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Türkiye-AB Ticari İlişkileri Ukrayna-Rusya Savaşı Sonrası Nasıl Değişecek?

How Will Turkey-EU Trade Relations Change after the Ukraine-Russia War?

Video Link: https://youtu.be/RT1d6cAOghQ

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Türkiye-AB Ticari İlişkileri Ukrayna-Rusya Savaşı Sonrası Nasıl Değişecek?

Öz

Ukrayna-Rusya savaşı, uluslararası ticareti ve küresel tedarik zincirlerini tehdit etmeye devam etmektedir. Bu makale, ihtilaf sırasında ve sonrasında Türkiye'nin ihracatının AB pazarındaki Ukrayna ürünlerinin yerini alıp alamayacağını ve bunun AB-Türkiye Gümrük Birliği (GB) Anlaşması'nın yenileme çabaları üzerinde olumlu bir etkisi olup olmayacağını değerlendirebilmek için her iki ülkenin AB ile olan ticari ilişkilerini karşılaştırmayı amaçlamaktadır. Bu amaçla, TradeMap ve UN ComTrade verileri kullanılarak, 2017 ve 2021 yılları arasında Türkiye-AB ve AB-Ukrayna ticareti analiz edilmiştir. Bugüne dek, savaş nedeniyle Ukrayna'nın uzun bir süre AB pazarına ürün tedarik edemeyecek olması durumunda Türkiye'nin AB ile ticari ilişkilerinin nasıl değişebileceğine dair ayrıntılı bir çalışma yapılmamış, bu da literatürde bazı boşluklar bırakmıştır. Söz konusu analiz için öncelikle 2021 yılında Türkiye ve Ukrayna'nın AB'ye en çok ihraç ettiği 100 ürünü incelenmiş, Türk ve Ukrayna menşeli ürünlerinin AB 27'nin ithalatındaki paylarını belirlenmiş ve AB'deki payı yüzde 1'den fazla olan ürünler dikkate alınmıştır. Bulgularımız, Türkiye ihracatının özellikle beş ana üründe AB'deki Ukrayna ihracatının yerini alabileceğini göstermektedir. Türk menşeli İki demir-çelik (Gümrük Tarife İstatistik pozisyonu (GTIP) 7208, 7209), bir tarım (GTIP 0802) ve iki elektrikli makine ve ekipmanın (GTIP 8544 ve 8516) AB pazarında Ukrayna pazar payının bir kısmını elde etme avantajına sahip olduğu, ancak Çin gibi diğer tedarikçi ülkelerle rekabetin de zor olacağı belirlenmiştir. Analizimize göre, AB ekonomisi Ukrayna menşeli ürünlerin yerini alabilecek Türk mallarına (özellikle tarım, tekstil, makine ve seçilmiş demir-çelik ürünleri) daha fazla bağımlı olsaydı, iç talebi karşılamak için Türk ürünlerine yönelme ihtimali halinde savaşın GB Anlaşması'nın yenilenme çalışmalarını hızlandırabileceği değerlendirilebilirdi ancak araştırmamız bunun hâlihazırda mümkün görünmediğini ortaya koymaktadır.

Anahtar Kelimeler: Ukrayna-Rusya Savaşı, Karşılıklı Ticari Bağımlılık, Avrupa Birliği, Gümrük Birliği, Ukrayna, Türkiye.

How Will Turkey-EU Trade Relations Change after the Ukraine-Russia War?

Abstract

The Ukraine-Russia war continues to threaten international trade and global supply chains. This paper aims to compare Ukraine-EU and EU-Turkey trade relations in order to find out whether Turkey's exports can replace Ukrainian products in the EU market during or after the conflict, and whether this will have also a positive impact on the modernization efforts of the EU-Turkey Customs Union (CU) Agreement. For this purpose, we analyzed Turkey-EU and EU-Ukraine trade figures between 2017 and 2021

using TradeMap and UN ComTrade data. To date, there are no major studies concentrated on how Turkish trade relations with the EU may change if Ukraine would not be able to supply to the EU market for a long time due to the war, leaving certain gaps requiring further attention. For our analysis, we firstly checked top 100 export products of Turkey and Ukraine to the EU in 2021. We determined the shares of Turkish and Ukrainian products in EU 27's imports and took into account of the products whose shares have been more than 1 percent in the EU's imports from the world. Our findings show that Turkish exports might replace Ukrainian exports targeting EU particularly in five main product groups. We identified that Turkish-origin two iron and steel (Harmonized Tariff Schedules (HTS) 7208, 7209), one agriculture (HTS 0802), and two electrical machinery and equipment (HTS 8544 and 8516) have the advantage in the EU market to gain some of Ukrainian market share, while the competition will be severe with other suppliers like China. According to our analysis, the war could have triggered the pace of the CU agreement renovation works to speed up if the EU would depend more on Turkish goods (especially agricultural, textiles, machinery and selected iron and steel products) to replace Ukrainian products in EU markets while EU would feel the need to turn to Turkish items to meet the domestic demand. Our study reveals that this appears not likely in the current situation.

Keywords: Ukraine-Russia War, Bilateral Trade Dependence, European Union, Customs Union, Ukraine, Turkey.

Introduction

The Ukraine-Russia war continues to threaten international trade and global supply chains. It is difficult to predict the final impacts of the conflict over world's trade as of now, but the detrimental effects are expected to raise as global economies are still trying to get over the pandemic and feeling the inflationary pressures.

The war will definitely change the economic and trade relations in Europe and Eurasia, including EU-Ukraine and EU-Turkey commercial relations. Ukraine and Turkey have signed a Free Trade Agreement (FTA) on February 3, 2022 just before the war began, and these countries are among the two crucial suppliers of the EU market.

The EU is the largest trade partner both for Ukraine and Turkey, as it accounts for around 40% of Ukraine's total trade in 2019. Ukraine is the 18th biggest trading partner of the EU accounting for around 1.1 % of EU's total trade. In 2021, Turkey was the sixth largest partner for EU exports of goods (3.6 %) and also the sixth largest partner for EU imports of goods (3.7 %).

Ukraine's total exports to the EU amounted to €19.1 billion in 2019 while the major export products included machinery, iron and steel, agricultural products, mining and chemical products. Turkey's total exports to the EU amounted to $72.8 billion in 2020 while the main export items were automotive, chemical products and machinery goods which accounted for 39 percent of Turkey's total exports to the EU. Apart from these three sectors, steel, ready-made clothing, textile and furniture sectors are also important for Turkish sectors for the EU market. (See Figures 1 and 2)

Figure 1: Trade between the EU and Turkey, 2015-2021 (Thousand $)

Source: TradeMap

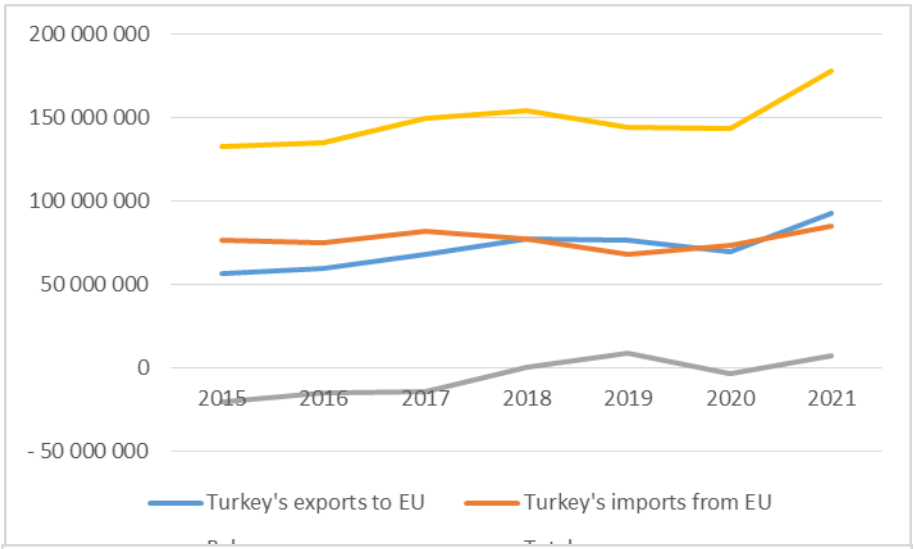
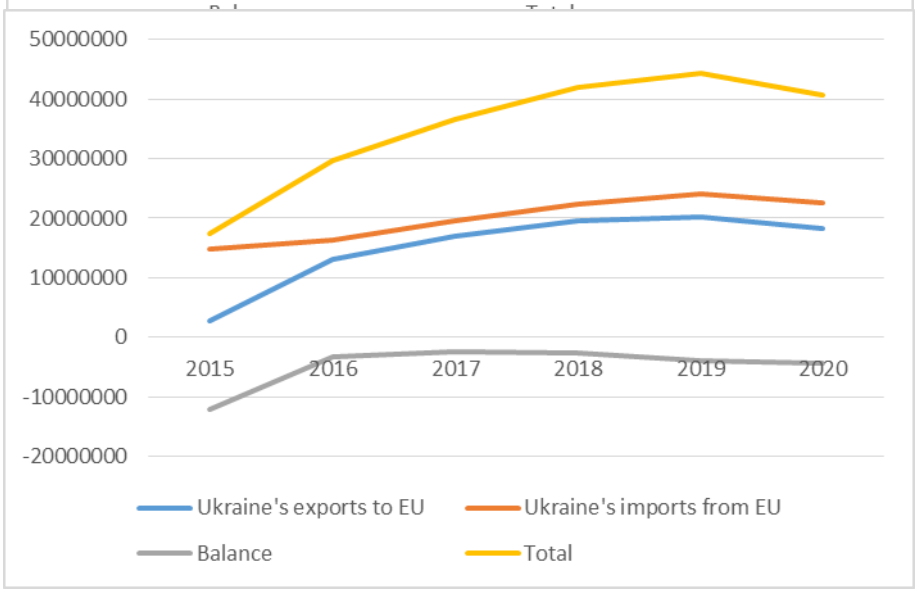


Figure 2: Trade between EU and Ukraine, 2015-2020 (Thousand $)

Source: TradeMap



It can be stated that Ukraine is not only a close trade partner of the EU, but it is the major global producer of sunflower oil, making up more than half of the exports in the world. Ukraine is also a significant global supplier of wheat, corn and other coarse grains. Turkey, on the other hand, is one of the leading providers of agricultural products (hazelnut, wheat flour, figs, and cherries), iron and steel, textiles, automobiles and electrical equipment in the world.

These two countries have immediate commercial relations as well. Interestingly, the composition of Turkish exports basket is not very different than Ukraine's as both of the countries are important suppliers of agricultural, textiles and iron and steel items in the world. Ukraine was Turkey's twelfth biggest importer and twentieth biggest export partner in 2021. Turkey's total goods imports from Ukraine increased by 74 percent when compared with 2020, and reached to $4.5 billion while Turkey's exports to

Ukraine surged by 38 percent to $2.9 billion in the same period. Schiffling et al. (2022) note that some countries are particularly dependent on grain from Russia and Ukraine: Turkey and Egypt rely on them for almost 70% of their wheat imports.

Taking into account that Ukraine's and Turkey's export baskets are not very different than each other, the countries were rivalries in the EU market before the war started. In this regard, this paper aims to compare both countries' trade relations with the EU to find out whether Turkey's exports can replace Ukrainian absence in the EU market in deference to the presence of other opponents, and whether this will have also a positive impact on the accelerating modernization talks of the EU-Turkey CU Agreement.

In spite of the fact that there are some studies on evaluating the how Russia-Ukraine conflict will shape trade in Europe, Eurasia and Middle East, there are not many studies in the literature which concentrated on how Turkish trade may be influenced if Ukraine would not be able to supply to the EU market for a long time due to the war. This study aims to fill in this gap.

The study is organized as follows: Section 1 introduces the topic, Section 2 provides information about the literature review, Section 3 discusses how the conflict in Ukraine may affect Turkey-EU commercial relations, and Section 4 conveys the conclusions.

Literature Review

The subject on how Russian-Ukraine conflict will affect economies and world's trade are few, and it continues to attract attention. Questions still remain on how long the conflict will last, and the channels that the war will affect economies. The impacts seem to be multifarious and depend on the following: Structure and operability of the markets during the war, maintainability of the supply chains, trade restrictions, logistical difficulties, the magnitude of sanctions, existing trade relations between the countries in the region, periods that trade irritancies will remain in force, infrastructural problems, alternative trade markets for Russia's and Ukraine's trade partners etc.

Aiming to evaluate the economic effects of the conflict, Liadze et al. (2022) claim that main influence of the war over the world economies will be increasing energy prices, less confidence and weaker financial markets. The authors note that an important channel of trade spill overs is agricultural exports, for instance around 80 per cent of exports of sunflower oil are accounted for by Ukraine and Russia. Supply chain disruptions together with sanctions would induce prices for wheat and other grains to hike, which would exacerbate the inflationary pressures. Astrov et al. (2022) assert that that Russia's exclusion from swift would severely disrupt global payments, international trade, and supply chains.

Focusing on the country-level impacts of the war, Abdelaaziz et al. (2022) state that the impact of the conflict on Morocco's foreign balance will be around at 6.5% of GDP in 2022 as price increases will aggravate inflationary pressures. They also underline the conflict will negatively affect both African energy and food importers.

Underlining the effects on trade of agricultural goods, Patterson (2022) specifies that Ukraine is denoted as the Europe's breadbasket, but this seriously understates Ukraine's importance since it is the major exporter of other staples like sunflower oil.

Ukraine, itself, accounts for about 17%, 12% and 30% of global corn, wheat and sunflower exports, respectively and the immediate effect of the conflict is obvious: 25% of wheat and 43% of corn harvested this year is still to be exported using the major port of Ukraine in Odessa, which is currently blocked.

Dongyu (2022) puts forward that the transportation problems and logistical disruptions will have detrimental effects over the production of Ukrainian and Russian oilseed and grain, together with the restrictions on Russia's exports, which will significantly trigger food security repercussions. The impact will be even harsher over developing and less developed countries as they depend heavily on Russian and Ukrainian wheat. According to Dongyu (2022), food prices which reached its peak as of February 2020 are expected to increase more because of input and transportation costs, port disruptions and continued high demand.

Paulson et al. (2022) underline that the volatilities in the fertilizer and oil prices are currently at extreme levels, which is expected to be exacerbated by the ongoing Russian invasion as it would add extra uncertainty on input costs that might extend to future crop years.

Shedding light on the immediate priorities on global food supply chains, Lang et al. (2022) proposes three actions: Current food supplies should be utilized very efficiently, existing model of global trade should be re-discussed, and as the cost of petrochemicals also rises, the overall system of agricultural production shall be reconsidered.

Redeker (2022) specifies that the Baltics and some Central and Eastern Europe (CEE) member states are expected to feel the direct economic costs of commercial problems between the EU and Russia. Trade disruptions due to war can induce a cut off in overall exports and turn into an economic misery for these countries. According to Redeker (2022), if sector-specific shortages (particularly for agricultural and industry inputs) would arise, this will hit EU's manufacturing and farming negatively.

Concerning the impacts of the war on Israeli business, Yanovskiy (2022) mentions that as the war gets worse, Israel should get rid of weighty and useless arrangements over business making. As per Yanoyvskiy, Israel also needs to develop its gas industry on well-established private property rights to encourage effective investments in the gas business.

For their research, Korhonen et al. (2022) assess recent figures on Russia's economic integration with other countries and evaluate the general picture of Russia's economic integration. They reveal that Russia is still very tightly connected with the global economy through international trade and financial markets.

Ezeani (2022) mentions that consumer prices will surge not only for energy but also for agricultural products like bread as Russia and Ukraine limited control of the wheat market. Another impact may be that European countries would increase their military speeding in NATO.

McCabe (2022) notes that Russia's economy, which is contingent upon exporting oil and gas, will be detracted from the sanctions and this will have repercussions.

As per Schiffling et al. (2022), another effect over the business world might be that the war could worsen microchips shortage as Russia and Ukraine are such key exporters of some metals such as neon, palladium and platinum, all of which are critical for microchip manufacturing.

Papanikos (2022) predicts that a huge trade diversion could take place following the Russian invasion of Ukraine. Papanikos (2022) expresses that Russia might get into trouble if Germany, being the leading trade partner of Russia, would decide to shift to other energy sources.

Touching upon the effects over Turkish economy, Schiffling et al. (2022) indicate that the energy, transport, food, metals and microchips are the five major commodities, which will be hit by war and add that Ukraine meets the half of the sunflower oil demand in the world while Russia and Ukraine together account for more than a quarter of global wheat exports, while some economies are especially dependent on grain imports from Ukraine and Russia, for instance, Turkey and Egypt rely on these countries for almost 70% of their wheat imports.

A seminal study by Oxford Analytica (2022) propounds that Turkey could be hit hard by the war due to close relations with both of the countries and skyrocketing energy costs. According to the study, Turkey is very much tied to Russia as Russia is Turkey's leading gas and wheat supplier, and major tourism partner. In addition, Turkey is the third-largest tourism market for Ukraine and second-largest importer of wheat.

Apart from the research on the effects of the war, there have been very limited assessments on how the war can change trade relations (including trade agreements) between the countries in Europe. Like Ukraine, Turkey has a privileged trade agreement with the EU, which can be considered to have a larger content when compared with the Ukraine's deep and comprehensive free trade area (DCFTA) which got into force in 2017. As Figure 2 illustrates, it can be claimed that DCFTA had a positive impact over the bilateral trade between Ukraine and the EU. Assessing DCFTA between Ukraine and EU, Rabinovych (2022) puts it forward that DCFTA had been a strong engine for trade-related reforms (e.g. countering technical barriers to trade; public procurement; competition and state aid) in Ukraine between 2014 to 2019 while DCFTA had a considerable impact on the interplay of the regulatory spaces and influences in the regions and the role of the EU as a trade power.

If we look from the viewpoint of the CU agreement, it can be argued that Turkey-EU CU was successful in the first years after it was signed in 1996, it is now over a quarter-century old and badly in need of an update. Turkey complains that the deal treats it unfairly while EU side grumbles that Turkey fails to fulfil its obligations under the current CU and applies ex parte trade irritancies. Despite the shared interest in negotiating a CU update in earnest, there has been no concrete steps from the two sides so far, and the war between Ukraine and Russia may also change the power balances.

In spite of the challenges, according to Muftuler-Bac (2017), Turkey-EU functional integration has been partly ensured thanks to Turkey's active participation in research and development and education activities by the EU. On the other hand, Altay (2021) puts forward that Turkey will not be able to actively participate in the decision-making

process by the EU even though the CU will be notably modernized. Altay (2021) also indicates that the CU modernization talks can offer parties the opportunity to strengthen the Turkey-EU relations and pave the way for a strong external differentiated integration instead of a full membership in addition to dealing with current trade problems within the framework of the customs union. We can expect that the EU and Turkey sides can modify the relationship toward building a privileged partnership based upon one of the external differentiated integration models as in the cases of Switzerland or Norway, or from a DCFTA like the one with Ukraine, but it would be abeyant to say whether Turkish part would agree with these models.

To date, no major studies evaluated on how Turkish trade relations with the EU may change if Ukraine will not be able to supply to the EU market for a long time due to the war, leaving certain gaps requiring further attention.

Impacts of the Conflict over Turkey-EU Trade Relations

Can Turkish Exports Replace Ukrainian Exports in the EU Market until Ukrainian Economy Recovers?

Turkey- EU and EU-Ukraine commercial relations vary in terms of products and sectors. According to the trade figures, Ukrainian and Turkish textiles, iron and steel and machinery industries are direct competitors in the EU market. To be able to reveal how Ukrainian and Turkish products compete in the EU market, we firstly checked top 100 export products of Turkey and Ukraine to the EU in 2021. We determined the shares of Turkish and Ukrainian products in EU 27's imports, and took into account only the products whose shares were more than 1 percent in the EU's imports from the world. Following the research, we identified that five Turkish-origin products have a greater chance when compared to others: Two iron and steel items (HTS 7208, 7209), one agriculture good (HTS 0802), and two electrical machinery and equipment (HTS 8544 and 8516) may have the advantage to gain some of Ukrainian market share in the EU market.

Analyzing Turkey's and Ukraine's exports to the EU between 2017 and 2021, it seems that Turkish exports might have a chance to replace Ukrainian exports in the EU market, particularly in the following five products:

Table 1: Top Five Turkish Products which Have the Highest Chance to Replace Ukrainian Goods in the EU Market

Product code	Product label	Share of Turkey in EU-27's imports					Share of Ukraine in EU 27's imports				
		2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
'8544	Insulated wire, cable	0.021	0.019	0.018	0.019	0.024	0.031	0.03	0.031	0.03	0.028

'0802	Other nuts, fresh or dried	0.12	0.125	0.126	0.13	0.114	0.011	0.011	0.011	0.012	0.014
'8516	Electric instantaneous water heaters	0.034	0.035	0.036	0.035	0.033	0.013	0.016	0.018	0.019	0.019
'7208	Flat-rolled products of iron or non-alloy steel, hot-rolled	0.05	0.079	0.082	0.06	0.036	0.04	0.027	0.029	0.03	0.047
'7209	Flat-rolled products of iron or non-alloy steel, cold-rolled	0.007	0.018	0.038	0.025	0.057	0.025	0.034	0.026	0.03	0.042

Source: TradeMap

It is important to note that Turkey would have important competitors, particularly when supplying products under HTS 8516 and 8544 to the EU. For instance, according to UN ComTrade stats, EU imported 63.9% of insulated cables and 21.8% of electrical water heaters from China, which made China to lead the list of importers for the goods by far.

The rivalry to supply flat rolled products of iron (hot or cold rolled) to the EU market has been quite intense in the recent years as well. Turkey exported the most items lying under HTS 7208 to the EU in 2020, followed by Russia and Ukraine. (See Table 2). If the war continues, Turkey may further dominate the market in the upcoming term. Ukraine and Turkey ranked 4th and 5th respectively in the list of largest exporters of HTS 7209 to the EU market in 2020, as the first three countries in the list were South Korea, United Kingdom and India. When supplying other nuts under HTS 0802 to the EU, Turkey ranks the second after United States of America (USA), while the United States has a share of 55.4% in the imports of EU.

Table 2: Top Five Exporters of HTS 7208 to the EU Market, 2020

Year	Exporter	Value of Imports ($)

2020	World	$4,097,882,289
2020	Turkey	$864,948,151
2020	Russia	$803,565,639
2020	Ukraine	$430,774,610
2020	India	$419,341,019
2020	Republic of Korea	$409,121,201

Source: UN ComTrade

On the Turkish side, it appears the major gainers can be Turkish iron and steel, and machinery suppliers if the war will last for a long time. However, the war may also harm these industries due to various reasons.[1] To illustrate it, according to Ugur Dalbeler, vice president of Turkish Steel Exporters' Association, recently stated that the inability to import raw materials for steel production might negatively affect Turkish steel industry in the short term, while the war may also provide advantages for Turkish steel exports in the medium term.

Although shares of Ukrainian textile products barely reach 1 percent threshold in EU's imports, Turkish textile producers may also gain some shares of Ukrainian exports in the European markets, although the impacts may be minimal, as can be seen Table 3.

Table 3: Top Four Turkish Textile Products which May Replace Ukrainian Items in the EU Market

Product code	Product label	Share of Turkey in EU-27's imports					Share of Ukraine in EU 27's imports				
		2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
'6204	Women's or girls' suits, jackets, etc.	0.99	0.102	0.102	0.104	0.121	0.005	0.005	0.004	0.004	0.003

[1] An important point to consider is if these producers directly use Ukrainian raw materials to produce their final goods and/or how their loss of markets shares in Ukraine and Russia will affect their business. The final outcome will heavily depend on bilateral trade relations.

'6203	Men's or boys' suits, jackets, etc.	0.084	0.079	0.082	0.084	0.088	0.007	0.007	0.007	0.007	0.008
'6104	Women's or girls' suits, jackets, blazers, dresses etc.	0.082	0.085	0.084	0.087	0.09	0.003	0.004	0.003	0.003	0.003
'6307	Made-up articles of textile materi.	0.015	0.015	0.016	0.01	0.03	0.005	0.005	0.006	0.001	0.004

Source: TradeMap

Other sectors, which might enjoy limited possible gains, are the furniture and construction sectors, as can be seen in Table 4.

Table 4: Other Turkish Products which May Substitute Ukrainian Goods in the EU Market

Product code	Product label	Share of Turkey in EU-27's imports					Share of Ukraine in EU 27's imports				
		2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
'9403	Furniture and parts thereof	0.016	0.017	0.018	0.019	0.022	0.005	0.006	0.008	0.009	0.011
'9401	Seats	0.02	0.021	0.022	0.021	0.02	0.005	0.006	0.007	0.007	0.008
'7326	Articles of iron or steel	0.028	0.029	0.028	0.029	0.032	0.003	0.003	0.003	0.004	0.005
'3923	Articles for the conveyance	0.02	0.02	0.022	0.023	0.025	0.001	0.001	0.002	0.002	0.002
'7308	Structures and parts of structures, e.g., bridges etc.	0.011	0.017	0.019	0.026	0.028	0.002	0.001	0.002	0.002	0.002
'8536	Electrical apparatus for switch.	0.008	0.009	0.008	0.009	0.011	0.003	0.003	0.003	0.002	0.002
'7204	Ferrous waste	0.008	0.008	0.007	0.009	0.01	0	0	0	0	0.002

	and scrap										
'8479	Machines and mechanical app.	0.006	0.006	0.007	0.009	0.009	0.001	0.001	0.001	0.001	0.002
'8414	Air or vacuum pumps	0.008	0.009	0.01	0.01	0.009	0.001	0.001	0.001	0.002	0.002
'8511	Electrical ignition or starting equip.	0.035	0.033	0.033	0.033	0.027	0.002	0.002	0.003	0.004	0.003
'3925	Builders' ware of plastics, n.e.s.	0.019	0.019	0.02	0.024	0.028	0.002	0.003	0.004	0.005	0.008

Source: TradeMap

Can War Spur EU-Turkey Customs Union Agreement Modernization Talks?

The CU between the EU and Turkey came into force in 1996 with the form as noted by the Ankara Agreement. Sezgin et al. (2020) indicate that the association agreement, which is also known as *Ankara Agreement*, was signed between the parties on September 12, 1963 and the agreement came into force in 1964. The important facet of this plan was founding a CU so that both parties can trade industrial goods and agricultural products without any trade restrictions and frictions. The EU-TR CU not only envisages termination of all custom duties and trade restrictions bilaterally, but also calls for undertaking preferential and autonomous trade policies of the EU including Free Trade Agreements (FTAs) which the EU has already concluded with the third countries (EU FTAs).

Bilateral trade has more than quadrupled since the CU came into force and some scholars consider that CU has had a significant role in boosting Turkey's growth and increasing Turkish producers' competitiveness. EU countries continues to be top trade market for Turkey: the EU accounted for 36.8 % of Turkey's trade in 2020, down slightly from 36.9 % in 2019. Turkey was the EU's sixth-largest trading partner, representing 3.6 % of the EU's global trade in goods in 2020. In 2020, Turkey exported $72.8 billion of goods to the EU and imported $81.3 billion; 41.3 percent of Turkey's exports were to the EU. Turkey has had a negative balance of trade with the EU in nine of the last ten years, but the gap between imports and exports has been steadily closing, and Turkey ran a $1.75 billion trade surplus with the EU in 2019. The trade figures, which can be seen at Table 5 below, provides evidence how CU helped bilateral trade to lift in the last four decades.

Table 5: Turkey's Total Trade with European Union (million $), 1980-2020

Year	Value of Turkey's Exports to the EU	Value of Turkey's Imports from the EU	Export/Import Ratio
1980	1,595	3,079	0.52
1990	7,596	10,492	0.72
2000	15,688	28,552	0.55
2010	49,553	66,600	0.74
2020	70,019	73,337	0.95

Source: Author's calculations using TradeMap and UN ComTrade

Turkey's success in aligning with the common trade regime of EU assisted trade figures to grow. [2] After CU, Turkish economy went into a transformation process. According to the Ministry of Trade of Turkey, the share of Turkey's agricultural products exported to the EU decreased from 15.4 percent to 7.9 percent between 1995 and 2020, while the share of textile and clothing products diminished from 42.1 percent to 20.1 percent in the same period. On the other hand, the share of Turkey's automotive products exported to the EU soared from 2.5 percent to 20.8 percent while the share of machinery products increased from 2.7 percent to 10.9 percent.

Despite CU's advantages, Turkey and EU are concerned with the current status of the CU. It can be asserted that CU has been beneficial for both of the sides so far. However, in years, as the global economy and commerce have changed, the partner's objectives, needs and expectations have deteriorated as well. First, the EU is currently the first biggest trade block of the world at the moment and it has reached a huge market capacity with its members. Besides, the EU represents the %5 of the world population and 20% of global trade. Although Turkey has expected to be an important partner for the EU, it could be claimed that CU lost its importance for the EU as EU is a giant for world's trade while Turkey represents around 1% of the global trade.

On the other side of the coin, Turkey's main complaint about the CU Agreement has been the EU's free trade agreements (FTAs) allowing third countries to export to Turkey tariff-free without removing tariffs on Turkish exports –*trade deflection* – which Turkey

[2] Turkey started to apply common rules regarding import and export, quotas, rules of trade defence instruments against to dumping and subsidies, inward and outward processing regimes, which were regulated in accordance with the relevant the EU acquis.

views as an unfair competition. Since the CU came into force, the EU has signed FTAs with 40 countries with whom Turkey does not have FTAs. Turkey, for its part, has an FTA with Malaysia, with whom the EU does not have an FTA. The EU's main concern about the CU is Turkey's continued effort to strike new trade deals that are not aligned with EU trade policy. Turkey views these agreements as necessary safeguard measures to protect the Turkish market from the asymmetrical FTAs between the EU and third countries.

In line with this, Turkey continues to make attempts to align with the preferential and autonomous regimes of the EU. As of today, all custom duties and tariffs for the industrial goods are set to as of zero bilaterally. As stated above, Turkey follows the common trade policy to the third countries. The problematic points are generally related with the trade agreements with the third countries/parties which the EU has already have a trade agreement with.

Although the renovation of the Turkey-EU CU is on the agenda, it seems it is not at the top of EU's agenda. A revision might be considered but establishing a new trade agreement (like a new broader FTA with Turkey with new provisions) is not preferred to renovating current CU. Although some EU stakeholders support a new FTA, it appears the EU is not very eager neither to reach a FTA nor revise CU in line with Turkish propositions. According to some scholars, a model which can be used by the partners might be creating an economic area like the European Economic Area (EEA). But in terms of the nature of the EEA, the agreement guarantees the free movement of goods, services, capital and people, so therefore EU might be hesitant about this model as it would nearly mean that Turkey to become a full member to the EU. Another possible model might be signing an Association Agreement like with Ukraine (AAU), but this could raise concerns on the Turkish side, particularly the final aim of Turkey is to be a full member to the EU, not to sign a mere association agreement.

Like Turkey, Ukraine has close commerce ties and a trade agreement with the EU as well. Ukraine signed an Association Agreement, including a Deep and Comprehensive Free Trade Area (DCFTA) with the EU in 2014. [3] The Association Agreement formally entered into force on 1 September 2017. With this, the EU granted Autonomous Trade Measures (ATMs) for Ukraine, topping up the concessions included in the Association Agreement/DCFTA for several industrial goods and agricultural products from October 2017 for a period of three years. [4] The main aim of the AA/DCFTA was to accelerate commerce in goods and services between the partners through gradually decreasing customs taxes and eventually bringing Ukraine's rules in line with the EU's in certain industrial sectors and agricultural products.

On the agricultural side, EU seems hesitant to offer free access for both Turkish and Ukrainian agricultural products to enter the European markets since EU subsides its

[3] *The EU signs following three different trade agreements*: i. Custom Unions: Custom tariffs are eliminated, and joint custom policies are implemented. ii. Association Agreements, Stabilization Agreements, (Deep and Comprehensive) Free Trade Agreements and Economic Partnership Agreements: Customs taxes are removed or reduced. iii. Partnership and Cooperation agreements: Tariffs remain, and bilateral relations improved.

[4] For more information, please see https://ec.europa.eu/trade/policy/countries-and regions/countries/ukraine/

agricultural producers in many ways under the common agricultural policy (CAP) as the preservation ratio for European agricultural products for third countries are about 13.9%. Besides, EU may be concerned that Ukrainian and Turkish agricultural products sometimes fail to meet technical and healthy standards.

According to our analysis, the war could trigger the pace of the modernization discussion to speed up if the EU would depend more on Turkish goods (especially agricultural, textiles, machinery and iron, steel products) to replace Ukrainian products in EU markets, and EU will feel the need to turn to Turkish items to meet the domestic demand. Our study reveals that this will not possibly be the case since if Ukrainian goods will be out of the market for a long time, the competition to fill in Ukraine's gap will be severe as China and USA currently dominate the EU market for some selected product categories where Turkey may have a chance to step in. Nonetheless to state, the final competition will depend on the final price offered, quality of the goods, the needs of the customers in the EU region and the market structure of the EU following the war.

Conclusion

This paper aims to compare Ukraine-EU and EU-Turkey trade relations to find out whether Turkey's goods can replace Ukrainian products in the EU market during or after the conflict, and whether this will have also a positive impact on the acceleration of modernization talks of the EU-Turkey CU Agreement. For the sake of our study, we used trade databases by TradeMap and UN ComTrade and compiled figures for 2017-2021 period.

Our findings show that Turkish exports might replace Ukrainian exports targeting EU, particularly in five main product groups. For the sake of the study, we firstly checked top 100 export products of Turkey and Ukraine to the EU in 2021. We determined the shares of Turkish and Ukrainian products in EU 27's imports, and took into account only the products whose shares were more than 1 percent in the EU's imports from the world. We identified that five Turkish-origin products have a greater chance when compared to others: Two iron and steel items (HTS 7208, 7209), one agriculture good (HTS 0802), and two electrical machinery and equipment (HTS 8544 and 8516) may have the advantage to gain some more market share in the EU market.

However, Turkey would have important opponents, particularly when supplying products under HTS 8516 and 8544 to the EU. According to UN ComTrade stats, EU imported 63.9% of insulated cables and 21.8% of electrical water heaters from China, which made China leading exporters of these goods in the EU market by far. In addition, the competition to supply flat rolled products of iron (hot or cold rolled) to the EU market has been quite intense in the recent years. According to UN ComTrade stats, Turkey exported the most products under HTS 7208 to the EU in 2020, followed by Russia and Ukraine. If the war continues, Turkey may further dominate this part of the EU market in the upcoming term.

Ukraine and Turkey ranked 4th and 5th respectively in the list of biggest exporters of HTS 7209 to the EU market in 2020, as the first three countries in the list were South Korea, United Kingdom and India. When supplying other nuts under HTS 0802 to the

EU, Turkey ranks the second after USA while the United States has a share of 55.4% in the imports of EU.

It appears, the major gainers on Turkish side may be Turkish iron and steel and machinery suppliers if the conflict will last for a long time. Although shares of Ukrainian textile products barely reaches 1 percent threshold in EU's imports, Turkish textile producers might also earn some shares of Ukrainian exports in the European markets, although the impacts may be minimal. Other sectors which might enjoy possible gains are Turkish furniture and construction sectors.

According to our research, the war could have triggered the pace of the CU agreement modernization discussion to speed up if the EU would depend more on Turkish goods (especially agricultural, textiles, machinery and selected iron and steel products) to replace Ukrainian products in EU markets while EU would feel the need to turn to Turkish items to meet the domestic demand. Our study reveals that this will not possibly be the case since if Ukrainian goods will be out of the market for a long time, while the competition to fill in Ukraine's gap will be severe as China and USA dominate the EU market for some good categories where Turkey may have a chance to step in.

We are of view that, future research might focus on doing a more detailed product level analysis for Turkey (HTS 8-12 levels), particularly for agricultural, iron-steel, textiles and machinery industries. One limitation of our research might be the strong focus on the Turkey case only. Although our study does not use a novel method or invent a new understanding for the general subject in hand, we believe it provides an important analysis and contributes to the literature that way.

There are not any major studies in the literature yet aiming to assess how goods originated from one country out of EU (like Turkey) can replace Ukrainian products in the EU market during or after the conflict. We think future research might focus on doing a similar country-level trade and the results of these studies can be compared with our results.

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