

EXPECTATION MANIFESTO OF THE MODERNIZATION OF THE CUSTOMS UNION BETWEEN TURKEY AND THE EU FOR SMEs

Since 1996, the Customs Union has contributed to the EU and Turkish economies significantly. Throughout the years, different types of firm, company, and business within varied sectors have benefited from the Customs Union.

With both domestic and international political developments, the Customs Union in its present form is no longer serving the need of the SMEs. The Customs Union faces economic and political problems and lack of agility in governance. This causes the Customs Union to remain behind the business world's needs and creates disadvantages especially for Turkish SMEs, which may face higher barriers in international trade and are more adversely affected by the 'outdated' Customs Union.

According to survey results with different sectors, the business world is aware of the benefits of the Customs Union and supports the modernization. The Customs Union has encouraged companies to invest more in R&D, to become more competitive and to have a greater access to the EU market through facilitating the export.

On the other hand, the business world also recognizes areas of difficulties within the CU framework which create competitive disadvantages especially for Turkish SMEs. These drawbacks have been described as exclusion of the services sector, visa liberalization, exclusion of Turkey in EU-FTA negotiations with third countries, lack of cooperation and sharing of information and databases, and cost inefficiency when Turkey is required to comply with the EU sectoral regulations.

Expectation Manifesto

The latest CU documents should have a dedicated chapter on SMEs that would ensure the 'Think Small First' principles are implemented. These attempts to modernize will work effectively by adjusting to the needs of modern economic systems, such as e-commerce and digitalization. The Customs Union modernization should be accompanied by additional set of special financial instruments that serve the needs of small and medium-sized enterprises and encourage them to overcome the challenges that potential modernization could bring.

The Customs Union should be modernized based on a rule-based trade policy that represents current and future commercial and investment needs. Problem-solving approaches should be tailored to the specific characteristics of the EU-Turkey trade relations; and should aim at making the Customs Union work. In addition, Turkey should be active in the EU committees with a view in order to improve bilateral cooperation between the parties in developing a common trade strategy.

The service sector becomes an indivisible feature of all commercial agreements. Services should therefore be included in the Customs Union and operation requirements should not impede the trade in goods, as is the case of the current implementation of the Customs Union. Transport of services should be facilitated as well. For example, for the logistics sector to reach its capacity and benefit from the Customs Union effectively, it needs transportation without restrictions, facilitating measurements, abolition of quotas, improvement in visa procedures and in tariffs.

In addition, visa related issues act as a barrier against the free movement of people that is a prerequisite for thriving businesses in a single economic area. Transitional visa facilitation for businesses is needed for the efficient participation of SMEs in the modernized Customs Union until the comprehensive visa liberalization for Turkey is achieved. This could reduce some administrative burden on the public servants. Without the visa liberalization foreign trade to EU is hindered. According to our survey, the machine manufacturing sector faces difficulties when acquiring visa for company employees. As they are in the business of machine, there is a need to provide a frequent mounting services, maintenance services, etc., which means they need to send the necessary personnel to the countries they export to.

The modernized version of the Customs Union would resolve current trade and investment barriers, identify standards and regulations and address ambiguities in terms of trade and investment conditions. According to the survey conducted with representatives from iron and steel, chemical and telecommunication sectors, they are unable to expand their business and it is hard to compete with the rest of the world due to lack of incentives, investment , R&D, resources and product development processes take longer time.

A transition period is necessary for agriculture, livestock and dairy sectors because they first need to comply with the EU standards in order to be competitive in the EU market. Following the transition period, these sectors will be ready to compete with their EU counterparts within the Customs Union.

Furthermore, along with modernized Customs Union, the intellectual and industrial property rights should be protected to eliminate illicit trade practices and protect the business world.

These efforts at modernization should not neglect e-commerce and necessary regulations regarding e-commerce laws should be develop. For example, a working group could be set up that would identify the problem and propose the strategy on both sides to resolve obstacles in e-commerce with the modernization of the Customs Union. The survey also concluded that, some SMEs are lack of updated information about the Customs Union. The SMEs need reliable information channels and administration channels where there is constant flow of information. The SMEs should also be able to follow up on legislations from both Turkey and the EU sides; they should have access to the most recent and relevant rules, legislation changes, and information on the Customs Union. Therefore, the Customs Union help desk and 'one-stop shops' can be beneficial for SMEs to work effectively.

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As a conclusion, areas where Turkey's SMEs fall behind the EU best practices should be identified. The upgraded agreement should include transparency obligations with proposed regulations to be reviewed, commented by SME consultations. In order to better leverage export potential of SMEs, they should be supported in R&D and product development because SMEs that invest in those areas are the ones that can export to the EU market. For SMEs, in order to support connecting to multinationals, well-designed supplier's development programs with monitoring and evaluation mechanisms should be developed.

Negotiating rules that are coherent and user-friendly, especially for SMEs should be adapted. As in the case for the latest FTAs that the EU signed, the updated Customs Union should include a chapter on SMEs with an aim of facilitating investment and trade. The willingness of Turkey and the EU to engage in further in economic integration is significant. In order to contribute to the process, this expectation manifesto outlines critical areas that should be addressed particularly for SMEs to benefit equally and fairly.