the periphery, rather than upon themselves."⁶⁰ In parallel with this point of view, David Harvey underlines the over-accumulation problem faced by global capitalism since the 1970s. Temporal and/or spatial displacements through opening up new markets and new production capacities are used in order to deal with this problem. In fact, capital pursues geographical expansions and temporal displacements as solutions to the chronic crisis of over-accumulation.⁶¹ However, this process results in contradictions because even recent adherents to capitalist development quickly find themselves in need of a "spatio-temporal fix" for their

⁵⁶ Ibid. p.12.

⁵⁷ Werner Bonefeld, "European integration: the Market, the Political and Class", *Capital and Class*, Volume 77, 2002, p. 127.

⁵⁸ Asbjorn Wahl, "European Labour the Ideological Legacy of the Social Pact", *Monthly Review*, Volume 55, No 8, 2004, p.38.

⁵⁹ Dorothee Bohle, "Neoliberal hegemony, transnational capital and the terms of the EU's eastward expansion", *Capital & Class*, 2006, Volume 30, p.57.

⁶⁰ Andrew Gamble, "Two Faces of Neoliberalism", *The Neo-liberal Revolution: Forging the Market State* (ed. R.Robinson), London, 2006, p.25.

⁶¹ David Harvey, "The New Imperialism: Accumulation by Dispossession" *Social Register*, Volume 40, 2004, p.66.

over-accumulated capital. The outcome is an increasingly fierce international competition as well as crisis and destruction for those who can not succeed.⁶²

It is more significant to read within this framework Turkish economy's globalization experience characterized by a significant degree of regionalization. The Turkish economy has become closely integrated with the EU even without full membership. Önder asserts that the Turkish business community considered the regionalist arrangements in the 1990s as a means of more successful participation in the globalization process.⁶³ As emphasized by Bohle, it is crucial to underline that in Turkey's case a fiercer version of neoliberalism has been imposed since the CU Agreement took away the capacity of Turkish citizens to change state policy in many aspects.

1.3. The General Structure of the Thesis

The second chapter of the thesis will overview the EC-Turkey relations starting from the 1963 Ankara Agreement in order to reveal that there was a low level of economic motivation behind the integration process in those years. Considering discussions that were going on at the time around the issue, it will be shown that the whole process was highly politically motivated and the concern for Westernization was prioritized vis-à-vis the concern for economic and industrial development. The Europeanization became an irrefutable political project influencing different social segments of the Turkish society even though criticisms voiced by domestic capital groups were still notable. The surprising effect of the 1980 military coup which served to enliven the EEC-Turkey relations which were at the point of rupture will also be underlined in this chapter.

The politico-economic environment which prevailed in Turkey during the late 1980s and the early 1990s will be pictured in a third chapter of the thesis. The structural adjustment reforms launched in the 1980s had important social implications at the beginning of the 1990s leading to a legitimacy crisis, which

⁶² Ibid., p.68.

⁶³ Nilgün Önder, "The Turkish Project of Globalization and the New Regionalism", Alternatives, Volume 7, Number 2&3, Summer&Fall 2008, p.106.

has been analyzed by critical perspectives within the framework of Gramsci's concept of "hegemonic crisis". The 1990s was characterized by significant economic and political instabilities including serious terrorist activities, large scale labor strikes and the rise of Islamic-oriented politics. In the international era, the collapse of the Soviet Union engendered a major transformation and the global repositioning of countries. The CUA functioned as an outlet from the 1990s' crisis and has guaranteed Turkey's re-positioning in that chaotic atmosphere.

In the fourth chapter, which constitutes the main part of this thesis, the CUA-related developments in the early 1990s will be focused on with the aim of providing a detailed historical framework. It will be finally argued that the CUA provided a unique formula for Turkey's articulation to the neoliberal system in the absence of a strong state to implement the neoliberal adjustment reforms thanks to the frequently agitated Europeanization passion of the Turkish society. This chapter tries to expose the increasing coverage of the EU/CU issue in the Turkish media and the shifting positions of some domestic capital groups vis-à-vis the Agreement.

In this study, besides academic resources, daily newspapers of the period have been widely used in order to picture the political atmosphere concerned better. On the other hand, interviews have been conducted with Turkish experts such as Korkut Boratav, Nilgün Arısan, Erol Manisalı and Cengiz Aktar, who all have distinct viewpoints on the EU-Turkey Customs Union as well as its causes and consequences.

CHAPTER II

FROM ANKARA AGREEMENT TO MATUTES PACKAGE: THE PATH TO THE CUSTOMS UNION

“*Can we get out of it, if we want, in the future?*” It was the question asked by the Turkish Prime Minister, İsmet İnönü, to his counselors before signing the Ankara Agreement in 1963⁶⁴. In the 1960s the Europeanization issue was not simply an economic question for Turkish decision makers whose primary concern was to keep Turkey within the Western camp during the Cold War. Even though İnönü’s counselors had responded “*Yes, we can*”, in practice the Ankara Agreement has provided Turkey with an irrevocable political agenda within whose framework many crucial decisions have been adopted with little social resistance.

2.1. The Ankara Agreement

The 1963 Ankara (Association) Agreement was the first document where the EU-Turkey Customs Union was mentioned. It was signed in Ankara on 1st September 1963 and established an association between the European Economic Community and Turkey. It was basically a framework agreement aiming at bringing Turkey into a Customs Union with the EEC with the eventual membership in prospect.

It should be remarked that Europe was at the very beginning of its integration process in the 1960s. The Treaty of Rome representing the creation of

⁶⁴ Erdal Muzaffer Ünsal, "Türkiye - AB İlişkileri ve Kıbrıs Sorunu" Paneli, Ankara Üniversitesi Türk İnkılâp Tarihi Enstitüsü Atatürk Yolu Dergisi S 35-36, Mayıs-Kasım 2005, s. 383-429, p.410.

a “common market” or the “European Economic Community” was signed in 1957. The idea was to enable people, goods and services to move freely across borders. The “Customs Union” envisaged between the EEC and Turkey in 1963 could be realized among six EEC countries only on July 1st, 1968, when they decided to remove customs duties on goods imported from each other, and applying the same duties on their imports from outside countries.

Relations with the EEC in the 1960s were perceived by Turkish authorities as a question of being a member of the Western community. The application for being an associate member of the EEC in 1959 right after the Greek application was directly related to the fear of staying out of the Western community in the Cold War era. In 1962, the Minister of Labor, Bülent Ecevit, asserted in a statement that being a member of the common market was beyond a simple economic choice for Turkey as it represented rather the question of either being an equal member of the Western World or not.⁶⁵

The EEC seemed to share practically the same point of view until at least the initial signs of the end of the Cold War as will be emphasized in the next sections. Erol Manisalı asserts that Western authorities did not attach so much importance to the Ankara Agreement since it was considered as one of the means to keep Turkey within the Western camp. However, the limited relations established between the EC and Turkey by the 1963 Agreement shifted into a new dimension after the collapse of the Eastern Bloc.⁶⁶

The Ankara Agreement aimed the gradual establishment of a Customs Union in industrial and agricultural products, freedom of movement and establishment for workers, freedom of movement for services and the application of the Community’s rules on competition. The progressive establishment of a Customs Union was envisaged through three stages named as preparatory,

⁶⁵ Milliyet, 10.04.1962, p.5, “*Müşterek Pazar için intikal devri zaruri*”.

⁶⁶ Erol Manisalı, “*Hayatım Avrupa – Ortak Pazar’dan AB’ye*”, Truva Yayınları, 2006, p.29.

transitional and final.⁶⁷ The Ankara agreement was in fact an “association agreement” which was one of the foreign policy tools of the EU. The EU/EC signed similar association agreements with many countries applying for full membership before/after the signing of the Agreement. Moreover, the content of the Ankara Agreement referred to a relatively balanced text regarding the rights and duties of both sides since Turkey had no clear responsibility for the preparatory period. Still, the economic integration of Turkey as an underdeveloped country with the industrialized European countries was being criticized by many academicians. For instance, Besim Üstünel emphasized that being a member of the Common Market would cause serious difficulties for Turkish economy, especially if Turkey would not be able to complete the industrialization drive. Üstünel thought that Turkish economy might have been developed via a development strategy that would strengthen external economic relations. However, realizing the latter did not necessitate being a second class member state of a bloc.⁶⁸

In the preparation period, the main commitment of the EC was to open tariff quotas for tobacco, dried grape, dry figs and nutshells in 1964 and later for some hand-knotted carpets, some kinds of fresh fruits, vines and some textile products. Between the years 1963 and 1969, Turkey’s exports to the EC increased by 9%. Karluk concludes that there was no sign of a clear improvement concerning Turkey’s trade with the European Community since the average increase of Turkey’s exports to the world was about 7.6% for this period. In fact, Turkey was not able to fill in the quotas for the three products except nuts because of insufficient supply or low demand elasticity for those products. On the other hand, the EC’s share in Turkey’s imports increased from 29% in 1963 to 42% in 1972, which exposes the fact that Turkey was a good market for the EU products.⁶⁹

⁶⁷ Secretary General for EU Affairs, <http://www.abgs.gov.tr/index.php?p=117&l=2> (Accessed on 01.02.2011).

⁶⁸ Milliyet, 13.10.1967, p.2, “*Ortak Pazar karşısında Türkiye’nin hevesleri*”.

⁶⁹ Rıdvan Karluk, “*Avrupa Birliği ve Türkiye*”, İstanbul Menkul Kıymetler Borsası, 1996, p.411.

2.2. Association as a Foreign Policy Tool of the EEC/EU

The whole process after the 1963 Agreement was seen by Turkey as a process leading to EU membership. However, for the EU/EEC, the “association” relationship has just been identified as a foreign policy tool since the 1960s, where Greece and Turkey were the earliest associates. “Association” is defined in Article 238 of the Treaty of Rome as amended by the Maastricht Treaty: “the community may conclude with one or more states or International Organizations, agreements establishing an association involving reciprocal rights and obligations, common action and special procedures.”⁷⁰ David Phinnemore argues that it is an intentionally vague description since associations can take different forms and be put to various uses according to the needs and interests of the European Union.⁷¹ The 1958 Okrent Report provided the basic principles of “association”, which have not changed since then, as EU adopted a pragmatic approach concerning the “association” concept. Accordingly, it has been accepted that no association should impede integration within the EEC, the association should comprise not only free trade area but also policy coordination if not harmonization, and involvement of the associate in the EEC’s internal decision-making process is not an offer.⁷² Moreover, the association agreements are concluded by unanimous vote in the European Council, a process which implies that they involve more than simple trade agreements which require only a qualified majority. On the other hand, unlike the case of full membership, there are no geographical constraints on which states can be associates. Thus, the association relation is defined as somewhere between (less than) membership and (more than) trade agreement.⁷³

⁷⁰ Official Website of the EU, <http://europa.eu/abc/treaties/archives/en/entr6g.htm> (Accessed on 03.03.2011).

⁷¹ David Phinnemore, “*Association : stepping-stone or alternative to EU membership?*” Sheffield Academic Press, 1999, p. 23.

⁷² *Ibid.*, p. 31.

⁷³ David Phinnemore, “*Association : stepping-stone or alternative to EU membership?*” Sheffield Academic Press, 1999, p. 37.

Phinnemore underlines that although many associations have been treated as preparation for membership, they had only limited contribution to the achievement of membership for most of the cases.⁷⁴ Since the association is an instrument of the EU's external relations, it is the EU which determines the content and the strategic goal of the relation. Thus, whether the association will be followed by membership depends on the EU and the dynamics of enlargement. If the dynamics do not allow for states to be admitted, association will become not a stepping stone but the alternative to membership. These tend to suggest that "the role of association is marginal and membership prospects of individual associates have more to do with the self-interest of EU."⁷⁵

Another rigidity concerning the association relationship is the fact that the decision-making autonomy of the EU is not open to negotiation. Association requires the progressive integration of a state into the EU system without the state concerned having any direct impact on the decisions and rules which govern this integration. Moreover, associates should also adhere to the rulings of the European Court of Justice. As a consequence, Phinnemore argues that association implies in fact the "de facto satellization" of the associate.⁷⁶

⁷⁴ David Phinnemore, "Association : *stepping-stone* or alternative to EU membership?" Sheffield Academic Press, 1999, p. 71.

⁷⁵ David Phinnemore, "Association : *stepping-stone* or alternative to EU membership?" Sheffield Academic Press, 1999, p. 124.

⁷⁶ *Ibid.*, p. 120.

Table 1: States Applying for Membership once Associates*Source: Phinnemore 1999; www.europa.eu*

	Association Agreement		Membership	
	Signed	Enters into force	Membership Application	Accession
Greece	1961	1962	1975	1981
Turkey	1963	1964	1987	
Malta	1970	1971	1990	2004
Cyprus	1972	1973	1990	2004
Hungary	1991	1994	1994	2004
Poland	1991	1994	1994	2004
Romania	1993	1995	1995	2007
Bulgaria	1993	1995	1995	2007
Czech Republic	1993	1995	1996	2004
Slovakia	1993	1995	1995	2004

Table 2: States Applying Before Association Agreements Enters into Force*Source: Phinnemore 1999; www.europa.eu*

	Association Agreement		Membership	
	Signed	Enters into force	Membership Application	Accession
Switzerland	1992	failed to ratify	1992	
Norway	1992	1994	1992	
Estonia	1995	1998	1995	2004
Latvia	1995	1998	1995	2004
Lithuania	1995	1998	1995	2004
Austria	1992	1994	1989	1995
Sweden	1992	1994	1991	1995
Finland	1992	1994	1992	1995
Slovenia	1996	1999	1996	2004

It can be observed that there is a long period of time between the accession and signing of the association agreement for earlier associates. According to Phinnemore, “[t]he failure of association to deliver for Turkish

accession to the EU demonstrates to any applicant state that association on its own is not necessarily a stepping-stone to membership.”⁷⁷ This conclusion on the association relationship on the basis of the Turkish experience requires one to question the reasons for different attitudes followed by the EU/EEC and the Turkey after the Ankara Agreement. It is almost clear that the association was seen by Turkey as a step to membership while for the EU/EEC side it was an open-ended process since the beginning.

2.3. Additional Protocol and Discussions in the 1970s

Another provision of the Ankara Agreement was that the Council of Association should, before the beginning of the transitional stage, determine the conditions, rules and timetables for the implementation of the provisions relating to the fields covered by the Treaty. This was done by the Additional Protocol on 23 November 1970 which provided very clear requirements about the abolishment of tariffs and quotas within a timetable.

Accordingly, the obligations of the EEC were the removal of tariffs and quotas on 1.1.1973. The EEC did not even wait for 1973 and fulfilled its obligations in September 1971. Thus, there had already been a very big market in industrial goods between Turkey and EEC since 1971 although Turkey did not have such an industry to compete with the European firms in the European market. On the other hand, the EEC did not keep its promise regarding the removal of quotas on Turkish textile products. On 2 March 1975 the EEC decided unilaterally to restrict Turkish cotton yarn imports.⁷⁸ Afterwards, the EEC imposed embargo or quotas on many Turkish textile products, and used anti-dumping investigations as a protectionist measure for its domestic industries. The EEC was going to remove these quotas after the signing of the Customs Union Agreement, which was considered as an important gain for Turkey.

⁷⁷ David Phinnemore, “*Association : stepping-stone or alternative to EU membership?*” Sheffield Academic Press, 1999, p. 124.

⁷⁸ Rıdvan Karluk, “*Avrupa Birliği ve Türkiye*”, İstanbul Menkul Kıymetler Borsası, 1996, p.419.

On the other hand, Turkey's obligations according to the Additional Protocol were the removal of tariffs and quotas gradually in 12 years (1.1.1985) and exceptionally in 22 years (1.1.1995) for exceptional products in which Turkey was not competitive enough, and the Common Customs Tariff alignment in 12 years.⁷⁹ Between 1977 and 1987, Turkey postponed its Customs Union obligations because of the 4th Five Years Development Plan and the 1980 military coup. However, after the full membership application in 1987, the fulfillment of obligations accelerated in parallel with the 1980s liberalization process. Ultimately, Turkey fulfilled all of its obligations including the Common Customs Tariff alignment on 31.12.1995 in accordance with the envisaged calendar.⁸⁰

In the 1970s, Turkey's EEC integration was not such a popular topic in public discussions as it was the case in the 1990s. Still however, many industrialists and academics announced their worries over the potential implications of the Additional Protocol for the newly developing Turkish industries.

Gündüz Pamuk, the director general of the planning department of Koç holding company, claimed in a statement to *Cumhuriyet* newspaper that the 12 and 22 years lists had been prepared overnight. The inclusion of durable consumer goods into the 12 years list had implied the imposition of a specific industrialization model on Turkey. Accordingly, Turkey should set aside production in the fields such as petroleum chemical industry, shipbuilding industry and machine industry. According to Pamuk, this was implied by the specific contents of the 12 and 22 years lists which required that: glass tubes which were used to produce bulbs were in the 22 years list whereas bulbs were included in the 12 years list; metal sheets to produce passenger cars were in the 22 years list while these cars were in the 12 years; raw aluminum used in the production of pistons was in the 22 years list, but the pistons were in the 12 years

⁷⁹ Aylin Ege, "Avrupa Birliği'nin Ortak Ticaret Politikası ve Türkiye", ODTÜ Gelişme Dergisi, 26 (3-4) 1999, p.268.

⁸⁰ Ibid., p.274.

list. When the tariffs were going to be eliminated at the end of 12 years enabling specific products of the developed European industry to freely enter into the Turkish market, tariff reductions envisaged in the 22 years list was going to be already senseless.⁸¹

Vehbi Koç, the president of the Koç holding company, stated that even though Turkey celebrated these as important concessions, they were not proved to be beneficial for Turkey in practice as the possible effects of the process on different industry branches had varied. Feyyaz Berker, the president of the Turkish Industry and Business Association (TÜSIAD), also stated in January 1976 that the Additional Protocol should be modified.⁸² Ali Sirmen stated in his column in March 1976 that recent developments, official figures, and authorities' comments exposed the important divergence between the EEC's and Turkey's expectations.⁸³

On the other hand, criticisms coming from different state agencies in the 1970s were also very remarkable. A report prepared by the Ministry of Trade and Industry in February 1976 emphasized that it was difficult to harmonize the target of industrialization with the specific external trade policy imposed by Turkey's commitments in the transitional stage. The report underlined that Turkey's position vis-à-vis the EEC was worst than many other countries which had not had an association relationship with the EEC⁸⁴ for Turkey sacrificed its industry in order to be a member of the Common Market and the Turkish Customs Tariff was made a satellite of the EEC's Common Customs Tariff.⁸⁵ Similarly Coşkun Ürünlü, the advisor of the Undersecretary of the State Planning Department, asserted in May 1976 that relations with the Common Market made it harder for Turkey to shift from her position as an underdeveloped country.

⁸¹ Cumhuriyet, 16.01.1976, p.4, Hasan Cemal, "*Ortak Pazar Neyin Peşinde?- IV*".

⁸² Ibid.

⁸³ Cumhuriyet, 05.03.1976, p.3, Ali Sirmen.

⁸⁴ Cumhuriyet, 11.02.1976, p.9, "*AET ile ilişkiler iflas noktasında*".

⁸⁵ Cumhuriyet, 12.02.1976, p.1, "*Türkiye Ortak Pazar'a üye olmakla kurulu sanayiini feda etti.*"

According to Ürünli, the envisaged planned development became impracticable because of the Common Market.⁸⁶

Another interesting point is about the shift in the attitude of the Economic Development Foundation (IKV) towards Turkey's EEC integration. IKV today is a pro-European NGO which is very active in EU–Turkey relations. However, in the 1970s, many specialists working for the IKV were making harsh criticisms against the Additional Protocol. The IKV Secretary General Vural Fuat Savaş asserted in April 1976 that there was a structural maladjustment between the Turkish and EEC economies which would harm the existent Turkish industry. Moreover, it would not no more be possible to establish dynamic industries in those which were included in the 12 years list such as the chemical, mechanical, machine, electronics, automotive industries. According to Ertuğrul Soysal, the president of the IKV in 1976, expecting a newly developed industry to survive under a zero tariff regime was a naïve approach.⁸⁷ Savaş argued also that following Greece on the way to Common Market membership was a mistake since Greece had a significantly small market compared to the Turkish one and did not envisage an industrialization strategy as the one followed in Turkey.⁸⁸ Savaş, in his research on EEC – Turkey relations recommended the revision of these relations and proposed a preferential trade agreement instead of the envisaged Customs Union.⁸⁹

On the other hand, the World Bank Delegation who visited Turkey in June 1976 suggested that Turkey should continue its industrialization attempts in leather and soft goods, leaving aside heavy manufacturing industry. Ertuğrul Soysal responded that underdeveloped countries should not accept that kind of

⁸⁶ Cumhuriyet, 05.05.1976, p.2, “Dördüncü Plan ve Ortakpazar”.

⁸⁷ Cumhuriyet, 19.04.1976, p.9, “IKV Başkanı Soysal: Yeni bir sanayi Ortak Pazar rekabetine dayanmasını ummak safdilliktir.”

⁸⁸ Cumhuriyet, 28.05.1976, p.9, “AET ilişkileri ticaret anlaşmasına dönüştürülmeli.”

⁸⁹ Hürriyet, 11.05.1976, p.9, “AET ile ilişkiler tercihli ticaret esasına dönmeli.”

obsolete advices and that Turkey was very determined on its vertical industrialization strategy (i.e. the deepening of the economic structure).⁹⁰

At the end of June 1976, Savaş visited the EEC headquarters in Brussels with a delegation of private sector representatives, and repeated that Turkey would not make concessions over her industrialization strategy in order to be a member of the EEC.⁹¹

Turkish Chambers of Industry announced the Turkish industrialists' skeptical approach towards the EEC integration by a report published in April 1976, and stated that they shared the opinion that the Additional Protocol was not appropriate for Turkey's development and industrialization strategy. The Chamber of Industry of the Aegean Region demanded a new status vis-à-vis the EEC to be considered as well as radical modifications in the Additional Protocol and its supplementary protocols.⁹² Furthermore, the chambers of commerce of Istanbul, Ankara, İzmir, Adana, Konya and Denizli made a joint declaration in April 1976, stating that the Additional Protocol should be made more flexible to allow Turkey to have multilateral trade relations.⁹³

Güngör Uras, the Secretary General of the Turkish Industry and Business Association (TÜSİAD) stated in January 1976 that even if the EEC had canceled all constraints on Turkish industrial and agricultural products, total increase in Turkish exports would have been limited to 100–150 million dollars whereas the trade deficit in 1975 amounted up to 3 milliards dollars. Meanwhile, Caporale, EEC representative responsible for the Mediterranean policy, was making the same point arguing that even if Turkey had obtained all the concessions she

⁹⁰ Hürriyet, 04.06.1976, p.9, "*Soysal: Türkiye dikey sanayileşme için kararlıdır.*"

⁹¹ Hürriyet, 18.06.1976, p.9, "*Prof. Savaş: Türkiye sanayileşmesinden ödün vermeyecek.*"

⁹² Cumhuriyet, 30.04.1976, p.10, "*Türkiye Sanayi Odalarının ortak görüşüne göre Katma Protokol sanayileşme stratejisine aykırı düşüyor.*"

⁹³ Hürriyet, 16.04.1976, p.9, "*Katma Protokol esnek olmalı.*"

requested from the EEC, her exports in agricultural products would have increased as an amount of 100.000 dollars at most.⁹⁴

In view of these concerns, Turkey decided on 25 December 1976 to suspend her obligations for the years 1977 and 1978 within the framework of the 60th article of the Additional Protocol.⁹⁵

2.4. Freezing of the Relations and the Enlivening Effect of the Military Coup

Turkey's suspension of her obligations did not seem to stop criticism coming from the industrialists. The Istanbul Chamber of Commerce prepared a report in July 1978 which had emphasized the view that the 12 and 22 years lists were not consistent with Turkey's industrialization strategy. The report criticized the EEC for leaving agricultural products out of the Customs Union, and thus, for violating the Ankara Agreement.⁹⁶ The Istanbul Chamber of Commerce criticized the EEC also for imposing embargo on Turkish clothing products.⁹⁷ In fact, the EEC reestablished quotas on Turkish textile products in 1979 and imposed embargo on many Turkish clothing products during the 1980s. It can be argued that in this way, the EEC could be able to use these quotas as a trump until the signing of the Customs Union Agreement in 1995.

In February 1978, TÜSİAD made a research in order to identify different approaches in the Turkish society on EEC-Turkey relations. The research concluded that the Confederation of Revolutionary Workers' Trade Unions of Turkey (DİSK), the Workers Party of Turkey (TİP), the Nationalist Movement Party (MHP) and the National Salvation Party (MSP) were completely opposed to the idea of integration with the EEC. The Republican People's Party (CHP) thought that the Additional Protocol, as it stood, was an unsustainable burden for the Turkish economy. DPT argued that Turkey had provided some

⁹⁴ Cumhuriyet, 13.01.1976, p.4, Hasan Cemal, "*Ortak Pazar neyin peşinde?- I*".

⁹⁵ Rıdvan Karluk, "*Avrupa Birliği ve Türkiye*", İstanbul Menkul Kıymetler Borsası, 1996, p.395.

⁹⁶ Milliyet, 01.08.1978, p.13, "*AET için yeni bir geçiş dönemi listesi saptanması istendi.*"

⁹⁷ Milliyet, 29.08.1978, p.13, "*İTO'ya göre AET sözünde durmuyor.*"

advantages with Ankara Agreement but could not make use of them because of the Additional Protocol. DPT and IKV shared the opinion that radical modifications on the Additional Protocol were necessary. TİSK, TÜSİAD and Chambers of Commerce thought that relations with the EEC should be revised.⁹⁸ Moreover, TÜSİAD's survey questioned the 306 biggest Turkish firms whose total financial turnover amounted 55 milliards dollars in 1977. 63% of these firms claimed that competition with the industrialized EEC economies would shake Turkish economy. Out of these firms, only the ones with foreign partners and which had been established before the 1950s supported the existing relations with EEC.⁹⁹

TÜSİAD published also a report in February 1978, maintaining that there should be no more automatic tariff reductions. Accordingly, 12th, 22nd and 25th articles of the Additional Protocol which regulated the tariff and quota reduction calendars should be modified. The report also asserted that 17th and 18th 100 articles about the Common Customs Tariff alignment should be annulled.¹⁰¹

At the end of the 1970s, the EU–Turkey relations were very tense because of all these reactions and divergent expectations in the EU and Turkey. On 9 October 1978, Bülent Ecevit's government asked the EC for an exemption period of 5 years, the revision of the 12 and 22 years lists, removing of restrictions on Turkish industrial and agricultural export commodities, providing Turkey with the GSP (Generalized System of Preferences) concessions and additional financial assistance.¹⁰²

In May 1979, the EEC Council of Ministers approved a decision concerning the freezing of relations with Turkey for 5 years but rejected Turkey's

⁹⁸ Milliyet, 09.02.1978, p.11, "*Partiler yürürlükte bulunan ilişkilerden hoşnutsuz.*"

⁹⁹ Milliyet, 09.02.1978, p.11, "*Büyük firmalar AET rekabeti sarsıcı olur diyor.*"

¹⁰⁰ Accordingly, the Turkish Customs Tariff was going to be aligned on the Common Customs Tariff of the EEC in respect of third countries during the transitional stage and in accordance with the rules specified. According to many Turkish academics, this was the most problematic requirement from the EC.

¹⁰¹ Milliyet, 02.02.1978, p.11, "*TÜSİAD bir bütün halinde yeni istekler düzenlenmesini savundu.*"

¹⁰² Rıdvan Karluk, "*Avrupa Birliği ve Türkiye*", İstanbul Menkul Kıymetler Borsası, 1996, p.396.

other requests. Later, Turkey's relations with the EEC were practically suspended during the military government which had been in power from 1980 until 1983. There were frequent allegations arguing that Turkey had missed the opportunity for being a full member of the EEC when Bülent Ecevit refused to make an application for full membership right after Greece at the end of the 1970s. Emile Noel, the Secretary General of the EC Commission came to Ankara in 1978 and allegedly told the Prime Minister Bülent Ecevit to make an application for full membership. On the other hand, Besim Üstünel, who was the Minister of Finance in Ecevit's government, asserted in 2002 in a conference in Istanbul that the public was misinformed about this event. According to Üstünel, Emile Noel told Bülent Ecevit that Turkey should make an application for full membership. When Ecevit asked Noel whether the EEC would accept Turkey as a member, Noel responded that the EEC needed Turkey's application not to admit Turkey into the EEC but in order to control some developments within the EC.¹⁰³ Ziya Öniş underlines that there were "deeply-held reservations on the part of the European elites about Turkey's full membership"¹⁰⁴ at that time, and whether applying for full membership at the same time as Greece would have produced positive results is an ambiguous question.

Despite the unwillingness and skepticism of the Turkish side towards the EEC integration at the end of the 1970s, the military government acted quickly after coming into power. In March 1981, the National Security Council (MGK) adopted the EEC full membership as a national objective and declared that Turkey would begin to fulfill tariff and quota reduction commitments under the Additional Protocol.¹⁰⁵ It is also remarkable that the first institutional initiative in order to regulate relations with the EU was realized via a decree in December 1982, which was decided by the National Security Council on 25 March 1981. As a result, an EEC General Directorate within the State Planning Organization and

¹⁰³ Erol Manisalı, "*Hayatım Avrupa – Ortak Pazar'dan AB'ye*", Truva Yayınları, 2006, p.181, 182.

¹⁰⁴ Ziya Öniş, "*Luxembourg, Helsinki and Beyond: Towards an Interpretation of Recent Turkey – EU Relations*", Government and Opposition, Volume 35, Issue 4, October 2000, p.463.

¹⁰⁵ Milliyet, 27.03.1981, p.10, "*AET'ye tam üye olmak için hazırlık başlıyor.*"

a Coordination Committee were established.¹⁰⁶ Although many studies consider the military regime of the 1980s as a rupture in EC-Turkey relations, it seems rather that it transformed the EEC integration into a non-debatable issue.

Meanwhile, it should be noted that in autumn 1979, the 43rd government presided by Süleyman Demirel came to power and recalled the request made by the previous Ecevit government to suspend Turkey's responsibilities.¹⁰⁷ However, Turkey resumed the tariff reductions only in 1988 after the full membership application.

It is important to notice that the 1980s represented a deep politico-economic transformation for Turkey. The Justice Party (AP) which came into power at the end of 1979, had attempted to put into force a comprehensive economic package envisaging an open market economy. It is often argued that the military regime "made it possible to implement" the neoliberal economic policies effectively, especially because Turgut Özal, the architect of the January 24 decisions, was appointed by the military government as "deputy prime minister in charge of economic affairs".¹⁰⁸ Concordantly, the military regime's attitude towards the EEC relations can be interpreted as a search for legitimacy, especially in the eyes of the Western authorities.

As a result, even though the EEC-Turkey relations were frozen until 1986, the EC's immediate reaction to the military coup was rather mild. The media reported that the Turkish military coup was a relief for NATO and that the EC considered it useful in order to prevent a civil war in Turkey.¹⁰⁹

In May 1979, Savaş stated that the decision of freezing relations exposed the fact that the Additional Protocol was not applicable. According to Savaş, the EEC did not fulfil its responsibilities concerning the free movement of workers and the extension of agricultural concessions. In return, Turkey could not put into

¹⁰⁶ Rıdvan Karluk, "*Avrupa Birliği ve Türkiye*", İstanbul Menkul Kıymetler Borsası, 1996, p.518.

¹⁰⁷ <http://www.ikv.org.tr/pdfs/kronoloji3.pdf> (Access on 28.01.2011).

¹⁰⁸ Nilgün Önder, "Integrating with The Global Market: The State and The Crisis of Political Representation", *Int. Journal of Political Economy*, vol.28, no.2, Summer 1998, p.50.

¹⁰⁹ *Hürriyet*, 13.09.1980, p.1, "Ortak Pazar'a göre İç Savaş Önlenecek."

effect tariff and quota reductions envisaged in the Additional Protocol in order to proceed with industrialization. Erdoğan Alkın commented that the EEC was already seeking an opportunity to avoid the free movement of workers.¹¹⁰ Alkın was right. The Article 36 of the Additional Protocol provided that “Freedom of movement for workers between Member States of the Community and Turkey shall be secured by progressive stages in accordance with the principles set out in Article 12 of the Agreement of Association between the end of the twelfth and the twenty-second year after the entry into force of that Agreement.”¹¹¹ Accordingly, the establishment of freedom of movement for workers was a binding clause for the EEC and should be realized until 1986 at the latest. However, it has never been done.

In July 1980, Reşit Ülker, who was an Istanbul parliamentarian and a member of the EEC–Turkey joint parliamentary commission for the period of 1973-1977, asserted that the EEC deceived Turkey on the issue of free movement for workers. Ülker indicated that Turkey had not obtained any commitment from the EEC to achieve the free movement of workers which was guaranteed in 1970.¹¹²

In 1986, the EEC turned the right of free movement for workers into a matter of negotiation and used Turkey’s full membership expectation as a trump card. In November 1986, the German news magazine ‘Der Spiegel’ used the title of “Europeans do not keep their promises” for an article discussing the freedom of movement problem between Turkey and EEC.¹¹³

The same year, the Prime Minister Turgut Özal declared in a statement to the Federal German news agency, that bilateral concessions regarding the free movement might be possible.¹¹⁴ In fact, Germany was the most concerned

¹¹⁰ Milliyet, 12.05.1979, p.11, “*Prof.Savaş: Katma Protokoliün işler olmadığı anlaşıldı.*”

¹¹¹ Official Journal of the European Communities, 31.12.1977, Ref. L 361/1. http://www.abgs.gov.tr/files/AB_Iliskileri/tur_en_realitons/protocol_1977.pdf.

¹¹² Milliyet, 23.07.1980, p.2, “*Serbest Dolaşımda Atlatılan Türkiye*”.

¹¹³ Milliyet, 27.11.1986, p.1, “*Sözden Dönüş*”.

¹¹⁴ Milliyet, 19.11.1986, p.9, “*AET’ye Özal tavizi*”.

European country with Turkish workers' freedom of movement and some negotiations between Turgut Özal and German authorities were being brought into question in Turkish media at the end of 1980s.

2.5 First Steps to Custom Union

The year 1986 was considered as a new start in EEC–Turkey relations for the Turkey–EEC Association Council met on 16 September 1986 for the first time since 1980.¹¹⁵ This date is considered as the beginning of the normalization of relations although the Council could not reach a decision after the meeting. Thereafter, Turkey acted quickly and presented its application for full membership of the EEC on 14 April 1987.

However, the expectations of the EEC and Turkey on the question of the latter's full membership was rather different. For the EEC authorities, the idea of Turkey's full membership became more and more annoying towards the end of the 1980s. On the other side, Turkey was more enthusiastic than ever for this. Two of the reasons were the frustration of the Turkish businessmen by breaches of additional protocol and the worsening position of Turkey vis-à-vis other countries in her relations with the EEC. Rıdvan Karluk emphasized that the balance in EEC-Turkey relations had broken down to the detriment of Turkey because of the EEC concessions to third countries.¹¹⁶ The EC put into effect the Generalized System of Preferences in 1971 and Turkey remained outside of the GSP which provided developing countries preferential access to the EC market through reduced tariffs. At the beginning of the 1970s, the EC signed many bilateral and multilateral agreements giving voluntary trade concessions to developing countries. Karluk underlined that advantages provided by the EEC to the African, Caribbean and Pacific Group of states (ACP), Maghreb and Mashreq countries as well as to Cyprus, Malta, Spain, Portugal and Greece before membership were much more significant and comprehensive than those provided

¹¹⁵ EU Press Releases, 25.04.1989, Ref. MEMO/89/22, “*Visit by Mr Matutes to Turkey*”.

¹¹⁶ Rıdvan Karluk, “*Avrupa Birliği ve Türkiye*”, İstanbul Menkul Kıymetler Borsası, 1996, p.445.

to Turkey via the Additional Protocol.¹¹⁷ Agricultural concessions provided to Turkey also became meaningless since similar or more important concessions had been given to third countries by the EC and because of the non-tariff barriers.¹¹⁸

Another reason for Turkey's determination to become a full member of the EU is that with the 24 January 1980 stabilization measures, Turkey stepped into a liberal understanding and moved away from the planned industrialization model. The military which took power on 12 September 1980 was determined to implement the stabilization program and the task was given to Turgut Özal regardless of the fact that he used to be associated earlier with the Islamist National Salvation Party (MSP) of Necmettin Erbakan.¹¹⁹ The main long-term objective of the IMF-backed stabilization program in the 1980s was to remove the dominance of the state in key industries, banking, pricing and resource allocation processes.¹²⁰ At the end of the 1980s, the EEC integration was conceived as a key element in this liberalization project. The EEC enlargement in the 1980s with the inclusion of Greece, Spain and Portugal might have been another reason for the Turkish government to apply in 1987.

Regarding the full membership application, Öniş comments that the move was, in part, tactical. The main goal was to accelerate the process of trade liberalization since it was apparent that Turkey's membership application would not receive a favorable response from the Community. "Indeed, Turkey's application was rejected, but Ozal's initiatives paved the way for the Customs Union that became a crucial element in the full-scale liberalization of the Turkish economy in the context of the 1990s. It can be assumed that in that decade the EEC's internal transformation towards a deepened integration and the new unipolar world order might have obliged Turkish authorities to be contented with

¹¹⁷ Ibid.

¹¹⁸ Ibid.

¹¹⁹ Michael Lake, "*The EU and Turkey, A glittering Prize or a Milestone?*", The Federal Trust for Education & Research, 2005, p. 29.

¹²⁰ Michael Lake, "*The EU and Turkey, A glittering Prize or a Milestone?*", The Federal Trust for Education & Research, 2005, p. 66.

even an incomplete Customs Union without being included in the decision making mechanisms of the EEC/EU.

In fact, until the 1990s, Turkish state authorities were largely against the forming of a Customs Union unless Turkey would become a full member of the EEC. In October 1989, presidents of the IKV, TOBB, TÜSIAD, İTO, İSO and Istanbul Commodity Exchange Market published a joint notice. The EEC's expectations from Turkey were the nullification of customs duties, an EEC-dictated investment policy and privatization. However, Turkish industrialists underlined that a complete reduction of tariffs would only be possible in the case of Turkey's full membership.¹²¹ This notice can be interpreted as a response to Özal's changing position on the question of joining the Customs Union. In 1987, Turgut Özal had made a statement to BBC channel and emphasized that establishing a Customs Union with the EEC which would cover only industrial goods would be very harmful for Turkish economy.¹²² Nevertheless, the same Özal had told Turkish businessmen in a meeting organized by DEİK in May 1989 (foreign economic relations board of TOBB), to find themselves foreign business partners. In this meeting, Özal had even alerted the industrialists who demanded more import protection that Turkey could join the Customs Union in 1995.¹²³ Finally, the statement of Özal saying that "We would go into the Customs Union even if the EEC does not accept Turkey as a full member" made the headlines of Turkish daily newspapers on 19 December 1989, the day after the "no" decision made by the EU on Turkey's full membership application.¹²⁴ Afterwards, the ideal of being a member of a Customs Union which does not exist as an EEC/EU institution started to be indoctrinated to the Turkish people.

¹²¹ Milliyet, 12.10.1989, p.5, "*Başka güçlere açılırız.*"

¹²² Milliyet, 28.03.1987, p.5, "*Özal: Gümrük Birliği'ne tek başına girmemiz Türkiye'nin büyük zararına.*"

¹²³ Milliyet, 19.05.1989, p.5, "*Biraz daha koruma sayın Başbakanım...*"

¹²⁴ Cumhuriyet, 11.04.2003, Erol Manisalı's column
<http://www.abgs.gov.tr/index.php?p=29167&l=1> (Access on 20.01.2011).

Many academics share the view that with the end of Cold War, it was thought that Turkey's strategic utility would decline. In fact, Washington's preoccupation of Iraq rearticulated Turkey's geostrategic value to the USA after 1991.¹²⁵ Nevertheless, the Western attitude towards Turkey evolved with the collapse of the Soviet Union, and if Turkey has not lost her geostrategic significance, her function as a Western ally has obviously changed from the European point of view. Meltem Müftüler Bac considers that Cold War structures enabled the realization of Turkey's objective to be recognized as a European state, which later put Turkey into a difficult position at the end of bipolarity. In her own words: "Turkey's Europeanness was defined according to its geostrategic position; it became a reliable ally for the West as a buffer state against the former Soviet Union. The disappearance of the Cold War structures has brought the importance and suitability of Turkey for Europe into debate."¹²⁶

Nilgün Önder asserts that changing geopolitical structure of the international system after the Cold War led to the relegation of Turkey to a less significant place in the EU policy.¹²⁷ Ziya Öniş similarly maintains that "the post-Cold War context has reduced Turkey's chances for full membership in the EU by a considerable margin".¹²⁸ Erol Manisalı also considers the end of bipolarity as a crucial determinant for the new role of Turkey as decided by Western forces, namely the unilateral commitment of Turkey to Western capitalism led by the domestic and foreign capital.¹²⁹ According to Manisalı, this unilateral commitment has largely been realized via Europe and Turkey's surrender of her customs regime to the European Union.¹³⁰

¹²⁵ Michael Lake, "The EU and Turkey, A glittering Prize or a Milestone?", The Federal Trust for Education & Research, 2005, p. 129.

¹²⁶ Meltem Müftüler Bac, "Turkey's predicament in the post-cold war era", Futures, Volume 28, Issue 3, April 1996, p.255.

¹²⁷ Nilgün Önder, "The Turkish Political Economy: Globalization and Regionalism", Perspectives on Global Development and Technology, Volume 6, Numbers 1-3, 2007, p. 252.

¹²⁸ Ziya Öniş, "Turkey in the Post – Cold War Era: In Search of Identity", Middle East Journal, Volume 49, No 1, 1995 Winter, p.68.

¹²⁹ Erol Manisalı, "Askeri Darbeden Sivil Darbeye – Hayatım Avrupa 2", Cumhuriyet kitapları, Ocak 2009, p.10

¹³⁰ Ibid., p.11.

In this regard, it is remarkable that EEC's rejection of Turkey's application for full membership came at the same time as the first signs of the fall of the Soviet Union. Turkey presented its application for membership to the EEC on 14 April 1987, and the Commission adopted its opinion on 18 December 1989. The response was a diplomatic no. The opinion stated that the Commission "does believe, however, that the Community should pursue its cooperation with Turkey, given that country's general opening towards Europe".¹³¹ The Commission also noted that the Community had "a fundamental interest in intensifying its relations with Turkey and helping it to complete as soon as possible the process of political and economic modernisation".¹³² The Commission adopted the "Matutes Package" on 7 June 1990, which comprised a set of proposals including the completion of the Customs Union.¹³³ However, this package has never been discussed in the Council. Abel Matutes who was the EEC representative for Turkey made a statement about the Commission's opinion. Matutes reported that the Commission proposed, in the first place, the completion of a "Customs Union" between the two sides and the harmonization of Turkish economic legislation with that of the EEC.¹³⁴

In sum, in the 1970s, many academics, domestic capital groups, civil society organizations and even some of the state agencies were against the economic integration of Turkey with the EEC. However, after the 1980 military coup the EEC full membership was adopted as the "national objective" of Turkey which had to be embraced by different domestic political groups.

¹³¹ Regular report from the Commission on Turkey's progress towards accession, 1998, p.5. http://ec.europa.eu/enlargement/archives/pdf/key_documents/1998/turkey_en.pdf .

¹³² Ibid.

¹³³ Ibid.

¹³⁴ Milliyet, 19.12.1989, p.1, "Avrupa'dan Türkiye'ye tam üyelik için ilk resmi yanıt".

CHAPTER III

POLITICO-ECONOMIC ENVIRONMENT IN THE 1990's TURKEY

In order to analyze the real reason behind the signing of the 1/95 Decision, it is indispensable to understand the politico-economic environment which prevailed in Turkey during the late 1980s and the early 1990s. The 1980s structural adjustment reforms were followed by significant economic and political instabilities including serious terrorist activities, large scale labor strikes and the rise of Islamic-oriented politics in the early 1990s.

3.1 Neoliberal Reforms in the 1980s

The neoliberal transformation experienced at the beginning of the 1980s has had a large impact on the developments in the 1990s. Prime Minister Turgut Özal, who came to power in the 1983 elections right after the military coup, was re-elected in 1987 and he was an important figure in shaping this process. After the return to parliamentary politics in 1983, Özal could use the new political space to realize his liberal economic visions which included the liberalization of Turkey's foreign trade, privatization of state-owned enterprises, capital account liberalization and reductions in public spending.¹³⁵ However, Ziya Öniş asserts that Özal's reforms influenced not only the economic realm but also had important effects on the spheres of politics, culture and foreign policy.¹³⁶

¹³⁵ Roy Karadag, "Neoliberal Restructuring in Turkey From State to Oligarchic Capitalism", MPIfG Discussion Paper 10/ 7, 2010, p.14.

¹³⁶ Ziya Öniş, (2004) "Turgut Özal and his Economic Legacy: Turkish Neo-Liberalism in Critical Perspective", Middle Eastern Studies, Vol.40, No.4, pp.113 – 134., p.113.

The 1980s were characterized by successive tariff reductions and real exchange rate depreciations. It is important to note that an essential part of tariff reductions required by the EEC were realized in parallel with this liberalization movement.¹³⁷

The structural adjustment reforms launched in the 1980s basically aimed to reorient the Turkish economy from “the interventionist import substituting industrialization towards an outward oriented economy open to the global markets”.¹³⁸ Nilgün Önder underlines that this export-oriented development strategy had important implications for the working class since Turkish exports were heavily concentrated on low-technology or natural resource based sectors relying on the use of low wages and non-unionized labor.¹³⁹ The financial segment of the liberalization movement was launched in 1989 via deregulation of capital movements.¹⁴⁰ The liberalization of the financial system was accompanied by high public sector borrowing requirements which had unfavorable effects on the economy in general. The deepening and widening of the financial system was supported by the introduction of new institutions and financial instruments such as the Istanbul Stock Exchange, interbank money market in domestic currency, foreign currency markets and the gold market.¹⁴¹ That kind of economic structure obviously benefited the financial capital and promoted speculative profit making.

Many academics insist on the special ties between the family business groups and the state authority (Özal’s ANAP) in these years. On the one hand, the single-party government represented the “strong state” which was capable of implementing the necessary adjustment reforms. On the other hand, special

¹³⁷ Aylin Ege, ODTÜ Gelişme Dergisi, “Avrupa Birliği’nin Ortak Ticaret Politikası ve Türkiye”, 26 (3-4) 1999, p.270.

¹³⁸ Nilgün Önder, “The Turkish Political Economy: Globalization and Regionalism”, Perspectives on Global Development and Technology, Volume 6, Numbers 1-3, 2007, p.229.

¹³⁹ Nilgün Önder, “Integrating with The Global Market: The State and The Crisis of Political Representation”, Int. Journal of Political Economy, vol.28, no.2, Summer 1998, p.54.

¹⁴⁰ Bartu Soral, “Türkiye’de Bitmeyen Ekonomik Kriz”, Kaynak Yayınları, 2009, p.39.

¹⁴¹ Nilgün Önder, “Integrating with The Global Market: The State and The Crisis of Political Representation”, Int. Journal of Political Economy, vol.28, no.2, Summer 1998, p.56.

patronage capabilities and uncontrolled corruption structures accompanied the monopolization of state power.¹⁴²

The 1980s was also characterized by increasing ties with international financial institutions such as the IMF and the World Bank. The January 24 (1980) Decisions launching the structural adjustment policies were followed by an IMF stand-by agreement totaling USD 1.65bn, and consecutive structural adjustment loans from the World Bank.¹⁴³

Towards the end of the 1980s, electoral support for ANAP began to decrease because of the increased public discontent with neoliberal policies. Many academics agree that the social contradictions led by neoliberal policies of the 1980s resulted in a legitimacy crisis in the 1990s. The latter gave rise to government instability and collective actions of the working class including public servants.

3.2. Deterioration of Economic Fundamentals in the Early 1990s

Turkish economy in the early 1990s was characterized by a continuous deterioration of macroeconomic fundamentals. One striking aspect of the economy was the volatile GDP growth. The recorded GDP growth was 7.9% in the year 1990, and plummeted to -1.1% in 1991.¹⁴⁴

Table 3: Annual GDP change (1988 – 1995)

Source: SPO Main Economic Indicators (1950 – 1997)

Annual Change %	1988	1989	1990	1991	1992	1993	1994	1995
GDP	2,7	1,2	7,9	1,1	5,9	8	-5,5	7,2

¹⁴² Roy Karadag, “Neoliberal Restructuring in Turkey From State to Oligarchic Capitalism”, MPIFG Discussion Paper 10/ 7, 2010, p.17.

¹⁴³ Nilgün Önder, “The Turkish Political Economy: Globalization and Regionalism”, Perspectives on Global Development and Technology, Volume 6, Numbers 1-3, 2007, p.233.

¹⁴⁴ Ümit Cizre-Sakallıoğlu and Erineç Yeldan, “Politics, Society and Financial Liberalization: Turkey in the 1990s”, Development and Change, Vol.31 (2000), p.484,485.

In parallel with this trend, the consumption and investment trends were also unstable. Another salient feature of Turkish economy in the 1990s was persistent inflation. The inflation rate measured by the consumer price index reached %71.1 in 1993 on the eve of the financial crisis.

Table 4: Annual Change in the Consumer Price Index

Source: SPO Main Economic Indicators (1950 – 1997)

Annual Change in the Consumer Price Index (CPI)	1988	1989	1990	1991	1992	1993	1994	1995
Inflation Rate %	75,4	64,3	60,4	71,1	66,1	71,1	106,3	88

Moreover, the increasing public sector borrowing resulted in high interest rates and thus led to the overvaluation of the domestic currency. Domestic consumption accelerated in favor of imports and at the expense of exports and productive industries. The result was a huge increase in the trade deficit attaining record levels at the end of 1993.

Table 5: Foreign Trade Balance (1988 – 1995)

Source: Turkish Statistical Institute

million \$	1988	1989	1990	1991	1992	1993	1994	1995
Balance of Foreign Trade	-2.673	-4.167	-9.342	-7.453	-8.156	-14.083	-5.164 ¹⁴⁵	-14.071

Another critical issue was high unemployment rates, especially among the young population. In 1993, the unemployment rate reached 9% and the unemployment of the young labor force reached 18%.¹⁴⁶

The divergence of opinion between Prime Minister Çiller and the Central Bank governor Rüşdü Saracoğlu was another factor contributing to the

¹⁴⁵ Here, it should be noted that the relative amelioration of the trade balance in 1994 is caused by the financial crisis and decreasing domestic purchasing power.

¹⁴⁶ Turkish Statistical Institute, www.turkstat.gov.tr

undermining of confidence in the government. Interest rates, the necessary amount of foreign exchange reserve, requirement for a devaluation, establishment of a gold exchange and the monetary policy in general were all confrontational issues between Çiller and Saracoğlu. Ultimately, Saracoğlu resigned in August 1993.¹⁴⁷ However, this was not the end for the crisis. Bülent Gültekin who replaced Saraçoğlu also resigned at the end of January 1994 as a result of disputes with the government.¹⁴⁸

This period of fragility paved the way for one of the most serious economic crisis in the Republic's history. The current account deficit and the public sector deficit reached important levels towards the mid-1990s leading to the 1994 financial crisis.¹⁴⁹ In the first quarter of 1994, interest rates boomed, the inflation rate reached three digit levels, the Central Bank lost half of its reserves, and the national currency (TL) was devalued more than 50% vis-à-vis the USD.¹⁵⁰

The currency crisis was followed by a minor banking crisis.¹⁵¹ In the aftermath of the crisis, Turkish economy contracted by 6%, the highest level of annual output loss in the history of the Turkish Republic up to that time.¹⁵² Önder maintains that the 1994 crisis was “a strong manifestation of the instability of the neoliberal economic strategy in Turkey”.¹⁵³ Boratav, Türel and Yeldan also share the view that the disappointing performance of neoliberal policies was

¹⁴⁷ Milliyet, 01.08.1993, p.5, “Ekonominin Zirvesindeki İki Yıllık Kavga Bitti”

¹⁴⁸ Milliyet, 01.02.1994, p.7, “Gültekin Ciddi Uyarılarla Ayrıldı”

¹⁴⁹ Suat Oktar and Levent Dalyancı, “Finansal Kriz Teorileri ve Türkiye Ekonomisinde 1990 Sonrası Finansal Krizler”, Marmara Üniversitesi İ.İ.B.F. Dergisi, Sayı II, s. 12

¹⁵⁰ Oya Celasun, “The 1994 currency crisis in Turkey”, The World Bank Policy Research Working Paper Series, No.1913, April 1998, p.2

¹⁵¹ Oya Celasun, “The 1994 currency crisis in Turkey”, The World Bank Policy Research Working Paper Series, No.1913, April 1998, p.23

¹⁵² Ibid., p.2

¹⁵³ Nilgün Önder, “Integrating with The Global Market: The State and The Crisis of Political Representation”, Int. Journal of Political Economy, vol.28, no.2, Summer 1998, p.70

largely due to “the inherent difficulties with the neoliberal structural adjustment, at least in the Turkish setting”.¹⁵⁴

On the other hand, 1990s was also characterized by a worsening of income distribution across households. Besides the fall in real wages and decreasing employment opportunities, the management of fiscal debt also contributed to the worsening of income shares for the poorest groups.¹⁵⁵ Sakallioğlu and Yeldan maintain that the government preferred to finance its borrowing requirements via domestic asset markets which gave rise to a huge increase in the rates of real interest. As a result, the management of fiscal debt began to operate as an income transfer mechanism, “transferring income away from wage-labor and the peasantry, to domestic rentiers.”¹⁵⁶

Table 6: Evolution of wealth distribution

Percentiles	Share in Aggregate Disposable Income	
	1987	1994
Lowest 20%	5,23	4,86
21% - 40%	9,61	8,62
41% - 60%	14,07	12,6
61% - 80%	21,16	19,02
Highest 20%	49,93	54,88

Sakallioğlu and Yeldan underline that “the prolonged volatility of the economy, with failed business expectations and consequent shifts in real incomes of the working masses, inevitably contributed to a continued decline in the political realm and the erosion of legitimacy of the democratic institutions as a whole”.¹⁵⁷

¹⁵⁴ Korkut Boratav, Oktar Türel and Erinc Yeldan, “Dilemmas of Structural Adjustment and Environmental Policies under instability: Post-1980 Turkey”, World Development Volume 24, Issue 2, February 1996, p.391

¹⁵⁵ Ümit Cizre-Sakallioğlu and Erinc Yeldan, “Politics, Society and Financial Liberalization: Turkey in the 1990s”, Development and Change Vol.31 (2000), p.489

¹⁵⁶ Ibid.

¹⁵⁷ Ibid., p.486

3.3 Labor Strikes as a Reaction to Deteriorating Economic Conditions

It is remarkable that the year 1995 has witnessed the largest number of strikers in Turkish history (199,867) which has sharply fallen down to 5,461 in 1996.¹⁵⁸ The years between 1989 and 1991 are considered as a zenith in collective action since both public and private sector workers engaged in waves of protest which led to a temporary improvement of wages.¹⁵⁹ Several general strikes followed in the mid-1990s.

Table 7: Strikes in Turkey between 1989 and 2009

Strikes in Turkey (1989 -2009)¹⁶⁰		
	Number of strikes	Number of participants
1989	171	39.435
1990	458	166.306
1991	398	164.968
1992	98	62.189
1993	49	6.908
1994	36	4.782
1995	120	199.867
1996	38	5.461
1997	37	7.045
1998	44	11.482
1999	34	3.263
2000	52	18.705
2001	35	9.911
2002	27	4.618
2003	23	1.535
2004	30	3.557
2005	34	3.529
2006	26	2.061
2007	15	25.920
2008	15	5.040
2009	13	3.101

¹⁵⁸ Hakan Arslan, "State, Labour and Crisis: The 1989-1995 Period in Turkey", MS Thesis, April 2006, p.71

¹⁵⁹ Ibid.

¹⁶⁰ <http://www.tisk.org.tr/gostergeler.asp?id=519> (Access on 03.05.2011)

Yılmaz Ensar maintains that the intensification of the reconstruction process launched in the 1980s have brought significant drawbacks for the Turkish trade union movement which worsened at the beginning of the 1990s.¹⁶¹ According to Ensar, the increasing competition imposed by the Customs Union posed further challenges for the collective labor-bargaining process.¹⁶²

In the 1990s, trade unions had also opposed privatizations which were launched in 1986, although they were not able to form a unified front against them.¹⁶³ In fact, privatizations effectively started after 1998, the year when privatization revenues exceeded USD 1 billion for the first time. However, the legal framework for the privatization program was established in October 1994, in order “to meet the obligations imposed by Turkey’s entry into the Customs Union with the EU”. Competition board, the key institution responsible for regulation was also established within this framework.¹⁶⁴

Nilgün Önder underlines that besides the counter-mobilization by working classes who suffered great deterioration in their income because of the neoliberal policies, the intensified conflict of interest among different segments of capital was also remarkable at the beginning of the 1990s. The new economic structure favored the financial capital at the expense of the industrialists. This shift towards a “speculation/rent economy” caused the diversion of resources away from productive sectors, which had adverse effects for the whole Turkish economy.¹⁶⁵

¹⁶¹ Ensar Yılmaz, “Türkiye’de İşçi Sendikalarının Önündeki Sosyal, Siyasal ve Ekonomik Engeller”, e-Journal of New World Sciences Academy 2010, Volume: 5, Number: 3, Article Number: 3C0041, p.176.

¹⁶² Ibid., p.180.

¹⁶³ Nilgün Önder, “Integrating with The Global Market: The State and The Crisis of Political Representation”, Int. Journal of Political Economy, vol.28, no.2, Summer 1998, p.57.

¹⁶⁴ Metin R. Ercan and Ziya Öniş, “Turkish Privatization: Institutions and Dilemmas”, Turkish Studies; Spring2001, Vol. 2 Issue 1, p. 116.

¹⁶⁵ Ibid., p.68.

3.4 Political Instability and the Rise of Islamist-oriented Politics

The increased mass discontent with neoliberal practices was reflected in the October 1991 elections. Özal's ANAP remained out of the government and a coalition government was formed by Demirel's DYP (center-right) and İnönü's SHP (center-left). However, the new government was not able to offer an alternative economic policy which would receive general public support. Önder comments that the decline of ANAP and its hegemonic project at the beginning of the 1990s led to an important fragmentation of the political party system in Turkey.¹⁶⁶ One striking aspect of the 1991 elections was the rise of Necmettin Erbakan's RP (The Welfare Party) as they obtained 16.8% of the national vote and 5% of the seats in the Grand National Assembly.

The coalition government dissolved in May 1993 when Demirel was elected the new President of the Republic after the sudden death of President Turgut Özal. The 1993 SHP-DYP coalition government ruled until the 1995 elections under the premiership of Tansu Çiller.

The political instability created an environment that the Islamist RP well utilized. The RPy was able to score several municipal posts in the 1994 local elections; including the mayoral posts in both Istanbul and Ankara. The re-emergence of religion in politics shocked many both inside and outside Turkish politics. But the fact that the 2 years period between mid-1995 and mid-1997 witnessed 5 different governments indicated that the trend was to continue.

Hence, the rise of the RP continued in the (December) 1995 elections as it has obtained the first place among the candidate parties by securing 21.3% of the national vote. In fact, the idea of an Islamist led coalition in Turkey became a reality since no party was holding the majority. After several unsuccessful coalition trials, Erbakan led a coalition government formed by Çiller's DYP

¹⁶⁶ Nilgün Önder, "The Turkish Political Economy: Globalization and Regionalism", Perspectives on Global Development and Technology, Volume 6, Numbers 1-3, 2007, p. 241.

which could last less than one year and ended with a semi-coup on 28 February 1997.

Which was remarkable in this process was the RP's changing attitude towards the Customs Union. Erbakan told in a speech during his electoral campaign that Turkey would be a valet of the EU if the Customs Union was realized. However, right after the general elections in a visit to the Turkish Employers' Association (TİSK), he claimed that in principle, they were not against the Customs Union.¹⁶⁷

It is remarkable that in the mid-90s the Customs Union and the EU integration was started to be promoted as a barrier which would prevent the rise of political Islam in Turkey. Many share the view that the resurgence of Islamist revivalism in the 1990s had "great significance for Turkey's efforts to become a full member of the European Union."¹⁶⁸ However, it is indispensable to notice that Tayyip Erdoğan's Justice and Development Party (AKP), the inheritor of the RP became a determined advocate of the EU integration at least in its first term in office after 2002 besides its persistent dedication to the neoliberal agenda.

In fact, during the 1990s Islam began to operate as "an economic code open to free market ideology" and MUSIAD was established as the principal association of Islamic business interests in Turkey. Many consider the establishment of MUSIAD as a clear sign of the "co-existence" of Islam with free market ideology."¹⁶⁹ Like TUSIAD, MUSIAD supported Turkey's EU membership despite some criticism over the Customs Union in the mid-1990s.

Sakallıoğlu and Yeldan suggest that politics in Turkey does not fit the ordinary classification since there is a convergence of economic policies on

¹⁶⁷ Milliyet, 02.01.1996, p.18, Şahin Alpay, "Erbakan Çark mı etti?"

¹⁶⁸ Nilgün Önder, "Integrating with The Global Market: The State and The Crisis of Political Representation", *Int. Journal of Political Economy*, vol.28, no.2, Summer 1998, p.73

¹⁶⁹ E. Fuat Keyman and Berrin Koyuncu, "Globalization, alternative modernities and the political economy of Turkey", *Review of International Political Economy* 12:1 February 2005, p.112

different political platforms.¹⁷⁰ Similarly, Çınar asserts that in Turkish politics in the 1990s “all key issues [were] accepted without debate” and that “the only competition [was] over “who” [would] implement the policies.¹⁷¹

3.5. Increasing Terrorist Activities

Another source of instability in the 1990s was increasing terrorist activities in the country and the government’s inability to govern the situation. The Kurdish illegal organization, PKK, which was established in the 1970s intensified its activities at the beginning of the 1990s. In June 1990, 27 people were massacred by the PKK in the Çevrimli village of Şırnak. 12 of them were children and 7 of them were women.¹⁷² Which was remarkable in this period was the urbanization of terrorism which resulted in public awareness and backlash about the issue.¹⁷³ In December 1991, 11 people were killed and 17 were injured because of a Molotov bomb dropped in a shopping mall at the center of Istanbul.¹⁷⁴

The 1990s began with the Gulf War which led to additional disturbance in Turkey’s south-eastern frontier. Although Turkey did not actively contribute to the US and NATO forces, she allowed operation from İncirlik airbase in Adana.¹⁷⁵ The War directly affected Turkey’s trade relations with this region and created a lot of uncertainties.

Not only the PKK but also the public attacks by the Islamic radical groups substantially distabilised politics in the early 1990s. Bahriye Üçok and Muhammer Aksoy, both academics, supporters of secularism and founders of the

¹⁷⁰ Ümit Cizre-Sakallıoğlu and Erineç Yeldan, “Politics, Society and Financial Liberalization: Turkey in the 1990s”, *Development and Change*, Vol.31 (2000), p.495

¹⁷¹ Menderes Çınar, “Rebulding the Center: Mission Impossible?”, *Private View* 1(2), 1997, p.72

¹⁷² *Milliyet*, 12.06.1990, p.14, “PKK 27 Köylüyü Katletti”.

¹⁷³ İhsan Bal and Emre Özkan, “PKK Terör Örgütü Kronolojisi 1976 – 2006”, <http://www.usak.org.tr/dosyalar/dergi/z6UFq2LoFkdiuzBbZSt9qHMi7u4Ke2.pdf> (Accessed on 02.06.2011)

¹⁷⁴ *Milliyet*, 26.12.1991, p.17, “Şehir Eşkıyası Mağaza Yaktı: 11 Ölü”

¹⁷⁵ Richard Robey and Jeffrey Vordermark, “Security Assistance Mission in the Republic of Turkey”, *The DISAM Journal*, Winter 2003-2004, p.2

ADD¹⁷⁶, were murdered by Islamist groups in 1990. Later, in 1993, Uğur Mumcu, a journalist who had covered PKK, Islamic radicalism and drug smuggling networks was killed by an assassination assumed to be done by IBDA-C and the Islamic Liberation Organization.¹⁷⁷ In summer 1993, the extremists set on fire a hotel (Madımak) in Sivas, where 37 intellectuals were burned to death. The July 1993 was the zenith of insanity. A few days after the Madımak event, the PKK burned out 57 houses in a village (Başbağlar) of Erzincan, where 32 civilians including women and children were executed by firing squad.¹⁷⁸

These series of terrorist events provoked a sense of mistrust in Turkish public opinion and this atmosphere was combined with the problems faced by Turkish neoliberalism. The main question in the 1990s' Turkey was how to maintain the legitimacy of the existing political system in view of high inflation, high unemployment, rising terrorism and the general socio-economic deprivation.

3.6 The legitimacy crisis of the 1990s

Nilgün Önder maintains that “[a]s the neoliberal economic strategy results in widening inequalities, it creates a crisis of legitimacy and political representation. This raises the question of the sustainability of neoliberalism in a political context of consensual representation in Turkey.”¹⁷⁹ Thus, the government's and capital representative's efforts to complete the Customs Union might be considered as an attempt to give political legitimation to the neoliberal agenda of the 1990s via the imposition of a national passion, which was the EU membership. In this regard, the completion of the Customs Union was an

¹⁷⁶ Association of the Kemalist Thought

¹⁷⁷ Ely Karmon, “Islamic Terrorist Activities in Turkey in the 1990s”, *Terrorism and Political Violence*

Volume 10, Issue 4, 1998, p.106

¹⁷⁸ *Milliyet*, 07.07.1993, “Sarsılıyor; Köyde Katliam, Hükümette Kavga”

¹⁷⁹ Nilgün Önder, “Integrating with The Global Market: The State and The Crisis of Political Representation”, *Int. Journal of Political Economy*, vol.28, no.2, Summer 1998, p.76

important milestone in the mid-90s, considering the heated debate ongoing on the subject until the signing of the agreement.

In fact the 1990s was characterized by a serious economic and political instability. The failure of neoliberal policies led to the deterioration of macroeconomic balances with high unemployment and inflation rates and the 1994 financial crisis. The authorities' inability to govern the situation became more manifest as a result of rising Islamist and separatist terrorist activities. On the other hand, one of the most prominent developments starting from 1989 was the increasing intensity of labor strikes which reached a record level in 1995.

Önder and Şenalp consider that the CU Agreement functioned as an outlet from the 1990s' hegemonic crisis and paved the way for the establishment of a new hegemonic project which would unite interests of the rising Islamist politics and the Western-oriented capital. "Hegemony" in Gramscian analysis refers to the articulation of the interests of subordinate classes and groups to that of the hegemonic class via the creation of a collective will or general interest in order to enable this relation of domination.¹⁸⁰ Hegemonic crisis corresponds to "the crisis of the ruling class's hegemony, which occurs either because the ruling class has failed in some major political undertaking for which it has requested or forcibly extracted the consent of broad masses... or because huge masses... have passed suddenly from a state of political passivity to certain activity..."¹⁸¹ Bob Jessop developed the concept of "hegemonic project" which "successfully links the realization of certain particular interests of subordinate social forces to the pursuit of a national-popular programme which favors the long-term interests of the hegemonic force."¹⁸²

¹⁸⁰ Muharrem Tünay, "The Turkish New Right's Attempt at Hegemony", in A. Eralp, M. Tünay and B. Yeşilada (eds) *The Political and Socio-economic Transformation of Turkey*, London: Praeger, 1993, p.13.

¹⁸¹ Antonio Gramsci, "Selection from the prison notebooks", International Publishers, New York, 1973, p.210 cited in Tünay (1993).

¹⁸² Bob Jessop, "State theory: putting the Capitalist state in its place", Penn State Press, 1990, p.209.

Örsan Şenalp underlines that the 1990s were characterized with instability in political life, severe financial crisis and social resistance which disturbed the market opening process. In such an atmosphere of legitimacy crisis for the state, the Customs Union agreement with the EU resulted in the deepening of trade liberalization and the integration of the Turkish economy to the global markets.¹⁸³ Şenalp argues that even if the establishment of self-regulating financial system failed in the 1990s, the internationalization process went deeper in terms of social relations of production.¹⁸⁴ The way out of the hegemonic crisis which manifested itself in political and economic chaos in the 1990s required the imposition of a new nationwide project which would afterwards turn into a national passion. The absence of a strong state and the resultant obstruction of neoliberal reforms in the early 1990s were surmounted by this new project as it will be elaborated in the next chapter.

¹⁸³ Örsan Şenalp, “Transnationalization of Governance and Governance of Transnationalization”, MSc Thesis, Vrije Universiteit, August 2007, p.25.

¹⁸⁴ Ibid.

CHAPTER IV

DEBATES OVER THE CUSTOMS UNION: HOW THE AGREEMENT HAS BEEN MODIFIED AND WHAT IT HAS SIGNIFIED FOR DIFFERENT GROUPS

The 1990s began with significant discussions on EC's rejection of Turkey's full membership application and the Matutes package. It was remarkable that in the early 1990s, not only domestic producers and labor unions but also important state agencies were against the completion of an "incomplete" Customs Union.

4.1. Reactions to the EC's Rejection of Turkey's Membership Application

In January 1990, experts working for the Ministry of Foreign Affairs, the State Planning Organization (DPT) and the Minister of State, Ali Bozer, stated that the EC report on Turkey's application for full membership involved discriminatory items. Accordingly, the Commission suggested realizing a Customs Union between the EEC and Turkey in order to suppress tariffs for imports from the EC, which was not requested from any country before the realization of full membership. The experts underlined that Greece, Spain and Portugal accepted to remove tariffs on imports after a period of transition subsequent to membership.¹⁸⁵

In the Undersecretariat of Foreign Trade's publication entitled "the European Union and Turkey", it was emphasized that the Commission's report

¹⁸⁵ Milliyet, 11.01.1990, p.13, "AT Raporu tutarsız, çelişkili."

included problematic points. Accordingly, the report contradictorily suggested the completion of the Customs Union within the next period although it underlined that Turkish economy was not ready for the EEC membership.¹⁸⁶ The contradiction was that the realization of the Customs Union implies the satisfaction of the Copenhagen economic criteria which necessitated having a functioning market economy as well as the capacity to cope with competitive pressures and market forces within the Union.

In fact, at the beginning of the 1990s, the realization of the Customs Union was attached to the condition of full membership for the majority of Turkish industrialists and state agencies. However, this attitude was softened since for some groups, the prospect of a target date for full membership had been substituted for the expectation of full membership. The president of the İstanbul Chamber of Industry (ISO), Memduh Hacıoğlu, asserted in July 1990 that they could lean towards the realization of a Customs Union if a calendar for full membership would be decided.¹⁸⁷

In 1992, having inspired by the recent developments regarding the European Integration, Turkey launched a new initiative: “The Black Sea Economic Cooperation”. However, this initiative was not considered as an alternative to the European Community. In fact, this project had a complementary nature with the European Integration process since the main objective was to create a regional economic cooperation scheme between Bulgaria, Romania, Moldova, Ukraine, Russia, Georgia, Azerbaijan, Armenia and Turkey which would contribute to the political stability and the transition to market economies.¹⁸⁸ In this regard, the EC authorities made positive statements about the BSEC at the beginning of the 1990s, asserting that the project was not in contradiction with Turkey’s EC integration.¹⁸⁹ In fact, that kind of regional

¹⁸⁶ “*Avrupa Birliği ve Türkiye*”, Dış Ticaret Müsteşarlığı, Ekim 1999, Ankara, p.353.

¹⁸⁷ Milliyet, 17.07.1990, p.5, “*AT’a girmeden gümrükler inmesin.*”

¹⁸⁸ Ünal Çeviköz, “*European Integration and New Regional Cooperation Initiatives*”, NATO Review, No. 3, June 1992, Vol. 40, p. 25.

¹⁸⁹ Milliyet, 21.11.1990, p.6, “*Karadeniz Ekonomik Bölgesi’ne AT’dan olumlu bakış*”.

integration initiatives remained weak and ineffective in practice since Turkey had to proceed with the “national” objective of European integration supported by the military coup d’état and the 1980s liberalization movement.

On the other hand, in the wake of the collapse of the Soviet Union, Turkey and the Central Asian Turkic Republics had a reciprocal desire for economic cooperation. However, relations with those countries remained limited as well sharing the fate with other similar initiatives. Ziya Öniş asserted in 1995 that Turkey was likely to find herself “on the periphery of the broad European project, as a long-term associate member of the Union”¹⁹⁰ with other countries such as Romania and Poland¹⁹¹. Öniş underlined that the opportunity existed for Turkey “to develop its relations with a region on an equal partnership basis”, considering “the Black Sea Economic Cooperation Scheme and the emergence of independent republics in the former Soviet Central Asia”¹⁹².

4.2 The Standpoint of the Domestic Producers and Labor Unions

At the beginning of the 1990s, the local production groups were largely opposing the completion of a Customs Union with the EC before Turkey’s full membership. However, their voice could not be heard towards the signing of the agreement. In fact, the change of the president of the IKV was an important step in December 1992, when Sedat Aloğlu replaced Jak Kamhi. In fact, the dispute between Kamhi and ISO concerning the Customs Union was supposed to influence this decision. Jak Kamhi asserted several times that the Customs Union should not be realized before Turkey’s full membership and opposed unilateral concessions from Turkey maintaining that the EEC abstained from making concessions on its part.¹⁹³

¹⁹⁰ Ziya Öniş, “*Turkey in the Post – Cold War Era: In Search of Identity*”, Middle East Journal, 49:1, 1995 Winter, p.55.

¹⁹¹ In the year 2011, Turkey is still deprived of the EU full membership although Romania and Poland are full members of the EU respectively since 2007 and 2004.

¹⁹² Ziya Öniş, “*Turkey in the Post – Cold War Era: In Search of Identity*”, Middle East Journal, 49:1, 1995 Winter., p.57.

¹⁹³ Milliyet, 28.11.1990, p. 5, “*AT, Türkiye’yi ucuzca kapatmak istiyor.*”

On the other hand, in December 1992, the EC Ankara Representative Michael Lake made a statement to Turkish newspapers asserting that the EC was looking forward to the completion of the Customs Union with Turkey.¹⁹⁴ In November 1992, the World Bank experts prepared a report entitled “Competition Policies for Turkey”. Accordingly, it was argued that Turkey should unilaterally declare her willingness to complete the Customs Union with the EC in 1995.¹⁹⁵

It is remarkable that in the years 1992 and 1993 European authorities were more inclined to realize the Customs Union despite the opposition of Turkish capital groups, which were mostly local producers.

In January 1993, Selim Yaşar, a member of the Aegean Industrialists’ and Businessmen’s Association’s Board of Directors, stated that the EC was treating Turkey as a second-class state. According to Yaşar, Turkish industry was engaged to reduce tariffs on imports without getting any concessions from the EC concerning technical or financial assistance and freedom of movement.¹⁹⁶

On the other hand, Cem Duna, Turkish Representative to the EC asserted in June 1993 in a meeting organized by the TÜSİAD that the Customs Union with the EC was a historic opportunity for Turkey which would determine her future place in Europe. However, businessmen who attended the meeting were rather worried. Halis Komili, the president of the Komili Group, maintained that Turkish economy would pay the price and face irreparable damages if the Customs Union would be completed unless necessary measures would have been taken.¹⁹⁷

The dispute between the Sabancı Group and the Koç Group was a remarkable event which made the headlines in July and August 1993. İnan Kıraç, the president of the Koç Holding Company’s executive committee, maintained that the subsidiary industry would collapse if Turkey abolishes tariffs on imports.

¹⁹⁴ Milliyet, 20.12.1992, p.5, “AT, Gümrük Birliği’ni bekliyor.”

¹⁹⁵ Milliyet, 20.11.1992, p.5, Ayşen Gür, “Az gittik, uz gittik.”

¹⁹⁶ Milliyet, 06.01.1993, p. 11, Harun Gürek, “TÜSİAD’ın iki sıkıntısı”.

¹⁹⁷ Milliyet, 24.06.1993, p.7, “Gümrük Birliği Türkiye’nin Avrupa kapısında son şansıdır.”

In response to Özdemir Sabancı, who argued that Turkey was ready for the Customs Union, he underlined that the Sabancı Group was not industrialist and would become an importer company if the Customs Union would be completed.¹⁹⁸

In August 1993, Metin Toker wrote in his column that the polemic between the Sabancı Group and the Koç Group was beneficial in the sense that Turkish media brought into question the Customs Union issue which was very significant for Turkish economy.¹⁹⁹ However, the latter was not sufficient to trigger a comprehensive and significant debate on the possible effects of the Customs Union on Turkish economy and external relations of Turkey.

In May 1993 in a summit attended by TOBB, DEİK, YASED, İTO and İSO, the private sector representatives decided in principle to give the İKV the mandate to represent Turkish business world during the Customs Union process.²⁰⁰ Afterwards, the Turkish industrialists began to leave the determined negative attitude towards the Customs Union that had been assumed in the 1970s. In May 1995 in a meeting attended by the Minister of Foreign Affairs and the representatives of the İKV, İTO, İSO and TÜSIAD, the business world claimed that the government should act more quickly to complete the Customs Union. The capital representatives argued that they were continuing to support the CU despite the fact that they would have to face substantial damages.²⁰¹ In fact, mainly the business groups with foreign partners were supporting the completion of the Customs Union. In August 1995, the director generals of the Ciba-Geigy and Turkish Henkel and the press director of Renault Mais made all positive statements about the CU.²⁰²

¹⁹⁸ Milliyet, 31.07.1993, p.5, “*Koç Grubu en sert çıkışını yaptı.*”

¹⁹⁹ Milliyet, 06.08.1993, p.14, Metin Toker, “*İyi ki Koç ile Sabancı kapıştılar.*”

²⁰⁰ Milliyet, 04.05.1993, p.5, “*Gümrük Birliği için İKV’ye vize*”

²⁰¹ Milliyet, 07.05.1995, p.9, “*İş Dünyası: Gümrük Birliği İçin Hızlanın*”.

²⁰² Milliyet, 19.08.1995, p.19, “*Gümrük Birliği’ne Hazırlık Demek, Rasyonel Olmak Demek.*”

On the other hand, the president of the Turkish Agriculturalists Association, İbrahim Yetkin, stated in December 1995 that the economic effects of the Customs Union would not be as expected. He explained that government assistance to every agricultural firm in Europe was about USD 12000, whereas in Turkey this amount was about USD 230.²⁰³ Doğan Vardarlı, the Chairman of SETBİR (Union of Dairy, Beef, Food Industrialists and Producers of Turkey) also complained about the fact that Turkey suppressed all funds on agricultural products despite being excluded from the agriculture branch of the CU and not being able to take advantage of the related protection means.²⁰⁴

However, towards the signature of the agreement criticisms remained rather limited to those coming from some academicians, medium and small sized local producers and labor unions. In those days, TÜSİAD was considering the Customs Union Agreement as an important advantage on the way to the development miracle.²⁰⁵

In December 1995, the Hak-İş Trade Union Confederation published a survey according to which, 76% of the participants (workers and trade unionists) estimated that the unemployment rates would increase because of the Customs Union. Hüseyin Tanrıverdi, the vice-president of the Hak-İş asserted that the CU Agreement would rather serve the EU interests. Tanrıverdi underlined that Turkish SMEs (hiring 57% of the labor force) would not be able to compete in the EU market and unemployment would inevitably grow.²⁰⁶

Alparslar Ertürk, the secretary general of the Union of Chambers of Turkish Engineers and Architects, asserted in March 1995 that having entered into the CU without being a full member of the EU meant to admit any decision of the European capital without having a voice on it. Ertürk added that the competitive power of the Turkish industry would decrease and external trade

²⁰³ Cumhuriyet, 15.12.1995, p.9.

²⁰⁴ Cumhuriyet, 15.11.1995, p.7.

²⁰⁵ Cumhuriyet, 15.12.1995, p.9.

²⁰⁶ Cumhuriyet, 15.12.1995, p.9, "Gümrük Birliği'nin Kaygısı da İşçiye Düştü."

deficit would increase as a result of the CU Agreement.²⁰⁷ Şemsi Denizer, secretary general of the Türk-İş Trade Union, also affirmed that unemployment would increase and the labor peace in Turkey would be disturbed. Denizer maintained that an economic integration with the EU without having a voice in decision mechanisms would harm Turkey's economic interests.²⁰⁸

On the other hand, the Petrol-İş Trade Union published a research in April 1996, concluding that the CU represented a release not for the laborers and the poor but for the capital groups. The Petrol-İş underlined that in 1993 industrial workers' wages average was USD 2439 in the EU whereas it was only USD 420 in Turkey. Hourly earning of industrial workers was about 16.29 DM in the EU, but only 2.5 DM in Turkey. Similarly, the unionization rate was about 44% in the EU and only 12% in Turkey. The Petrol-İş research deduced that it would not be Turkey accessing to the EU but the inverse, since the EU was ignoring such issues.²⁰⁹ In August 1996, the Petrol-İş Trade Union prepared pamphlets explaining that the Customs Union would not bring out a new order but engender new problems for workers and the poor. It was underlined in the pamphlets that the Customs Union would offer unfavorable conditions for the low-income groups and workers though serving to the interests of big capital groups.²¹⁰

Meanwhile, big capital groups embraced the Customs Union even though they resisted any social reform in order to adopt the European social system. Rahmi Koç asserted in June 1995 that expectations for a social reform were unfounded on the eve of the Customs Union, since reforming the working conditions would lay a huge burden on Turkish industry and damage its competitive power.²¹¹ On the other hand, Feyyaz Berker, chairman of the Tekfen holding group and president of the TUSIAD's high advisory board, stated in

²⁰⁷ Yeni Yüzyıl, 07.03.1995, p.5.

²⁰⁸ Ibid.

²⁰⁹ Cumhuriyet, 08.04.1996, p.9, "Petrol-İş Sendikasının Araştırması: GB İşçiler ve Yoksullar değil, Sermaye Açısından Kurtuluş".

²¹⁰ Milliyet, 20.008.1996, p.6, "Fiyatlar Avrupalı, Ücret Türkiyeli".

²¹¹ Milliyet, 24.06.1995, p.7, "Üzüldüler ama Kızmadılar."

November 1995 that the Customs Union was a sacrifice on the way to the full membership. He told to the press: “I even don’t want to think about the consequences of being unable to be a full member of the EU.”²¹² However, as early as 19 November 1993, the BUSİAD, Industrialists and Businessmen Association of Bursa, indicated in a report on the Customs Union that full membership could only be a dream since the EU had considered the Customs Union as the last stop for Turkey.²¹³

4.3 Customs Union: A Step on the Path to Full Membership?

Thus, despite many criticisms, “the Customs Union” whose completion was attached to several conditions, turned into a crucial target for Turkey within a few years time in the first half of the 1990s. In the 1970s, the EEC integration as a whole was a question of debate in Turkey. In the early 1990s the question was whether Turkey should complete the Customs Union with EEC before the realization of full membership or not. More interestingly, towards the signing of the agreement in 1995 the question turned out to be “how Turkey could convince the EU to sign/approve the Customs Union Agreement?” The public opinion was manipulated in favor of the Customs Union which in the mean time became a prerequisite for Turkey’s EU membership.

Çınar Özen however emphasizes that the Commission’s report on Turkey’s membership application did not include in any part the assessment that the completion of the Customs Union would lead to the beginning of accession negotiations or that it would enable the realization of full membership.²¹⁴ Özen considers the Commission report issued in December 1989 as a document which put an end from the European point of view to discussions concerning Turkey’s full membership. According to Özen, after 1989, the EC’s purpose was to

²¹² Cumhuriyet, 21.11.1995, p.9, “AB’ye tam üye olamamanın sonuçlarını düşünmek bile istemiyorum.”

²¹³ Milliyet, 19.11.1993, p.5, “Gümrük Birliği’nden ötesi hayal.”

²¹⁴ Çınar Özen, “Türkiye – Avrupa Topluluğu Gümrük Birliği ve Tam Üyelik Süreci Üzerine Etkileri”, Ceylan Kitabevi, 2002, p. 123.

maintain relations with Turkey within the framework of the association relationship, distinct from full membership.²¹⁵

In December 1994 at the Essen Summit, the EU produced its “Strategy to prepare for the accession of the associated countries of Central and Eastern Europe”²¹⁶ These countries were referred as candidate countries who were preparing for full membership in the report of the European Council. However, Turkey was only mentioned under the “Mediterranean Policy” paragraph of the report. Accordingly, the Council had decided “to conclude the negotiations with Turkey on the completion and full implementation of the Customs Union and to reinforce the relations with this partner”.²¹⁷

In fact, this attitude of the EU became more evident in the following EU summits. At the Cannes Summit in June 1995, Turkey was mentioned within the same paragraph as Tunisia, Morocco, Israel, Egypt, Jordan and Lebanon. The Council simply welcomed “the closer ties between the European Union and Turkey”²¹⁸ and emphasized that the Union intended to “implement the Customs Union with Turkey as part of a developing relationship with that country”.²¹⁹

In the meantime, the real surprise for Turkey came out with the Luxembourg Summit which took place in December 1997 and which was very significant for the future of the Union. In this Summit, Turkey was clearly excluded from the envisaged enlargement process and “the European Strategy for Turkey” was handled under a separate title.²²⁰ In view of Turkish dissatisfaction with the stand adopted in the Summit, in December 1999, the Helsinki European Council granted Turkey with “candidate country” status. Çınar Özen emphasizes

²¹⁵ Ibid., p.124.

²¹⁶ University of Pittsburgh, Archive of European Integration, Essen European Council, p.20. http://aei.pitt.edu/1447/01/Essex_Dec_1994.pdf (access on 05.02.2011).

²¹⁷ Ibid., p. 27.

²¹⁸ University of Pittsburgh, Archive of European Integration, Cannes European Council, p.14 http://aei.pitt.edu/1446/01/cannes_june_1995.pdf (access on 05.02.2011).

²¹⁹ Ibid., p.10.

²²⁰ http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/032a0008.htm (Access on 09.02.2011).

that despite optimistic reactions in Turkey, this new candidate status did not differ greatly from the status achieved in 1989. According to Özen, the already acquired candidacy status of Turkey was taken in the Luxembourg Summit and given back in Helsinki.²²¹ The EEC/EU determined a strategy for Turkey which did not change ever since the adoption of the Matutes package at the beginning of the 1990s: “Customs Union + Cooperation issues”.²²²

It is remarkable that although the preamble of the Ankara Agreement provided clearly the aim to “facilitate the accession of Turkey to the Community”²²³, the 1/95 Customs Union Decision did not contain a single word about Turkey’s EU accession. In this regard, statements of the President of the European Parliament right after the approval of the Customs Union Agreement are noteworthy. Klaus Hansch asserted in December 1995 that the completion of the Customs Union did not change the EU’s decision in 1989 about Turkey’s full membership. Hansch underlined that the Customs Union was neither the final stop in EU–Turkey relations, nor a step towards Turkey’s full membership.²²⁴ Faruk Şen, the director of the “Zentrum für Türkeistudien” (Turkey Research Center) in Essen, stated that “the non-existence of the membership perspective in the Customs Union Agreement had been put down in the records of the EU”²²⁵. In March 1995, two days after the signing of the Customs Union Agreement, the *De Standaard* newspaper in Belgium noted that Turkey’s EU membership was not brought to the agenda of the Association Council and that it would probably not be possible to have this issue on the agenda in the near future.²²⁶

²²¹ Çınar Özen, “Türkiye – Avrupa Topluluğu Gümrük Birliği ve Tam Üyelik Süreci Üzerine Etkileri”, Ceylan Kitabevi, 2002, p. 131.

²²² Çınar Özen, “Türkiye – Avrupa Topluluğu Gümrük Birliği ve Tam Üyelik Süreci Üzerine Etkileri”, Ceylan Kitabevi, 2002, p. 150.

²²³ Ankara Agreement, Turkish Secreteriat General for EU Affairs, <http://www.abgs.gov.tr/index.php?p=117&l=2> (Access on 08.02.2011).

²²⁴ Milliyet, 25.12.1995, p.19, Ahmet Sever, “AP Başkanı: AB üyeliği zor”.

²²⁵ Cumhuriyet, 25.12.1995, p. 9, Özgür Ulusoy, “Tam Üyelik 3 Nalla Ata Kaldı”, “6 Mart anlaşmasında tam üyeliğin olmadığını ab kayıtlara geçirdi.”

²²⁶ Yeni Yüzyıl, 08.03.1995, p. 8.

Harun Arıkan considers the CU as a mechanism for the EU's "containment policy for Turkey" and points out the fact that the EU "avoided any direct reference to the effect of such an agreement (CU) on the possibility of Turkey's membership".²²⁷ Moreover, Arıkan underlines that "there [was] inconsistency between the EU's policy towards Turkey and its policy for the CEEC's". Contrary to the EU policy towards the CEEC's which was explicitly linked to their preparation for the EU's internal market, the EU policy towards Turkey lacked either "a clearly defined accession strategy" to support Turkey's preparation for the EU market, or "a sufficient financial and technical support to achieve this".²²⁸

Fernanda G. Nicola makes the same point and asserts that although the EU launches cross-border projects and pre-accession redistributive schemes in order to support the economies of its future members, Turkey was never provided with "access to such pre-accession financial aid or other forms of cooperation projects" despite the Customs Union.²²⁹

Mehmet Uğur developed a different approach on the issue by arguing that the EU's failure to underwrite part of the risks associated with Turkey's convergence or failure to converge with European standards have generated an anchor/credibility dilemma which produced a peculiar result: Turkey became economically more integrated with, yet politically more detached from the EU when compared with the associated countries of Central and Eastern Europe which are EU member states at present.²³⁰

²²⁷ Harun Arıkan, "Turkey and the EU – An Awkward Candidate for EU Membership?", Ashgate Publishing Limited, 2003, p.81.

²²⁸ Harun Arıkan, "Turkey and the EU – An Awkward Candidate for EU Membership?", Ashgate Publishing Limited, 2003, p.101.

²²⁹ Fernanda G. Nicola, "Promises of Accession: Reassessing the Trade Relationship Between Turkey and the European Union", *American University International Law Review*, ISSN 1520-460X, Vol. 24, Issue 4, 2009, p. 753

²³⁰ Mehmet Uğur, "Avrupa Birliği ve Türkiye, Bir Dayanak/İnandırıcılık İkilemi", Everest Yayınları, Eylül 2000, p.101.

Michael Lake, the EU's Ambassador to Turkey stated to the International Herald Tribune in 1997;

*“The Customs Union created misconceptions on both sides. The European side felt that Turkey would be preoccupied with making it work and not press for full membership for the time being, while Turkey had the misconception that the Customs Union was a stepping stone towards full membership in the next year or two.”*²³¹

At the end of 1996, when the Turkish side began complaining about the negative effects of the Customs Union and the exclusion of Turkey from the enlargement process, Martin Schulz, a member of the Social Democratic Party of Germany and of the European Parliament, made a striking statement. Schulz asserted that nobody within the EU had considered the Customs Union as a step for full membership. According to Schulz, the latter was either Turkey's own perception or a way of distorting the public opinion.²³²

4.4 What was told to the Public?

On the other hand, in March 1995, Turkish newspapers announced the signing of the 1/95 decision with enthusiastic headlines: “We are Europeans now”²³³, “The signature which has ushered a new era”²³⁴, “The most important step on the path to full membership”²³⁵, “A dream of 100 years”²³⁶. In fact, according to a survey conducted by Piar Gallup in 1995, 65% of Turkish people were supporting the completion of the Customs Union with the EU²³⁷. However, 45% of them expressed a positive opinion just because they thought they would be able to buy high-quality products cheaply.²³⁸ The Turkish public was not

²³¹ International Herald Tribune, 24.02.1997, cited in Harun Arıkan, “Turkey and the EU – An Awkward Candidate for EU Membership?”, Ashgate Publishing Limited, 2003, p.82.

²³² Milliyet, 10.12.1996, p.6, Ahmet Sever, “Retçilerden Acı Sözler”.

²³³ Sabah, 05.03.1995, “Artık Avrupalıyız.”

²³⁴ Hurriyet, 08.03.1995, “Çağ açan imza.”

²³⁵ Hurriyet, 08.03.1995, Subtitle, “AB’ye tam üyeliği sağlayacak en önemli adım”

²³⁶ Hurriyet, 06.03.1995, “100 yıllık rüya”.

²³⁷ Milliyet, 02.06.1995, p.1, “İşte referandum!”.

²³⁸ Milliyet, 02.06.1995, p.16.

aware of the fact that they would pay the loss of tax to the customs. A number of resolutions including the increase of the consumption tax on fuel-oil and the rise of the VAT on motor vehicles were promulgated in the Official Gazette on 30.12.1995. The elimination of customs duties on imports were compensated by significant increases on consumption taxes. For instance, taxes on gasoline were increased from %85 to 190% and taxes on heating oil were increased from 25% to 45%.²³⁹ Moreover, the special consumption tax was levied not only on imported but also on domestic products since the EU regulations did not allow tax discrimination against foreign products. Besides the levying of additional taxes, price hikes also negatively affected consumers' budget since price determination by the government was not allowed under the Customs Union. At the beginning of 1996, bread prices raised twice within 38 days, using the CU as an excuse. The price of bread increased from 7.500 TL on July 1st, 1995 to 13.000 TL on January 10th, 1996.²⁴⁰

In January 1996, the Undersecretariat of Foreign Trade published a list of the commodities which would be sold at lower prices due to the CU effect. Accordingly, prices of fancy goods such as billiards tables, hunting rifles, blank firing guns, ornamental fishes and wigs would be decreased but prices of domestic appliances and automotive products would not be affected even if the special consumption tax was ignored.²⁴¹

On the other hand, Rıdvan Budak, the president of DİSK stated in March 1996 that the CU was the first step towards the European social model. Budak asserted that the CU meant insurance to workers and would not obstruct unionization.²⁴²

Actually, that kind of misinformation was widely circulated in those years in order to convince the public that they would benefit from decreasing prices,

²³⁹ Official Gazette, 13.01.1996, Res. No. 95/7688.

²⁴⁰ Milliyet, 09.01.1996, p.7, Perihan Çakırloğlu, "İstanbul'da ekmek 13.000 lira."

²⁴¹ Milliyet, 06.01.1996, p.7, Şule Yücebıyık, "Avrupa'nın İvır Zıvır Ucuzluğu".

²⁴² Milliyet, 13.03.1996, p.20, Yavuz Baydar, "Çare Sosyal Devlet".

employment opportunities and other EU citizenship rights in the short term. The IKV published several notices on popular newspapers in order to inform the public about the Customs Union Agreement. It was argued in the notices that the Ankara Agreement constituted the most important agreement in the history of the Turkish Republic after the Lausanne²⁴³. The IKV told to Turkish people in a childish tone that if the Customs Union would not be completed in time, Turkey's "opponents" would be happy and would claim that Turkey was not yet a contemporary civilized country.²⁴⁴ In the days subsequent to the signing of the Customs Union Agreement, the stock market broke record after record²⁴⁵. Politicians and bureaucrats²⁴⁶ competed for recognition as the "conqueror of the Customs Union",²⁴⁷ especially after the European Parliament's approval of the Agreement.

It was remarkable that even the Religious Affairs Administration gave support to the signing of the Agreement. Dr. Niyazi Kahveci, an expert working for the Religious Affairs Administration, stated in 1994 that "practices such as the Customs Union are based on the views of Omer, the Caliph" and that the Customs Union was appropriate to their understanding of economics.²⁴⁸

Tansu Çiller also incorporated a religious aspect into her propaganda and asserted in October 1995 that Turkey would "join the Customs Union with the sound of Azan, rising skyward".²⁴⁹ On the other hand, the Wall Street Journal wrote in December 1995 that Çiller was using the Customs Union for her electoral campaign in order to come to power again.²⁵⁰ Actually, in July 1995

²⁴³ Milliyet, 10.05.1995, p.4, "Avrupa Birliği'ne Doğru".

²⁴⁴ Milliyet, 02.08.1995, p.6, "Türkiye'nin Tercih: Avrupa Birliği".

²⁴⁵ Milliyet, 12.03.1995, p.10, "Borsa Ezdi Geçti."

²⁴⁶ Milliyet, 07.11.1995, p.11, "GB'de Bürokratların İmzası Var."

²⁴⁷ Cumhuriyet, 15.12.1995, p.7, "Ortaklar Gümrük Birliği'ni Paylaşmıyor."

²⁴⁸ Milliyet, 24.09.1994, p.9, "Gümrük Birliği Hz. Ömer'e dayanıyor."

²⁴⁹ Cumhuriyet, 11.10.1995, p.1, "Çiller: Türkiye Gümrük Birliği'ne semalara yükselen ezanıyla girecek."

²⁵⁰ Hurriyet, 17.12.1995, p.1, Esen Ünür, "Wall Street Journal: Çiller Gümrük Birliği'ni yeniden iktidar olabilmek için seçim malzemesi olarak kullanıyor."

Çiller asserted in a meeting of the İKV General Assembly that the Customs Union would prevent a regime shift in Turkey²⁵¹. This claim was part of the DYP's political propaganda for the 1995 general elections.

However, Abdullah Gül, by then an MP of the Welfare Party²⁵², made a speech in the Parliament on 8 March 1995 and harshly criticized the CU Agreement. Gül stated that the Agreement went beyond a simple Customs Union issue, and that Turkey was “placed in a shanty in the backyard of the EU's chalet.”²⁵³ Gül added that although the Agreement referred to a crucial decision, the text of the Agreement was not circulated to the parliamentary panels and political parties who had to procure the Agreement from other sources.²⁵⁴ Gül maintained that the latter was led by the fact that “the government did not want to inform the public about the content of such an unbalanced and unfavorable Agreement”.²⁵⁵

4.5 European Parliament's Approval of the 1/95 Decision and Legal Discussions on the Issue

The Customs Union Agreement was signed on 6 March 1995 and approved by the European Parliament on 13 December 1995. However, the Customs Union Agreement was considered by the Turkish authorities as a decision of the “Association Council” established by an international agreement recognized by the EU and Turkey (the Ankara Agreement), and thus it was neither approved by Turkish Assembly nor ratified by the President. As a consequence, it was not published in the Official Gazette.

²⁵¹ Milliyet, 01.07.1995, “*GB rejim değişikliğini engeller.*”

²⁵² Then the 11th President of the Republic of Turkey.

²⁵³ Proceedings of the Turkish Grand National Assembly, http://www.tbmm.gov.tr/develop/owa/Tutanak_B_SD.birlesim_baslangic?P4=618&P5=T&page1=62&page2=62 (Access on 15.04.2011).

²⁵⁴ Proceedings of the Turkish Grand National Assembly http://www.tbmm.gov.tr/develop/owa/Tutanak_B_SD.birlesim_baslangic?P4=618&P5=T&page1=65&page2=65 (Access on 15.04.2011).

²⁵⁵ Ibid.

However, Kemal Başlar maintains that granting the Association Council with such a power (to sign such a comprehensive text without the consent of the Parliament) was against the principle of “non delegation of legislative power” in the Article 7 of Turkish Constitution. According to Başlar, the 1/95 decision was an unconstitutional document which must be declared as null and invalid.²⁵⁶ Moreover, given that the decision had an economic and commercial character and concern rights of private persons, it should have been published in the Official Gazette. Thus, what was done violated the Article 90 of the Turkish Constitution (about the signing and implementation of international agreements).²⁵⁷

Paradoxically, the 1/95 Decision of 6 March 1995, was issued by the EU as a “draft decision” which should be consulted by the European Parliament in order to give its assent.²⁵⁸ Sevin Toluner suggests that, as a consequence, the decision was considered by the European Union as a new international agreement.²⁵⁹ Nilgün Arisan shares the same point of view and emphasizes that the CU Agreement can not be considered as a binding decision of the EU-Turkey Association Council since it has introduced new engagements for Turkey.²⁶⁰ Erol Manisalı also agrees that the approval of the 1/95 Decision by the European Parliament exposed the fact that the EU considered this decision as an international agreement; which was a very significant step since it was the first time an Association Council decision went through the European Parliament.²⁶¹ In fact, the 1/95 Association Council Decision was not the natural outgrowth of the process which had begun in 1963 and the EU preferred to consolidate its gain via the approval of the European Parliament.

²⁵⁶ Kemal Başlar, “Gümrük Birliği Anlaşması’nın Hukuksal Niteliği”, Ankara Avrupa Çalışmaları Dergisi, Vol. 4/1, 2004, p.12.

²⁵⁷ Ibid.

²⁵⁸ Sevin Toluner, “Türkiye’nin Bazı Dış Politika Sorunları”, Beta Yayınları, Eylül 2004, p. 131.

²⁵⁹ Sevin Toluner, “Türkiye’nin Bazı Dış Politika Sorunları”, Beta Yayınları, Eylül 2004, p. 132.

²⁶⁰ Nilgün Arisan, Interview on March 2011.

²⁶¹ Ali Tarhan, “Avrupa ile Geçmişte ve Gelecekte Bütünleşme Semineri”, 10-14 Nisan 2000, TCMB İnsan Kaynakları Genel Müdürlüğü – Eğitim Müdürlüğü, Ankara, 2000, p.99.

Harun Arıkan also points out the fact that the content of the Customs Union showed clearly how “the agreement amount[ed] to less than what the original Ankara Agreement envisaged”. According to Arıkan, “the Customs Union [was] limited in the sense that Turkey [was] excluded from some of the crucial aspects of the EU’s single market” such as the areas of agriculture, services and free movement of persons, “which [were] all components of the European single market...”²⁶² In this regard, it might be possible to argue that the Customs Union Agreement broke the link established by the Ankara Agreement.

Claudia Roth, the President of the Green Group in the European Parliament asserted in 1995 in a statement to the German Tageszeitung newspaper that she had argued against the signing the Customs Union Agreement with Turkey. However, the Commission of External Relations had told her that she should not raise her voice since it would be hard to make Turkey sign such an advantageous agreement for the EU in the future.²⁶³ Daniel Cohn-Bendit, a German politician and a member of the European Parliament, affirmed in 1995 that the Customs Union was a “bad present” for Turkey since she would not be able to make use of the political facilities of the Union although she would suffer economically.²⁶⁴ Before the approval of the Agreement in the European Parliament, European industrialists engaged in lobbying activities before the EU governments. Helmut Oswald Maucher, who served as the Chairman and Chief Executive Officer of Nestlé SA from June 1990 to 1997, asserted in 1995 that the industrialists of the European Round Table (ERT) esteemed that the completion of the Customs Union for Turkey would be beneficial in order to increase Europe’s competitive power.²⁶⁵

It is remarkable that the EU’s political demands multiplied and became prominent after the signing of the 1/95 decision by Turkey. Although the EU

²⁶² Harun Arıkan, “Turkey and the EU – An Awkward Candidate for EU Membership?”, Ashgate Publishing Limited, 2003, p.85.

²⁶³ Cumhuriyet, 15.12.1995, p.19, cited in Mustafa Balbay’s column.

²⁶⁴ Cumhuriyet, 13.12.1995, p.6, “Türkiye ekonomik çok yaşayacak.”

²⁶⁵ Cumhuriyet, 29.04.1995, p.9, “Avrupalı Sanayicilerin Türkiye Lobisi”.

authorities were very determined to complete the Customs Union, the period between the signing and the approval of the Agreement witnessed a lot of political pressure from the EU towards Turkey. Although the Customs Union Agreement involved considerable responsibilities for Turkey in return for the simple removal of quotas on Turkish textile and clothing products, the European authorities tactically adopted a reluctant attitude towards the completion of the Customs Union at the end of 1994. They stipulated several conditions regarding Turkey's legal system and terror problem to approve the Agreement in the European Parliament. Within this period, the unwillingness of the EU strengthened the perception of the Customs Union as a key agreement for "Europeanization" in the eyes of the public opinion in Turkey.

In September 1995, Carnero Gonzales, the EU rapporteur on Turkey, made a visit to Ankara. Gonzales made a statement to the press and underlined that the imprisoned DEP deputies should be released and the Article 8 of the Turkish anti-terror law should be amended for the approval of the Customs Union.²⁶⁶ In March 1995, Turkey launched a cross-border operation into northern Iraq to hit the bases of the outlawed PKK terrorist organization. The operation was reprimanded by the European Parliament, and Alain Juppé, the President-in-office of the Council of the EU, stated that the operation could endanger the completion of the Customs Union.²⁶⁷ Similarly, Klaus Hansch, the European Parliament's President, asserted in March 1995 that improvements on the subject of human rights were required from Turkey for the approval of the CU Agreement.²⁶⁸ Rıdvan Karluk underlines that there was no linkage between the completion of the Customs Union and issues like democratization and human rights and that the interference in internal affairs of Turkey would continue unless Turkey reacted.²⁶⁹

²⁶⁶ Milliyet, 15.09.1995, p.19, "Gümrük Birliği için Üç Şart".

²⁶⁷ Cumhuriyet, 24.03.1995, p.1, "Kuzey Irak Harekâtı Gümrük Birliği'ni Tehlikeye Sokabilir."

²⁶⁸ Milliyet, 08.03.1995, p.17, "AP Başkanı: Olumlu Sinyaller Bekliyoruz."

²⁶⁹ Rıdvan Karluk, "Avrupa Birliği ve Türkiye", İstanbul Menkul Kıymetler Borsası, 1996, p.403.

The European Commission submitted a report for European Parliamentarians' information on the eve of the voting for the Customs Union Agreement. The report notified that the EU acquired significant economic and political concessions from Turkey. Moreover, according to the report, the removal of textile quotas would not be disadvantageous for the EU since Turkey would have to make export restriction agreements with more than 50 countries and thus the EU would be protected from low-cost trade.²⁷⁰

In December 1995, right after the approval of the CU Agreement in the European Parliament, Jacques Santer, the President of the European Commission, attended a popular political TV programme (32.gün) in Turkey. Santer stated that the Customs Union Agreement could not be subject to renegotiation since continuity was important in international relations.²⁷¹

In fact, the EU member states had never been against the signing/approval of the 1/95 Decision. However, after the signing of the Agreement by Turkey, they took a hesitant stand and became much more demanding. This strengthened Turkish politicians' ongoing efforts to promote the Customs Union as a national victory.

Philip Robins underlines that “[f]rom the beginning of 1995, the EP started to come under tremendous pressure from the Commission and member states to adopt the Customs Union. Euro MPs were subject to an intensive campaign which carried both personal inducements and the threat of institutional penalties...The Commission also initiated a vigorous media campaign in the EU in support of the CU...the arguments ...were that the CU was in the EU's best material interests and the EU's leverage over Ankara in the area of human rights

²⁷⁰ Cumhuriyet, 23.12.1995, p.9, Özgür Ulusoy, “Gümrük Birliği'nin Karanlık Yüzü”.

²⁷¹ Cumhuriyet, 19.12.1995, p.9.

could only be sustained if there was a successful conclusion to the Customs Union.”²⁷²

Moutos and Adam maintain that there was no apparent lack of political support from the European side for the EU–Turkey Customs Union. They conclude that “the main beneficiaries of the EU–Turkey Customs Union (mainly but not exclusively the firms in the North of the EU) had already reaped most of the benefits due to the preferential access that the CU afforded to their products”²⁷³. As a consequence, the technologically sophisticated countries would probably “see no significant further benefits from Turkey’s full accession to the EU”²⁷⁴.

In 1996, Eric Route, France’s ambassador to Turkey, stated that Turkey gave important concessions in order to sign an unfair agreement. According to Route, Tansu Çiller could not dare to negotiate since she was concerned about the incoming elections. Route underlined that the EU needed a market and abundantly obtained what had been desired.²⁷⁵

4.6 Economic and Political Impact of the Customs Union

There is a broad literature in economics about the trade effects of the Customs Union on Turkish and European economies. Despite the existence of evaluations deducing some partial benefits for Turkey, there is a general consent among academics that the overall consequences of the 1/95 Decision have been to the detriment of Turkey.

Ziya Öniş maintains that from a purely economic point of view, the rational strategy for Turkey in the post-Cold War era would be to optimize the

²⁷² Philip Robins, “More Apparent than Real? The Impact of the Kurdish Issue on EU-Turkish Relations”, *The Kurdish Nationalist Movement in the 1990s* edited by Robert Olson, The University Press of Kentucky, 1996, p.128.

²⁷³ Antonis Adam and Thomas Moutos, “Turkish Delight for Some, Cold Turkey for Others? The Effects of the EU-Turkey Customs Union”, CESifo Working Paper No.1550, 2005, p.31.

²⁷⁴ *Ibid.*, p.1.

²⁷⁵ Anıl Çeçen, “Türkiye’nin Avrupa Macerası”, Fark Yayınları, Ankara, Ocak 2008, p.421.

*“benefits of geographic location by developing close relations with all the major blocs that Turkey interacts with, without necessarily developing a complete economic and political union with any particular bloc”*²⁷⁶ According to Öniş, Turkey’s EU accession was neither a necessary nor sufficient condition for attaining economic development.²⁷⁷ In 1996, Öniş asserted that the Customs Union was the worst option for Turkey’s integration to the EU, and Turkey had lost her autonomy on trade policy.²⁷⁸

In October 1995, 46 professors from 8 different universities published a memorandum on the 1/95 decision.²⁷⁹ According to this memorandum:

- The Customs Union decision was not a result of the Ankara Agreement since what was scheduled for 1995 was full membership. Turkey should have signed a free trade agreement with the EU in the case of non existence of full membership.

- In the Essen Summit in 1994, the EU had already declared its future members and Turkey was excluded from the enlargement process.

- Turkey was deprived of her autonomy on trade regime and the Customs Union Agreement restricted Turkey’s economic relations with third countries.

- The agreement was unbalanced and included single-sided commitments from Turkey which would cause serious problems in the future relations. The 16th article and articles from 53 to 64 were impossible to be implemented by Turkey.

- Turkey had assumed responsibilities of a member state without being provided with full membership rights. Moreover, she had to recognize the priority of EU law above the Turkish laws in spite of being completely excluded from the law-making process.

²⁷⁶ Ziya Öniş, *“Turkey in the Post – Cold War Era: In Search of Identity”*, Middle East Journal, 49:1, 1995 Winter, p.48.

²⁷⁷ Ibid.

²⁷⁸ Milliyet, 19.06.1996, p.22, Şahin Alpay-Nilüfer Kuyaş, “Globalleşmenin Fırsatlarını Kullanalım.”

²⁷⁹ Milliyet, 24.10.1995, p.7, Zehra Güngör, “Birliğe, Akademik Muhtıra”.

In December 1995, Yahya Sezai Tezel commented that “for the first time in history, a state agreed with its free will to be subject to the political will of an inter/supranational body from which it [was] excluded.”²⁸⁰ In fact, the point made by Tezel corresponds to the most problematic feature of the Customs Union Agreement which was persistently criticised by many academics such as Manisalı, Karluk, Toluner and Başlar.

Erol Manisalı asserted in 1996 that the approval of the 1/95 Decision by the European Parliament would lead to the removal of quotas on Turkish textile products and a financial contribution from the EU of about 3.2 billion dollars within 5 years, most of this amount being in the form of credits. Yet, the price paid by Turkey in return for these minor concessions was irredeemable.²⁸¹ According to Manisalı, the 16th article of the CU Agreement dictated the scope of Turkey’s external relations.²⁸² The first paragraph of the Article 16 provided; “With a view to harmonizing its commercial policy with that of the Community, Turkey shall align itself progressively with the preferential customs regime of the Community within five years as from the date of entry into force of this Decision. This alignment will concern both the autonomous regimes and preferential agreements with third countries. ... The Association Council shall periodically review the progress made.” The Article 54 of the Agreement determined laws which would be enacted by Turkish Assembly²⁸³ providing that “[I]n areas of direct relevance to the operations of the Customs Union ... Turkish legislation shall be harmonized as far as possible with Community legislation.”

Moreover, the Article 64 (66) states that “The provisions of this Decision ... shall be interpreted for the purposes of their implementation and application to products covered by the Customs Union, in conformity with the relevant

²⁸⁰ Milliyet, 14.12.1995, p.22, “Gümrük Birliği’nin Sonrası Daha Önemli”, “*Tarihte ilk kez bir devlet, içinde bulunmadığı bir devletlerarası ve devletlerüstü varlığın siyasi iradesine tabi olmayı kendi özgür seçimiyle kabul etmektedir.*”

²⁸¹ Erol Manisalı, “Gümrük Birliği’nin Siyasal ve Ekonomik Bedeli”, Bağlam Yayınları, Ocak 1996, p.65.

²⁸² Ibid. p.66.

²⁸³ Ibid. p.66.

decisions of the Court of Justice of the European Communities.” Accordingly, Turkey should adhere to the rulings of the European Court of Justice which was composed of judges from EU member states who represented EU’s national legal systems.²⁸⁴ According to Manisalı, the CU Agreement was problematic because the Customs Union was not a separate body but a component of the EU as a whole. The latter entailed Turkey’s subordination to the EU policies on a large spectrum of policy areas including trade, economy, military, political and legal affairs. Manisalı concluded that the system build by the 6 March Agreement was unbalanced and single-sided since Turkey was supposed to implement decisions taken by a decision-making body from which she was excluded.²⁸⁵ Aylin Ege also concludes that the non-achievement of the full membership and the continuation of the existing Customs Union regime would be excessively bounding for Turkey’s relations with the third countries.

On the other hand, Ümit Özdağ maintains that from the perspective of international law, the Customs Union Agreement brought Turkey into a new kind of colonial relationship.²⁸⁶ According to Özdağ, the CU Agreement constituted a concrete example of the “voluntary and cooperative imperialism”²⁸⁷ described by Robert Cooper, a senior British diplomat²⁸⁸. Anıl Çeçen shares with Özdağ the view that the Customs Union Agreement led Turkey into a colony status regarding its relations with the EU.²⁸⁹ Çeçen considers the CU as an imperialist practice of the EU which was an important anchor with the IMF and World Bank in the implementation of neoliberal policies in Turkey.²⁹⁰

²⁸⁴ http://europa.eu/institutions/inst/justice/index_en.htm (access on 28.02.11).

²⁸⁵ Erol Manisalı, “Gümrük Birliği’nin Siyasal ve Ekonomik Bedeli”, Bağlam Yayınları, Ocak 1996, p.71.

²⁸⁶ Ümit Özdağ, “Türkiye – Avrupa Birliği İlişkileri”, ASAM Yayınları, Ağustos 2003, p.89.

²⁸⁷ The Observer, 07.04.2002, “The New Liberal Imperialism”
<http://observer.guardian.co.uk/worldview/story/0,11581,680117,00.html> (Access on 01.03.11).

²⁸⁸ Robert Cooper is also Tony Blair's foreign policy guru. His article is based on the belief that a new colonialism can save the world.

²⁸⁹ Anıl Çeçen, “Türkiye’nin Avrupa Macerası”, Fark Yayınları, Ankara, Ocak 2008, p.330.

²⁹⁰ Ibid., p. 276.

The DPT prepared in June 1994 a report entitled “An Assessment of the Situation Regarding the Relations between Turkey and the European Community”²⁹¹. The report provided a short summary of the EU-Turkey relations and made reference to the recent developments. The 5th chapter of the report was concerned with the “problematic issues” in the current relations. The first part of this chapter was allotted to the critique of Turkey’s commitments arising from the CU Agreement. The DPT maintained in its report that the adoption of the EU legislation by Turkey was a considerably problematic issue unless Turkey would be a full member of the EU. According to the report, not only such a commitment did not exist in the Association Agreements, it would also restrain the legislative power of the TBMM. Moreover, another controversial point referred to the fact that Turkey should adhere to the rulings of the European Court of Justice regarding the interpretation of the EU legislation which would be adopted by Turkish domestic law.

The second part of the 5th chapter dealt with the EU’s unfulfilled commitments. Accordingly, since 1980 the EU had ignored its financial engagements towards Turkey although some Mediterranean countries having preferential trade agreements with the EU had received significant monetary assistance. On the other hand, the 36th article of the Additional Protocol providing for the free movement of workers was not put into practice.

The report also criticized the proliferation of non tariff barriers to Turkish exports such as the voluntary export restraint agreements and anti-dumping investigations despite the increasing concessions given to some Mediterranean and East European countries. The most striking point made in the report was the ambiguity about Turkey’s accession to the EU and the exclusion of Turkey from the decision making mechanisms which would directly affect her trade regime, economic policies and legal infrastructure.

²⁹¹ Erol Manisalı, “Hayatım Avrupa 2 - Askeri Darbeden Sivil Darbeye”, Cumhuriyet Kitapları, 2009, pp.219-235.

The DPT report criticized the Customs Union in an objective and diplomatic manner. However, the Turkish public remained largely unaware of the existence of such a report. The *Gözlem* newspaper wrote in December 12th, 1994 that the DPT report was shelved, apparently because the government authorities did not like its findings.²⁹²

Analyzing the economic effects of the Customs Union is a very complicated task since there are other factors contributing to the evolution of trade statistics or any other data. However, various scholars share the view that liberalization of trade between unequal partners would lead to substantial negative development outcomes.

Marina Lohrmann suggests that the Customs Union has had an important impact on Turkish economy and influenced the long-term economic development of the country by affecting the production structure.²⁹³ According to Lohrmann, although there has been a significant growth in trade between the EU and Turkey since 1995, Turkish exports have not increased as much as the imports from the EU. The latter has resulted in a rising Turkish trade deficit after the establishment of the Customs Union.²⁹⁴

In fact, in 2010, Turkey's annual foreign trade deficit exceeded USD 71 billion and the proportion of imports covered by exports remained at 61%.²⁹⁵ This proportion was above 100% in 1930s and 40s and 78% in 1994.²⁹⁶ The first graph below shows the evolution of Turkish trade deficit since the year 1996, when the Customs Union Agreement was put into practice.

²⁹² *Gözlem*, 12.31.1994, "DPT Raporu Hasıraltı Edildi" cited in Erol Manisalı, "Hayatım Avrupa 2 - Askeri Darbeden Sivil Darbeye", Cumhuriyet Kitapları, 2009, p.171.

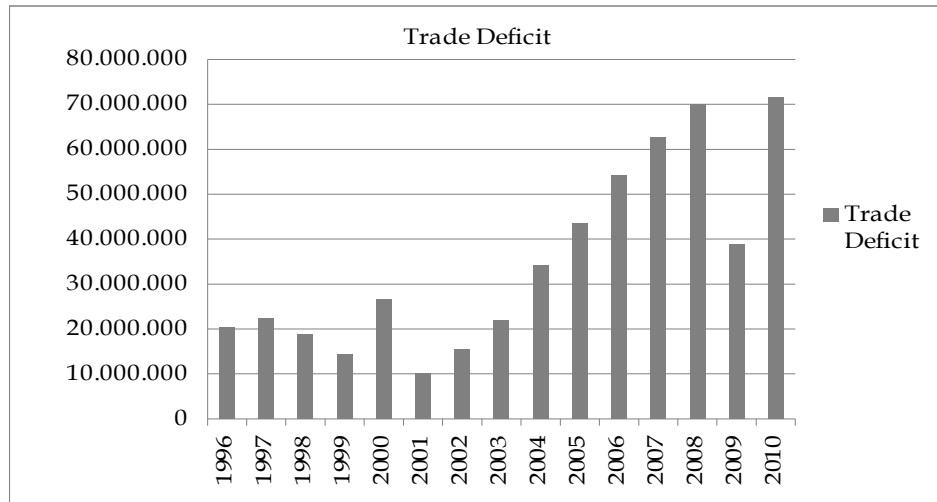
²⁹³ Astrid – Marina Lohrmann, "Development Effects of the Customs Union between Turkey and the European Union: Catching-Up--Or the Heckscher-Ohlin Trap?" *Russian and East European Finance and Trade*, July-August 2000, v. 36, iss. 4, p.26.

²⁹⁴ *Ibid.*, p.30, p.31.

²⁹⁵ Turkish Statistical Institute, http://www.turkstat.gov.tr/VeriBilgi.do?tb_id=12&ust_id=4 (Access on 10.03.2011).

²⁹⁶ *Ibid.*

Table 8: Turkish Trade Deficit (1996-2010)

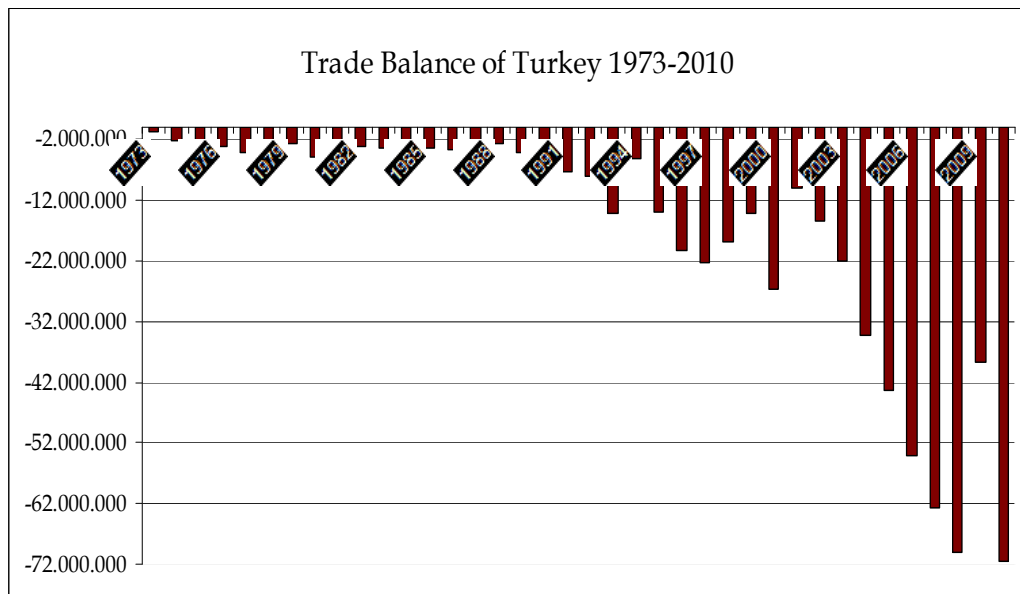


The relative improvement of the trade balance in 2001 and 2009 can be explained by the effect of the economic crisis.

The second graph shows the trade deficit of Turkey between the years 1973 and 2010, which allows to differentiate the trend before and after the Customs Union.

Table 9: Trade Balance of Turkey (1973 – 2010)

Data Source: www.turkstat.gov.tr



Lohrmann asserts that especially the textile sector producers were hopeful of raising their exports since textiles and clothing products were suffering EU restrictions after 1971. Nevertheless, the expectations of the Turkish clothing industry were too high given that “even before the Customs Union Turkish clothing exports did not fulfil the quotas”²⁹⁷.

Lohrmann maintains that as a result of the Customs Union, labor-intensive sectors have lost their importance, whereas capital-intensive sectors have enhanced their position.²⁹⁸ Nonetheless, she underlines that “all the positive outcomes have only appeared in the private sector. The public sector has suffered from declining production and declining employment.”²⁹⁹

Lohrmann concludes that in the Customs Union, “we have the case that imports from Europe rose enormously, but exports did not”³⁰⁰. Moreover, “Turkey’s revealed comparative advantage towards the European Union in travel goods, clothing and especially footwear has realized a big decline”.³⁰¹ On the other side, the EU-27 has an increasing trade deficit which had reached a level of 105.5 billion Euros in 2008.

²⁹⁷ Astrid – Marina Lohrmann, “Development Effects of the Customs Union between Turkey and the European Union: Catching-Up--Or the Heckscher-Ohlin Trap?” *Russian and East European Finance and Trade*, July-August 2000, v. 36, iss. 4, p.30.

²⁹⁸ *Ibid.*, p.37.

²⁹⁹ *Ibid.*, p.38.

³⁰⁰ *Ibid.*, p.33.

³⁰¹ *Ibid.*, p.33.

Table 10: EU's Trade with the World

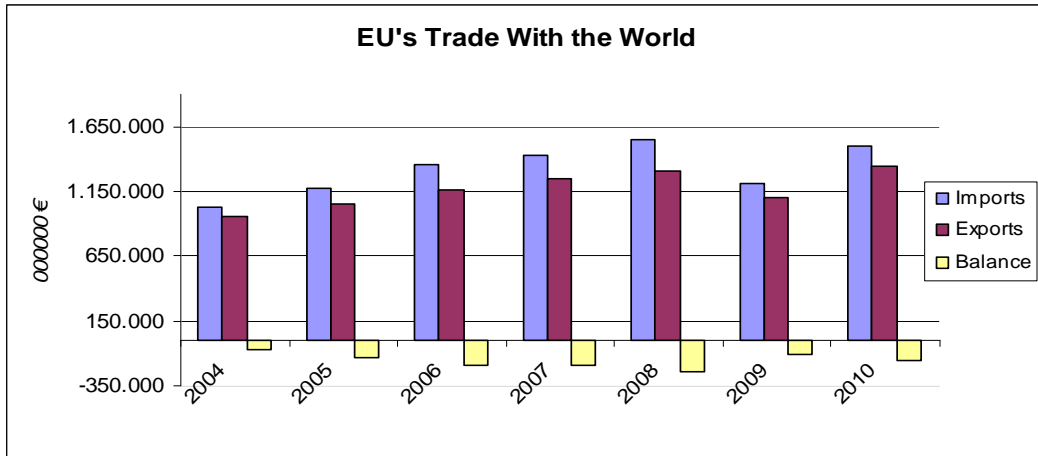
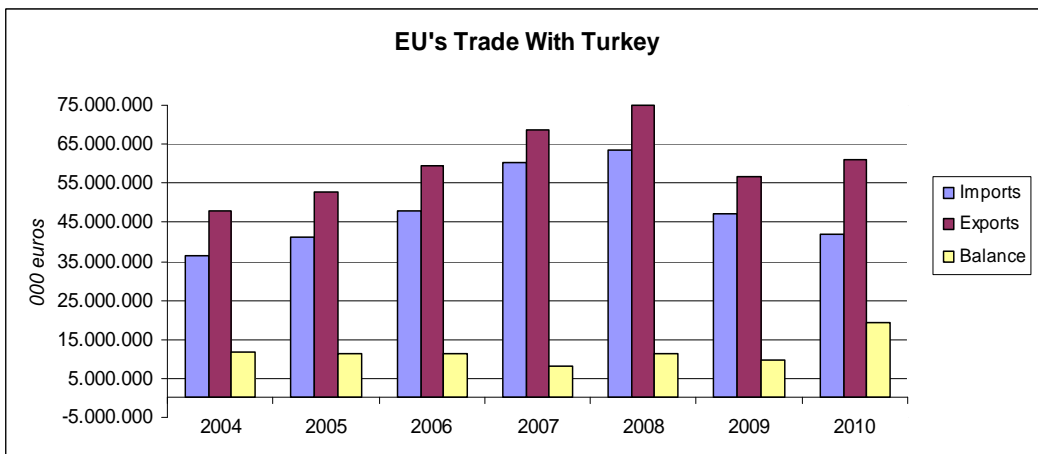


Table 11: EU's Trade with Turkey



The EU has run trade surpluses in its trade with Turkey, amounting to EUR 19 billion in 2010. This point has also been envisaged in the report prepared by the DPT. In the 6th and final chapter of the report, the fact that Turkey's imports from the EU have been growing at a faster pace than its exports to the EU, was underlined. According to the report, in 1993 the EU recorded a surplus

of USD 5.6 billion in its trade with Turkey, a figure which was expected to grow further in the coming years.³⁰²

Many empirical and quantitative studies in economics tried to estimate trade creation and trade diversion effects³⁰³ of regional integration agreements. These two concepts build up by Jacob Viner's pioneering study (1950) are still considered as the foundation of the theory of international economic integration. Ulusoy and Sözen concluded in 2008 that as a result of the Customs Union, "the Turkish manufacturing industries experienced trade diversion as it is expected from Viner's (1950) approach stating that the membership to any trading blocks with industrialized countries in general harms the participating developing countries in the short-run."³⁰⁴

Fernanda G. Nicola analyzed in her article the EU-Turkey trade relationship around the process of Yeda Tarım (a Turkish company importing spare parts for agricultural and automotive industry) against the EC for the damages resulting from the Customs Union. Yeda Tarım complained that its production suffered losses and its imports were harmed because of the cheap quality goods entering the EU from the Far East.³⁰⁵ Nicola underlines that the Customs Union created very disparate effects for the EU and Turkey: "While the European Union imposes unilateral obligations on Turkey and has largely benefited from the Customs Union, Turkey has suffered economic losses as a result of efforts to comply with trade and legal obligations, and Turkey receives little of the financial help that the European Union normally grants to its future

³⁰² Manisalı, "Hayatım Avrupa 2 - Askeri Darbeden Sivil Darbeye", Cumhuriyet Kitapları, 2009, p. 235.

³⁰³ The trade creation effect refers to the replacement of expensive domestic production by cheaper imports from more efficient partner countries. The trade diversion refers to the replacement of cheaper initial imports from lower cost producers outside the union, to less efficient producers in member countries.

³⁰⁴ Veysel Ulusoy and Ahmet Sözen, "Trade Diversion and Trade Creation the Case of Turkey Establishing Customs Union with the European Union", European Journal of Scientific Research, Vol.20 No.2 (2008), p. 360.

³⁰⁵ Fernanda G. Nicola, "Promises of Accession: Reassessing the Trade Relationship Between Turkey and the European Union", American University International Law Review, 2009, Vol. 24, issue 4, p. 759.

members”.³⁰⁶ Nicola further underlines that the EU acknowledged the imbalance created by the CU in 1996 and noticed that Turkey’s imports on clothing (the most hopeful sector) from the EU increased by 130% in 1996.³⁰⁷ Nicola concludes that “[o]ver time, the promise of Turkish accession to the European Union has burdened Turkey much more than Brussels, and has led to Ankara’s receiving fewer benefits than anticipated.”³⁰⁸

In fact, although the Turkish industry needed additional protection in order to compete with the more advanced industries of the EU, the period after 1995 has witnessed the imposition of practices in favor of EU imports. For instance, the Common Customs Tariff Alignment for some sensitive goods such as motor vehicles, shoes, bags for cement and fertilizers, porcelain table wares were postponed for five years, to be completed until January 2001: “By way of derogation from Article 13 and in accordance with Article 19 of the Additional Protocol, Turkey may retain until 1 January 2001 customs duties higher than the Common Customs Tariff in respect of third countries for products agreed by the Association Council.”³⁰⁹ In fact, these goods were rather EU’s sensitive goods and the postponement was not a concession but rather an advantage for the EU. By this way, Turkey continued to apply a tariff towards third countries higher than the CCT, which implied a margin of preference for imports from the European Union during these 5 years of postponement.³¹⁰

Another issue is led by the fact that Turkish agricultural products were excluded from the Customs Union and have remained subject to EU quotas. Despite this exclusion however, Turkey had to restructure its agricultural policy

³⁰⁶ Fernanda G. Nicola, “Promises of Accession: Reassessing the Trade Relationship Between Turkey and the European Union”, *American University International Law Review*, 2009, Vol. 24, issue 4, p. 741.

³⁰⁷ *Ibid.* p. 766.

³⁰⁸ *Ibid.* p.768.

³⁰⁹ Ministry of Foreign Affairs official website, <http://www.mfa.gov.tr/data/AB//EUAssociationCouncilDecision195CustomsUnionDecision.pdf>, Article 15.

³¹⁰ Aylin Ege, *ODTÜ Gelişme Dergisi*, “Avrupa Birliği’nin Ortak Ticaret Politikası ve Türkiye”, 26 (3-4) 1999, p.270.

according to the EU standards. At the end of 1995, the EU decreased the subsidies on meat exports by 45% and evenly increased the meat prices. The result was the Turkish consumers' subsidizing directly the EU stockbreeding.³¹¹ The Cumhuriyet newspaper reported the event under the title "We started to pay the price for the Customs Union through the meat prices".

The year 1996 witnessed many complaints from domestic producers concerning the first round effects of the Customs Union. It was remarkable that despite the fact that the textile and clothing industry was the most hopeful sector, they were one of most complaining sectors. The chairman of the ÖRSA Holding Group, Ahmet Aydın, asserted in July 1996 that the concessions should be withdrawn and the EU's financial commitments must be fulfilled.³¹²

In just a month's time after the entering into force of the CU Agreement, the chairman of the Textile Exporter's Association asserted that Turkey would have to face difficult days since the EU would probably practice non-tariff trade barriers. On the other hand, Ali Sait Yüksel underlined that for the removal of quotas on Turkish textile exports, the EU referred to the WTO lists, which exclude 49% of the traded products. He added that the anti-dumping investigations are another method of protection used by the EU, which are unlawful practices most of the time.³¹³

To sum up, the Customs Union has not positively affected Turkey's trade statistics. Obviously, the current economic conditions are led by various determinants such as the global and domestic financial crisis, structural adjustment problems or modernization. However, it should be noted that the assumption that the Customs Union would promote the overcoming of structural

³¹¹ Cumhuriyet, 18.12.1995, p.9, "Gümrük Birliği'nin İlk Faturası Ete Kesildi".

³¹² Milliyet, 07.07.1996, p.7, "Hazır giyimde Siyah Moda".

³¹³ Cumhuriyet, 08.02.1996, p.9.

and other difficulties behind Turkey's foreign trade relations was an important motive for the signing of the Agreement.³¹⁴

On the other hand, the exclusion of Turkey from the decision-making processes has created both political as well as technical problems for Turkey. First of all, the free trade agreements EU had made with third countries has constituted a problem since these third countries, unlike Turkey, are not supposed to sign with Turkey trade agreements similar to those they have signed with the EU. The crucial point is that even if these countries are inclined to cooperate, Turkey may not have the same expectations with the EU regarding her trade with those third countries. Moreover, the EU has turned towards new competitive markets which have similar production structures with Turkey, which suppresses the already limited advantages of the CU Agreement. Turkey's position vis-à-vis the EU has also created some difficulties regarding Turkey's WTO obligations. The WTO panel condemned Turkey for the infringement of its obligations, i.e. for creating quantitative restrictions to third countries in order to align its commercial policy to EU policies regulating the import of textiles. Nicola asserts that this case demonstrated that the Customs Union has created "burdensome obligations for Turkey while the EU continuously lacked accountability."³¹⁵

The second issue is related to the business visa problem. In fact, Turkish citizens are subject to asymmetric and degrading visa requirements for their travels to many EU countries. However, in order not to strain from the point, the issue could be simplified to the business visa problem. The elimination of customs duties remains insufficient in an environment where the European businessmen move freely across borders while the Turkish ones encounter undue time-consuming procedures. This issue has been voiced many times since the signing of the Agreement in 1995, and the situation has not changed since then.

³¹⁴ Okan Veli Şafaklı, "Gümrük Birliği'nin Türkiye'nin Dış Ticaretine Etkisi ve KKTC'ye Yansıması Üzerine Retrospektif Tablosal Değerlendirme", *Journal of Social Science*, October 2009, Volume II, Number 2, p.145

³¹⁵ Fernanda G. Nicola, "Promises of Accession: Reassessing the Trade Relationship Between Turkey and the European Union", *American University International Law Review*, 2009, Vol. 24, issue 4, p. 780, 781.

In February 1996, Zafer Çağlayan, president of the Chamber of Industry of Ankara (ASO), asserted that these one-sided visa procedures imposed upon Turkish businessmen were humiliating and inconsistent with the sense of equity and partnership related to the CU. Çağlayan added that this issue was inducing unfair competition.³¹⁶

Another issue is engendered by the transportation quotas imposed by the EU. A substantial part of Turkish exports to the EU are carried by road transport which is considered as a service and thus, which is not included in the CU. These quotas remain insufficient and cause serious difficulties and additional costs for the Turkish exporters and transport companies.³¹⁷

4.7 The Agreement's Effect on the Cyprus Issue

As to the political impact of the CU Agreement, the Cyprus issue is a significant question of debate since the problem has now moved under the aegis of the EU. The consequences of the CU Agreement on this issue are still effective today and directly influence the reconciliation process.

Allegations about the existence of a negotiation between the EU and Turkish authorities on the Cyprus issue with the approval of the CU Agreement received widespread media coverage in 1995. Accordingly, the Southern Cyprus (the Republic of Cyprus) would be given a timetable for the accession negotiations in return for the removal of the Greek veto on the EU–Turkey Customs Union. This claim has been constantly denied by the ruling Turkish government considering that the Cyprus issue has always been a delicate matter for the Turkish citizens. In December 1995, Tansu Çiller made a statement to the press and maintained that the government had not made any concession about Cyprus. She argued that the Cyprus issue and the Customs Union Agreement had been discussed as separate matters with the EU authorities.³¹⁸

³¹⁶ Milliyet, 12.02.1996, p.7, Şeref Oğuz, “İşadamına Vize Ayıbı”.

³¹⁷ Cengiz Aktar, “Allah Uzun Ömürler Versin”, Kriter Dergisi, Sayı 58, Nisan 2011, p.40.

³¹⁸ Milliyet, 10.12.1995, p.16, “Çiller: Kıbrıs'ta Taviz Verilmedi.”

On the other hand, the allegation of negotiation appeared on media at the beginning of the year 1995. Accordingly, the EU had introduced a new formula for the Cyprus issue, referred as the “French formula” and based on the full EU membership of the southern Cyprus on condition that Greece ceased vetoing the EU-Turkey Customs Union.³¹⁹ In February 1995, Klaus Kinkel, the German Minister of Foreign Affairs stated that the Greek veto was lifted. Alain Juppé, the French Minister of Foreign Affairs affirmed that all the technical reservations regarding the CU were overcome.³²⁰

It is important to notice that the 8th Article of the Zurich Agreement provided that Turkey had the right to “veto on any law or decision concerning foreign affairs, except the participation of the Republic of Cyprus in international organizations and pacts of alliance in which Greece and Turkey both participate or concerning defense and security”³²¹. Thus, the opening of accession negotiations for the Southern Cyprus has constituted the violation of an international agreement, and Turkey has deliberately renounced her rights on Cyprus.

In March 1995, the Greek Government Spokesman Evangelos Venizelos said that a concrete political result was accomplished for the first time in Cyprus.³²² In fact, at best the issue has been moved from the aegis of the UN and has fallen under the EU tutelage, an entity within which Turkey and Cypriot Turks are voiceless. Karolas Papulyas, the Greek Minister of Foreign Affairs, stated in the COREPER meeting in 3rd March 1995 that the agreement reached about Cyprus was a huge achievement for his country.³²³ The Greek Vice-Minister for Foreign Affairs responsible for the EU declared in March 1995, right after the signing of the CU Agreement, that they were very pleased with the

³¹⁹ Cumhuriyet, 04.02.1995, p.11, Dilek Zaptçioğlu, “AB’den Kıbrıs formülü”.

³²⁰ Cumhuriyet, 07.02.1995, p.1.

³²¹ Turkish Ministry of Foreign Affairs, <http://www.mfa.gov.tr/documents-agreed-in-the-french-text-and-initialed-by-the-greek-and-turkish-prime-ministers-at-zurich-on-february-11-1959.en.mfa> (access on 07.04.2011).

³²² Yeni Yüzyıl, 04.03.1995, p.9, “Atina’da Büyük Sevinç”.

³²³ Yeni Yüzyıl, 04.03.1995, p.9, “Atina’da Büyük Sevinç”.

Agreement and that it would open the way for Cyprus's EU membership. The Greek Vice-Minister for Media Tilemahos Hitiris mentioned that they extracted all they wanted thanks to this Agreement (CU Agreement).³²⁴

Andreas Theophanous states on this issue that “[t]he agreement for accession talks with Cyprus was part of a deal encouraged by the United States, under which Greece agreed not to veto Turkey's Customs Union agreement with the EU”³²⁵ The deal was officialized by a press release issued by the European Council³²⁶:

“The Council noted that there was agreement subject to confirmation on the general political framework for developing future relations between the European Union and Turkey (creation of a customs union and other areas of cooperation) and with Cyprus (message on the opening of accession negotiations).”

David Phinnemore also notes that key to the Customs Union Agreement was “a deal providing Greece with a timetable for Cypriot membership of the EU” and that by this way, “the Greek veto on developments in EU-Turkey relations was temporarily lifted”.³²⁷ Manisalı also asserts that the EU's internal reports prepared in the years 1993 and 1994 openly provided that having a Customs Union with Turkey would provide significant political and commercial benefits to the EU. The Turkish government's statements articulating that they are ready to complete the CU with the EU at all costs provided a unique

³²⁴ Milliyet, 07.03.1995, p.14, Tani Berberakis, “Atina: Kıbrıs Dirildi”.

³²⁵ Andreas Theophanous, “Prospects for Solving the Cyprus Problem and the Role of the European Union”, Publius, Vol. 30, No. 1, The State of American Federalism, 1999-2000 (Winter, 2000), p.222.

³²⁶ Council of the European Union, 06.02.1995, 1827-General Affairs, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/gena/028a0012.htm (access on 15.04.2011).

³²⁷ David Phinnemore, “Association : stepping-stone or alternative to EU membership?” Sheffield Academic Press, 1999, p. 78.

opportunity to the Greek authorities in order to create an artificial veto on the issue of CU.³²⁸

4.8 The US Support for the CU

The US encouragement pointed out by Theophanous was manifest due to a letter sent by the US President Bill Clinton to Tansu Çiller, dated February 22nd, 1995. In this letter, Clinton acknowledged Turkey for being helpful and flexible in the Cyprus issue. Moreover, he added that the US support for the completion of the Customs Union would continue.³²⁹

Obviously, the US encouragement of the EU-Turkey relations was not limited to the Cyprus issue. The US authorities made various statements supporting the completion of the Customs Union between the EU and Turkey. Warren Christopher, the US Foreign Minister stated in Madrid in June 1995 that “we hope that the European Parliament will ratify the critically important customs union agreement between the EU and Turkey.”³³⁰ This statement took place in Turkish media by the news entitled “Historic Support from Washington”³³¹.

Morton Abramowitz, the US Ambassador to Turkey from 1989 to 1991, stated in November 1995 that if the completion of the Customs Union was not realized, Islamists would gain strength in the next elections.³³² Similarly, Christine Shelly, the press secretary of the US ministry of foreign affairs, stated in March 1995 that the decision that was supported by the USA was finally realized and that it would be beneficial for the resolution of the Cyprus issue.³³³

³²⁸ Erol Manisalı, “Gümrük Birliği’nin Ekonomik ve Siyasal Bedeli”, Bağlam Yayınları, January 1996, p.78.

³²⁹ Milliyet, 02.03.1995, p.13, Barçın Yinanç, “ABD’den Mektup Var.”

³³⁰ Warren Christopher, “In the stream of history: shaping foreign policy for a new era”, Stanford University Press, 1998, p.283.

³³¹ Milliyet, 04.06.1995, p.1, “Washington’dan Tarihi Destek”.

³³² Milliyet, 15.11.1995, p. 20, “Avrupa’ya Kabul Edilmek Türkiye İçin Gerekli.”

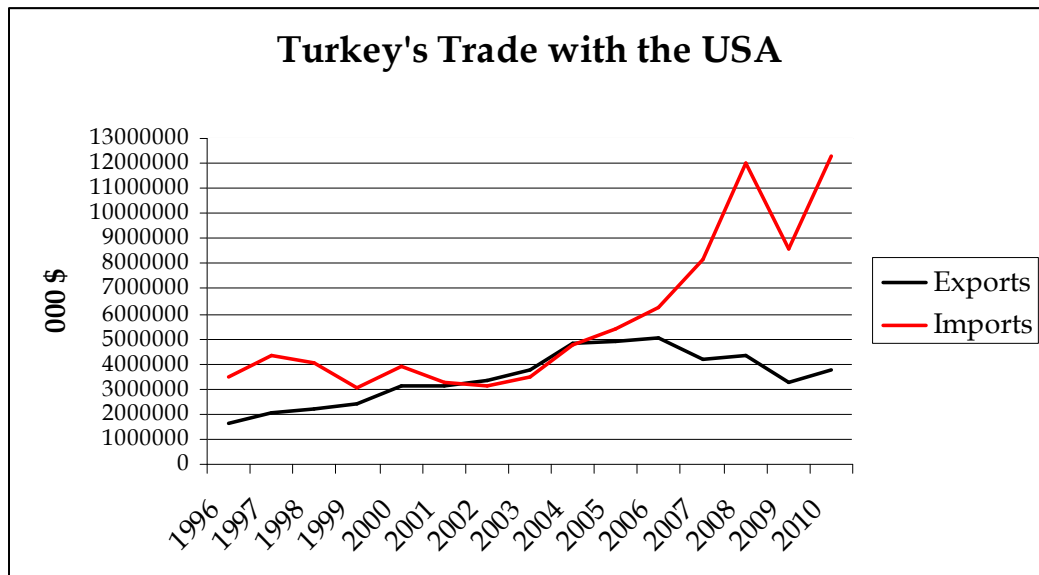
³³³ Yeni Yüzyıl, 09.03.1995, p.8, “Gümrük Birliği’ne ABD’den Destek”.

Richard Holbrooke is an American diplomat who was very active in the signing process of the Customs Union Agreement. Holbrooke gave an interview to Milliyet newspaper in 1996 and maintained that the Customs Union Agreement would fail to be signed without the help of the USA.³³⁴

Besides the political and ideological reasons behind the American support for the CU Agreement, the USA has had sound economic motives for getting involved in this issue. The customs duty paid by the USA in its industrial exports to Turkey fell from 11% to 4% as a result of the CU Agreement.

Table 12: Turkey’s Trade with the USA (1996 – 2010)

Data Source: Turkish Statistical Institute



Moreover, due to the bilateral agreements between the EU and the USA, although the US industrial goods are exported to Turkey at low tariffs, the USA is now free to implement higher tariffs on Turkish imports. The US Minister of Trade made a statement in March 1996 stating that an increase is expected in US exports to Turkey as a consequence of the CU Agreement.³³⁵

³³⁴ Milliyet, 17.03.1996, p.19, Yasemin Çongar, “Her Şey Kıbrıs’a Bağlı.”

³³⁵ Cumhuriyet, 28.03.1996, p.7.

Ziya Öniş underlines that the underlying assumption about the American encouragement for EU-Turkey relations is that “its vital interests in the Middle East and Central Asia would be best served by having its strategic ally, Turkey, firmly anchored to the norms of the European Union.”³³⁶ In this context, the ideological propaganda conducted in the chaotic atmosphere of the early 1990s was crucial for the creation of the European dream in Turkey.

4.9 What has the Customs Union introduced to Turkish Politics?

Trade liberalization constitutes a major dimension of Turkey’s articulation to neoliberal globalization. Although this trend has been set by the unilateral measures in the 1980s, the Customs Union has paved the way for the extension of trade reforms and an export-oriented development strategy. It can be argued that Turkey’s commitments under the Customs Union Agreement served to lock-in the neoliberal reforms of the 1980s and paved the way for very important modifications in Turkish laws and politico-economic systems as unquestionable requirements of the EU membership ideal.

The Customs Union Agreement which consists of 66 articles, 16 statements and 10 annexes mainly provides the elimination of customs duties, quantitative restrictions and measures of equivalent effect on trade in industrial goods, between Turkey and the EU. However, there are several articles in the Agreement which provide commitments about Turkey’s alignment to the EU common customs tariff and trade policy more generally (articles 12 to 16) and articles about the approximation of laws on protection of intellectual, industrial and commercial property and on competition rules (articles 32 to 43). The Annex 8 of the Agreement provides ten detailed articles about the protection of intellectual, industrial and commercial property rights. It should be noted that four articles of the annex 8 make direct reference to the TRIPS Agreement and

³³⁶ Ziya Öniş, “Luxembourg, Helsinki and Beyond: Towards an Interpretation of Recent Turkey–EU Relations”, *Government and Opposition*, Volume 35, Issue 4, October 2000, p.475.

there are many references to the GATT commitments within the main body of the Agreement.

In June 1995, the TBMM (Turkish Grand National Assembly) enacted an empowering law which delegated the Council of Ministers with the authority to enact decrees having force of law for 3 months. The TBMM even modified its internal regulation in order to be able to enact all the necessary laws in a short period of time.³³⁷ The most striking ones of these legislative decrees were about patent rights, industrial design and protection of trademarks.³³⁸ In July 1995, TÜSİAD praised the government for the enacted decrees having the force of law and underlined that especially the decree about the protection of industrial designs was significant for the CU membership.³³⁹

Meanwhile, the chambers of pharmacists criticized the newly enacted legislative decrees arguing that consumers would be at the mercy of foreign producers concerning drug prices. Erdinç Kenan, Secretary General of the Adana Chamber of Pharmacists, mentioned that Italy and Spain requested a transition period of 10 years and passed the patent law only after being a full member of the EU. Kenan added that the result would be an important increase in medicine prices and Turkey's external dependence on the sector.³⁴⁰ In November 1995, TBMM enacted another legislation providing harsh penalties including prison sentence for the violation of industrial property rights.³⁴¹

The accelerated legal reform process subsequent to the signing of the CU Agreement was later followed by a much more comprehensive one in order to meet the Copenhagen criteria. That kind of legal restructuring reminds Stephen Gill's "new constitutionalism" approach underlining the significance of private property rights secured by laws and protected by the coercive capacity of the

³³⁷ Milliyet, 12.03.1995, p.11, "Yasalara Gümrük Birliği Gazı".

³³⁸ Milliyet, 28.06.1995, p.9, "Gümrük Birliği'ne Yetki Yasası Dopingi".

³³⁹ Milliyet, 08.07.1995, p.9, "TÜSİAD'tan Hükümete Övgü".

³⁴⁰ Milliyet, 13.07.1995, p.9, "İlaçta Yabancıların İnsafına Kaldık."

³⁴¹ Milliyet, 03.11.1995, p.17, "Patent Yasası Kabul Edildi."

state.³⁴² Gill maintains that “international agreements on trade and investment can be understood as reinforcing national and regional policies to restructure the state and thus lock-in neoliberal reforms politically, thereby securing the rights of investors and property holders”.³⁴³

In fact, the Customs Union Agreement was beyond a simple trade agreement for Turkey. The choice made in the turbulent atmosphere of the 1990s opened the way for the introduction of a permanent EU anchor in Turkish politics in order to push legal and economic reforms. Ziya Öniş claims that ironically the periodic reports of key international banks and financial institutions began to focus at the beginning of the 2000s “on political developments and the implementation of the political component of the Copenhagen criteria as a means of interpreting the current state of the Turkish economy and conveying information to potential investors.”³⁴⁴ Öniş underlines that the Customs Union was an important milestone for the Turkish economy which has accelerated the momentum of the trade liberalization process and contributed to expose domestic industry to greater external competition.³⁴⁵ Moreover, the process of transnationalization of major Turkish conglomerates has also effectively gained momentum with the Customs Union Agreement.³⁴⁶ Hoekman and Togan assert that the CU Agreement has paved the way for an important set of regulatory reforms. The establishment of the Competition Board, the adoption of EU rules on protection of intellectual and industrial property rights, the setting up of a Patent Office and strengthening of internal conformity assessment and market

³⁴² Stephen Gill, “Constitutionalizing Inequality and the Clash of Globalizations”, *International Studies Review*; Summer 2002, Vol. 4 Issue 2, p.52.

³⁴³ Stephen Gill, “European Governance and New Constitutionalism”, *New Political Economy* Vol.3, No.1, 1998, p.10.

³⁴⁴ Ziya Öniş, “Turkey’s encounters with the new Europe: multiple transformations, inherent dilemmas and the challenges ahead”, *Journal of Southern Europe and the Balkans*, Volume 8, Number 3, December 2006, p.284.

³⁴⁵ Ziya Öniş, “Beyond the 2001 financial crisis: The political economy of the new phase of neo-liberal restructuring in Turkey”, *Review of International Political Economy* 16:3 August 2009, p.413.

³⁴⁶ *Ibid.*, p.424.

surveillance structures were direct outcomes of the conditionality associated with the signing of the CU Agreement.³⁴⁷

An interesting approach regarding the EU's eastward policies is introduced by Dorothee Bohle. She argues that the deepening and enlargement of the EU are "promoted by a historical bloc that seeks to establish the hegemony of transnational capital". According to Bohle, the EU has "exported a more 'market-radical' variant of neoliberalism" to its Eastern partners which "serves the interests of transnational capital, and helps to preserve the order of 'embedded neoliberalism' within the old EU."³⁴⁸ This point of view fits well with the Turkish case, considering the pace of reforms and legal restructuring in Turkey. Bohle underlines that the ERT (European Round Table of Industrialists) lobbied for the speeding-up of Eastern enlargement³⁴⁹, an association which also actively supported the EU-Turkey Customs Union.

³⁴⁷ Bernard M. Hoekman and Sübidey Togan, Turkey, Economic Reform and Accession to the European Union, The International Bank for Reconstruction and Development / The World Bank. 2005, p.xvii.

³⁴⁸ Dorothee Bohle, "Neoliberal hegemony, transnational capital and the terms of the EU's eastward expansion", *Capital & Class*, 2006, Volume: 30, p.57.

³⁴⁹ *Ibid*, p.71.

CHAPTER V

CONCLUSION

The 1995 Customs Union Agreement signed by the EU and Turkey was one of the most controversial developments experienced in Turkish politics in the recent decades. Although 1990s began with the sharp opposition of domestic producers to the Agreement, an extensive public campaign conducted by the domestic media substantially helped reverse the criticisms. The EU membership goal was somehow idealized for Turkish people and the signing of the CU Agreement, which was celebrated with fireworks, was presented as a huge success of the government.

The thesis has tried to identify the historical reasons behind this shift, which has essentially served the dominant neoliberal interest and its domestic allies. This case begs an explanation as this neoliberal project has succeeded to find popular support from a wide range of interests in Turkey. Even some of the powerful labor unions, such as the leftist DİSK, have associated the CU with improved employee rights and social progress, though both were fully illusionary expectations as the thesis has shown. So how this overwhelming approval to the CU Agreement could has been assured? Answering this question requires an overview of the main arguments of the thesis.

The 1963 Ankara (Association) Agreement was the first document where the EU-Turkey Customs Union was mentioned. It was basically a framework agreement that aimed at bringing Turkey into a Customs Union with the EEC with an eventual membership perspective. In the 1960s the Europeanization issue was away from being an economic question for both the Turkish decision makers and their European counterparts as the primary concern was to keep Turkey

within the Western camp during the Cold War era. Still however the question of membership was open to interpretation. On the Turkish side, it was almost clear that the association relationship established by the Ankara Agreement was seen as a clear stepping stone to Turkey's full membership. Hence, the earlier public debates on the issue revolved around the question of whether being "a member of the common market" or not. On the EU/EEC side however, it was an open-ended process since the beginning, a standpoint which became manifest by the end of the 1980s.

The Additional Protocol which was signed on 23 November 1970 provided very clear requirements about the abolishment of tariffs and quotas within a timetable as envisaged by the Ankara Agreement. Even though Turkey's integration to the EEC was not a very popular topic in Turkey in the 1970s, many industrialists and academics spoke out against the Additional Protocol boldly, and warned about its possible negative implications on the newly developing Turkish industry.

In sharp contrast with the unwillingness and skepticism of the Turkish side towards the EEC integration at the end of 1970s however, the military government after 1980 quickly endorsed the process without any provisions. In March 1981, the MGK adopted the EEC full membership as a national objective and declared that Turkey would begin to fulfill tariff and quota reduction commitments under the Additional Protocol. The first institutionalization initiative in order to regulate relations with the EEC was realized via a decree in December 1982, decided by the MGK on 25 March 1981. This might be associated with different factors ranging from the legitimacy concerns of the military regime at best to the comprador character of the military at worst. However, this has turned out to be persistent political path after all. .

Hence, Turkey's application for membership to the EEC on 14 April 1987 was properly in line with this shift in attitude. The Commission adopted its opinion on the application on 18 December 1989, and the response was a diplomatic "no". However, rather than this negative response, Özal's continuing

pro-CU statement in the day after the “no” decision has complicated the process. The headlines of Turkish daily newspapers on 19 December 1989 were highlighting Özal saying “*We would go into the Customs Union even if the EEC does not accept Turkey as a full member.*” Afterwards, the ideal of participating in the Customs Union, which was not an EEC/EU institution at all, was managed to be promoted as the new desired national target for Turkish people.

To understand the reasons behind this apparent diplomatic failure, the compatibility of the EEC integration process with that of the emergent neoliberal project in the 1980s has to be recalled. The 1980s represented a period of hard politico-economic transformation for Turkey managed by the coercive suppression of all opposition by the military regime. The implemented programme was indeed the one which had been prepared by the Justice Party (AP) government at the end of 1979. This neoliberal transformation which had a large impact on the developments in the 1990s and the 2000s had led to continuous deterioration of macroeconomic fundamentals and high unemployment rates hitting directly the young population. It is remarkable that the early 1990s witnessed the largest number of strikers in Turkish history. The years between 1989 and 1991 are considered as the zenith of collective action after 1980 since both public and private sector workers were engaged in the waves of protests. They could manage to organize several general strikes in the mid-1990s. Hence, Özal’s insistence on keeping the EEC target as some sort of national struggle has to be understood by the mutually reinforcing characteristics of the two processes, namely the EEC integration and the neoliberal transformation processes.

This however could not help save Özal for long, and increased mass discontent with neoliberal practices eventually kept Özal’s Motherland Party (ANAP) out of government in the October 1991 elections, in which Necmettin Erbakan’s Islamist/conservative RP obtained 17% of the national vote. The re-emergence of religion in Turkish politics was a striking development for many in both Turkey and abroad. Many share the view that the resurgence of Islamist revivalism in the 1990s had great significance for Turkey’s efforts to become a

full member of the European Union. It is however important to notice that despite all their criticisms, Tayyip Erdoğan's AKP, the inheritor of the RP, turned out to be a dedicated advocate of Turkey's integration to the EU at least in its first term in office after the 2002 general elections besides the Party's full internalization of the neoliberal agenda.

The 1990s hence began within such a political atmosphere and under the shadow of the EC's rejection of Turkey's full membership application. It was remarkable that in the early 1990s, not only the domestic producers and labor unions but also important state agencies were against the completion of an "incomplete" Customs Union. For them, the realization of the Customs Union had to be a strategic tool to be attached to the condition of full membership only. However, this attitude was somehow softened later when for some groups, the prospect of a target date for full membership was substituted for the expectation of full membership. Hence, in the early 1990s, the main question turned out to be whether Turkey should complete the Customs Union with the EEC before the realization of full membership or not. Towards the signing of the agreement in 1995 the question was once more modified and became "how Turkey could convince the EU to sign/approve the Customs Union Agreement?".

The Customs Union Agreement was signed on 6 March 1995 and approved by the European Parliament on 13 December 1995 as a document constituting a new relationship between the two sides though it was neither approved by Turkish Assembly nor ratified by the President in Turkey. As a consequence, it was not published in the Official Gazette either.

The Customs Union Agreement involved considerable responsibilities for Turkey in return for the simple removal of quotas on Turkish textile and clothing products. However, the European authorities adopted a rather reluctant attitude toward the completion of the Customs Union at the end of 1994. The unwillingness of the EU strengthened the perception of the Customs Union as a key agreement for "Europeanization" in the eyes of the Turkish public opinion playing to the hands of the government in Turkey, which was trying to turn the

Agreement into a historic national victory with short-term political interests. However, behind the scene, the Turkish government's statements in favor of completing the CU with the EU at all costs provided a unique opportunity to the Greek authorities to create an artificial veto to the process, and to ensure the opening of accession negotiations for Southern Cyprus in return as a concession.

In simple economic terms as well, it was quite obvious that the Customs Union was not promising an improvement for Turkey's industrial development, neither for her trade balance nor for the general domestic welfare. By the 1/95 Decision Turkey accepted to implement the EU tariffs in her trade with third countries which has referred to a huge sacrifice in economic terms even if the political side of the issue is ignored. It is interestingly remarkable that even analyses in favor of the CU acknowledge this asymmetry which puts Turkey in a delicate position. At present, Turkey runs a deficit of 19 billions of Euros in her trade with the EU. Even though a major part of Turkey's actual trade deficit is caused by her trade with third countries, many economists insist on the fact that the latter is largely due to the unequal trade relations engendered by the CU obligations. Moreover, at present there are other issues which make the Customs Union Agreement less effective than a simple free trade agreement such as business visa problem and transportation quotas. Recently, many Turkish academicians and businessman has claimed for the revision of the Customs Union³⁵⁰, which implies that there are no signs of upturn. Hence, the surrender of trade autonomy has inarguably been a huge sacrifice in political as well as economic terms for Turkey and even the econometric studies in favor of the CU Agreement recognize the asymmetry in the decision-making process (since Turkey is now completely excluded from this process) and the relative weakness of Turkish domestic industry under high competition.

The thesis has identified the following as the apparent explanations of the absurd obsession of the Turkish governments with the Customs Union "ideal" at

³⁵⁰ Oğuz Satıcı, president of TIM, *Hurriyet*, 31.07.2008; Murat Yalçıntaş, president of ITO, *Yeni Asya*, 19.12.2007; Mustafa Koç, *Akşam*, 30.04.2008.

all costs, the primary of which has been Turkey's loss of all her stakes for the EU full membership:

- For the EU, the picture has been very clear. As the EEC had already removed all the custom duties for Turkish industrial products in 1971, the Customs Union Agreement has been an economic sacrifice only for the Turkish side as it has allowed the European producers to sell their products in the Turkish market without paying custom duties. Moreover, the Agreement has not brought the EU under any political responsibility vis-à-vis Turkey given that the text of the 1/95 decision did not make any reference to full membership, or include Turkey into the relevant decision-making processes of the EU. The European Parliament's reluctance to adopt the decision in December 1995 could only be considered as a diplomatic maneuver and an attitude that helped Turkish authorities to ensure public commitment to this process. By surrendering her autonomy in trade regime, Turkey has lost an important political tool that could be useful in negotiations with the EU. Hence, for the EU side, the CU Agreement can only be considered as a significant diplomatic success.

- From the point of view of the Turkish government, the manipulation of the situation for short-term political gain was very obvious. The government authorities tried hard to convince the Turkish public opinion and domestic producers that the CU would be an enormous step forward for Turkey's adhesion to the EU. The government's motivation was arguably to use the CU Agreement as a way out of the chaotic atmosphere of the 1990s by transforming a diplomatic fiasco into a national victory. The argument that the Customs Union with the EU would prevent regime change in Turkey has to be also noted as it was used by the government in several occasions.

- Turkish bureaucracy, notably the DPT, was largely aware of the risks and drawbacks represented by the CU Agreement. The Ministry of Foreign Affairs seems to be the only state agency which supported the signing of the Agreement. It is not easy to analyze the motivation of some bureaucrats which were inclined to consider this decision as an indispensable choice for Turkey who had to find

her a place in the changing atmosphere of the 1990s.

- For domestic producers it was obviously a hard decision. The SMEs repeatedly warned that the economic integration of a newly born industry with very developed ones would mean the killing of the former. Even the big capital groups, who were limited in number, did not stop criticizing this unilateral and unbalanced Agreement. The president of the TUSIAD claimed in 1995 that the Customs Union was a sacrifice on the way to the full membership and the consequences of being unable to be a full member of the EU would be extremely harmful. However, in parallel with the changing of the IKV president at the end of 1992, some big capital groups began to affirm their support to the CU and the EU integration process. The debate between the Koç and Sabancı groups at the beginning of 1993 is very significant for exposing the confusion of the domestic capital. It should be noted that the role of the CU and the EU integration process in pushing the neoliberal reforms in Turkey could have been a motivation for some of the domestic producers to support the Agreement.

- Although Turkey's engagement in the EU integration process dates back to the Ankara Agreement in 1963, the issue has started be publicly discussed rather late. It is remarkable that Turkish public opinion was much more interested with the EU membership ideal than the CU Agreement itself. The IKV conducted however a very successful advertising campaign in the early 1990s in order to convince the Turkish people about the benefits of the CU Agreement and "being European". The signing of the Agreement was celebrated by fireworks and this false image created by the media and the government convinced the Turkish people that their country was in the wake of the EU full membership. The employees and trade union were against this unbalanced integration process since the 1970s. However, at the beginning of the 1995 even some of the leftist labor unions were under the illusion that the CU Agreement would provide them with advanced social rights.

- Lastly, the US has played the role of a good ally of Turkey by giving full support to the CU Agreement. The clear economic gains of the US out of this

engagement were seldom recalled. Moreover, just like the Turkish government, the US officials have also underlined the importance of the Customs Union in preventing a radical political turn in Turkey.

This overview of different positions within the Customs Union process indicate that the Agreement was signed by the successful management of the EU and the US of the whole process whereas the Turkish government, together with some internal allies such as the İKV, collaborated with the EU and the US in this project. The simplest explanation to this collaboration would be one sided imposition by the external powers and the helpless Turkish governments' attempt to turn this failure into a political victory by hiding the losses from the Turkish public opinion to save the appearance. Another version of this explanation would be the Turkish governments' conviction with the necessity of the Customs Union relation to prevent a radical regime change in the country in the face of the rising Islamist alternative. The latter would certainly be a limited analysis.

Given the fact that the rise of the Islamists could not be prevented by the Customs Union anyway invites one to rethink on the “constitutional” effect of the CU Agreement which ultimately limited the economic, if not the political, policy options of any future government. Hence, a much convincing explanation would be made through a critical class-based perspective, which would underline the long-term pro-capital choices of both the external and internal actors. Hence, the CU Agreement, which indeed engendered significant economic and political losses for Turkey as a country, did not simply ensure free trade conditions among the sides concerned but established a more comprehensive framework for political action that locked in Turkey's policy choices to a neoliberal path. The US support underlined in the last chapter is very significant in order to understand the political magnitude of this choice, and the intensified and far-reaching legal arrangements made in the aftermath of the approval of the Agreement has been a practical proof of the validity of this interpretation.

Hence, within the context of the prevailing political instability and economic problems in Turkey in the 1990s, which prevented the functioning of a

“strong state” to continue with the neoliberal reforms, the Customs Union relationship was thought as one of agenda-fixing to overcome the reform-fatigue.

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APPENDICES

APPENDIX A

Fulfillment of Commitments			
		Turkey	EU
1963 - 1969	Ankara Agreement		Opening of tariff quotas for dried grapes, tobacco, dry figs and nuts.
			Opening of additional tariff quotas for some hand-knotted carpets, some kind of fresh fruits and vines.
1970 - 1982	Additional Protocol		The EC unilaterally suppressed all tariffs in industrial products except for four exceptions (some cotton weavings and petroleum products)
			The EC unilaterally suppressed all quotas in industrial products except for silk worm and raw silk
		Turkey fulfilled its tariff reduction commitments according to the 12 and 22 years lists on 1st January 1973 and 1st January 1976	
			On 2 March 1975, England began to impose bilateral quotas on Turkish cotton yarns and violated the Additional Protocol

	25.12.1976	The EC rejected Turkey's proposal to modify the tariff reduction calendar. Turkey decided to frozen its obligations until 1978 within the framework of the 60th article of the Additonal Protocol	
	9.10.1978	Ecevit government claimed from the EU additional financial assistance, the GSP concessions and an exemption period of 5 years	
			The EC demanded from Turkey to sign a Voluntary Export Restraint Agreement. (The EC signed 26 VER Agreements with developing countries until 1978)

Fulfillment of Commitments			
		Turkey	EU
1970 - 1982	21.09.1979	Reciprocal decision to freeze the relations for 5 years	
			Turkey rejected to sign a VER Agreement in defiance of the Additional Protocol. The EC imposed as a response, an anti-dumping tax of %16 (until the signing of the VER Agreement by Turkey)
		As a reprisal to the imposition of quotas on Turkish textile products, Turkey began to impose funds (15%) on European iron and steel imports.	

	30.07.1982	The first VER Agreement signed by Turkey	
			Despite the VER Agreements signed by Turkey, the EC imposed non-tariff barriers to Turkish textile imports, a series of anti-dumping and anti-subvention investigations which resulted in the annulment of anti-dumping taxes.
1983 - 1995		Harmonized with the 12 and 22 years lists of tariff reduction respectively by 95% and 85%	Continued to impose quotas on Turkish textile products
		Harmonized with the 12 and 22 years lists of CET alignment respectively by 75% and 85%	Continued to initiate anti-dumping investigations against Turkish exports as a measure of protection
		Began to imply a "single tax system" for imports from EU	The fourth financial protocol has not been put into effect
			The provision for the free movement of workers (to be realized until 1986) has been practically suppressed.
1996	Customs Union	Tariff reductions and CET alignment have been 100% realized in accordance with the 12 and 22 years lists.	Suppressed quotas on Turkish textile products

APPENDIX B

TEZ FOTOKOPİSİ İZİN FORMU

ENSTİTÜ

Fen Bilimleri Enstitüsü	<input type="checkbox"/>
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Enformatik Enstitüsü	<input type="checkbox"/>
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YAZARIN

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Bölümü : Uluslararası İlişkiler

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