

Abstract

In view of the postponement of negotiations for the modernization of the EU-Turkey customs union, this paper is aimed to look back and examine the ex-post impacts of the CU by examining its trade creation and diversion effects. The study tests effects of 44 countries (including Turkey, 28 EU and 15 non-EU countries) with aggregated data for time period from 1989 to 2019 and disaggregated sectoral trade data from 1995 to 2019. For estimation, the gravity model with strong theoretical and empirical foundation is used by combining various fixed effects with PPML method. The results from the aggregated analysis confirm the trade-promoting effects of the EU-Turkey customs union with mixed effects on both trade within the members (intra-trade creation effects) and trade with non-members (extra-trade creation effects). But the trade diversion is not significantly proved in the model. Besides, a substantial heterogeneity in the CU effect is found across different industries, suggesting the CU has significantly improved the trade on textiles, transportation, machinery, metals and plastics/rubbers, but negligibly influence agriculture, mineral and chemicals. Furthermore, the study also evidences that the impact of the CU is stronger in EU's export to Turkey than Turkey's export to the EU. Finally, CU's different impacts for each EU members are also demonstrated.

Keywords

The EU-Turkey Customs Union, Gravity Model, PPML estimation, Trade Creation, Trade diversion, Turkey, EU