

THE EFFECT OF TRADE AGREEMENTS: THE CASE OF INTERNATIONAL TRADE OF EUROPE AND TURKEY

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Abstract

Buying and selling of goods and capital across nations and territories is known as international trade. Also trade and trade management has been an important task for countries over centuries. Great imperial powers managed to benefit from the commercial agreements with the neighboring countries or the other world powers as the international trade was considered the backbone of the world trade in the past and in modern world. Countries wanted to trade and have profit over the borders rather than the domestic limited markets, buying and selling required international agreement to be able to have access to a particular market of a particular country.

This paper attempts to introduce to trade agreements by the European powers and Turkey. The Ottoman Empire and the Great Britain created and signed a trade agreement on increasing international trade in the 19th century. And about a century later was another agreement signed by the European Union (EU) and Turkey.

European trade and merchants expanded in the Ottoman territories after 1770s especially after the Kucukkaynarca Agreement. It brought some social changes but more the economic changes and effected the Ottoman Empire socially and economically as different religious and ethnical groups occurred.

The international cooperation with the foreign merchants and competition among Muslim and non Muslim traders and even in between the non Muslim traders existed over centuries. But particularly, during the 19th century after having number of commercial agreement with European powers the competition increased in domestic market and internationally. And with the agreement of 1838, the agreement with the Great Britain made the foreign power beneficiary of the Ottoman trade as the foreign trade went under their control and non Muslim merchants were the intermediaries that served for the best interest of the European powers.

Turkey signed a Custom Union (CU) in between the EU member countries in 1994. The Commercial Agreement of 1838 and CU were for the same purposes that were to increase the trade in between Europe and Turkey. These two agreements aimed an increased in the trade relations and also trade volume and gain new markets for the national goods and also capital.

The purpose of the paper is to introduce the effects of the trade agreements for developing the international trade. The Agreement of 1838 signed by the Ottoman Empire and the Great Britain allowed more and more foreign goods into the Ottoman market and it brought new opportunities to the intermediaries of the Ottoman Empire. Also the CU signed with the EU brought more trade options to both sides. As trade quotas' and tariffs decreased on both sided, the international trade increased with the union.

Methods used in the paper are the analysis of scientific literature, national archive for the data and the content analysis. It is expected that the trade relation in between two countries and as well as with the major European countries increased due to the agreement. With the agreement, the Ottoman Empire decreased the trade tariffs which resulted an increase in the foreign trade into the Ottoman territories. On the contrary, the CU was more beneficial as it aimed to increased trade and entry of goods into the domestic markets mutually.

Keywords: Trade agreement, Ottoman Empire, Great Britain, trade tariffs, the CU, the EU, Turkey

JEL Classification: N15, O52, N00.

Introduction

The economic relations and international trade has changed in the 19th century and world economy restructured. This is most of the time called and 'globalization' or 'liberalization' of the countries and their trade policies.

The Ottoman Empire existed from the 13th century until the end of the First World War and Turkish Republic established after the empire. Trade, trade relations and trade agreement has been always very important for the empire and it was a leading power in the region, Mediterranean and Balkans with a powerful economic networks. The Ottoman Government authorities issued privileged trade options for the Europeans mainly France and the Great Britain. The foreign trade policy of the empire was based on 'promoting import and suppress export' as the supply of goods to the entire empire and particularly to the main cities was the main focus that should be guaranteed and it was the main domain of the trade practices. However in the 19th century, the balance of power among the countries has changed and the Ottoman Empire turned to be a very important market for the foreign goods for the European powers.

After the industrial revolution, the production of the major European countries increased and this caused the necessity of emerging to the new markets and the Ottoman Empire was a profitable one. On the

other hand, in the 19th century, the empire was experiencing the military, political and economic decline which made the penetration of the foreign capital and foreign good easy into the market.

The involvement of the Ottoman Empire into the world trade was basically with the agricultural production from the western part of Anatolia and Balkans where the transportation was relatively better than the other regions that the agricultural goods could be transported.

The CU, brought in a century later, by the same actors, was signed by Turkey on one side and EU member countries on the other. The agreement was based on removing trade barriers and custom duty mutually in 1990s. This was the period of the Turkish Republic has already been applying the liberal economic policies since 1980s. Another important point for the trade agreement was the EU and the membership of Turkey.

The paper focuses on the historical development and the involvement of the Ottoman Empire into the world trade, the effect of the European countries particularly the Great Britain. It also analyzes the CU and development of the international trade and foreign trade policy of Turkey. The paper tries to make a comparison in between the two trade agreements with similarities, differences and also necessities and finally implementation and how the trade volume effected from the agreements.

Industrial Revolution and Economic Conditions of the Country in Both Centuries

The Ottoman Empire subjected to the European countries with a socio-economic formation politically and economically from the mid 16th century until to the beginning of the 20th century. Organization of the economic life in the empire was not different and disconnected from the European market; external trade carried out by the local and foreign merchants and long distanced trade contributed to the Ottoman economy. Therefore, Ottoman economic transformation occurred with the effect of European technological transformation and its effects to the world economies (Sunar, 1987).

Ottoman industry and advancement was commensurate to the European countries until the end of 18th century and the products from the empire were highly demanded in the European countries. Due to the industrial revolution in Europe, the western countries, merchants and products broke the competitiveness of the Ottoman Empire and industry (Akgunduz & Ozturk, 2011).

In the 19th century and earlier, the superior European countries advanced their production and transport system as an immediate outcome of the industrial revolution. Industrial revolution resulted unprecedented economic changes in terms of trade relations worldwide and especially for the Ottoman Empire particularly in the 19th century. A rapid increased in international trade with the help of technological improvements and transport of the goods allowed countries to increase the trade relations. New technologies made it easier to produce fabricated goods, transportation facilities made the trade quicker and less costly and these are the main causes of the growth in trade.

On the contrary, the Ottoman Empire was in declining period and the manufacturing and industry were relatively primitive comparing the European counterparts. This economic condition resulted the entrance of the foreign merchants more and more in the Ottoman market that required trade agreements for negotiating over the custom duties. Therefore, as the European countries produced more goods as the result of industrial revolution, they wished to penetrate into the Ottoman territories to find market for their mass products. In return, these countries and the trading companies could have the opportunity to buy some raw materials which were the sources or the input for the factories.

For the trading activities the infrastructure investments were required for the foreign companies operating in the Ottoman Empire and this requirement flourished again the foreign companies as the technology, material and capacity was under the control and hand of the European industrialists. Therefore, when talking about foreign trade, it is not only the finished goods of the major European companies, but also buying the raw materials from the empire and investing some particular areas in the Ottoman economy.

In the 20th century, the political and economic conditions were different than the previous century. Firstly, Turkey, with an economic freedom and less political dependences, had relatively advanced manufacturing and industrial sector and active trade relations with Europe and the world. Secondly, Turkey already was well-adapted to the world trade system with a proper foreign trade policy, had independent economic and political decisions.

When looked at the economic and political condition of the Ottoman Empire and Turkey within the time of the trade agreements, one can understand the differences in the time of the trade agreement of 1838 that the empire was not able to carry out an economic and trade policy independently. This was the

consequence of the political weakness and dependence of the empire. The political dependences and weaknesses resulted the trade agreement benefited mainly by one side.

Trade in the Ottoman Economy and the Relations with the European Countries

Muslims in general were not willing to travel abroad like the European people and when it came to trading activities it worked in the same way. Foreign consulates and embassies opened their offices in the Ottoman land; the Europe did not see such a tendency in return. Also, western traders came and traded in the Ottoman territories and the Ottoman government preferred to have trade privileges to the foreign merchants for their economic activities in the empire and this is called capitulations (Geyikdagi, 2011).

The Ottoman authorities tried to promote the Levant trade of Italy in 1352 by issuing trade privileges first to Genoese then Venice and Florence. The trade privileges allowed by the Ottoman authorities contributed to the economic prosperity of Italy in the Renaissance Period. The Ottoman Sultans contributed to the commercial development of the Europe by continuing to provide trade privileges to France in 1569 as a political alliance. French enjoyed the privileged position in the Levant trade after 'the 1569 capitulations' and they were granted to the Great Britain in 1580 and to the Netherlands in 1612. Capitulations provided foreigners to secure trade and expended in every renewal period and custom duties dropped to %3 and finally was an industrial exploitation of the European countries in the Ottoman territories (Inalcik, 1994). Ottoman Government authorities paid attention to the significance of the industry and the foreign trade and started to have the protectionist approach after the years 1860s by increasing the customs duties (Akgunduz & Ozturk, 2011).

The Ottoman Empire applied totally different foreign trade policy that was absolutely the opposite of the mercantilist doctrine of Europe. The main principle was to secure the goods abundant and cheap in the domestic markets and in the cities. This policy brought an end to the local industries as they could not compete against the Western cheap goods. With the trade agreement of 1838, one-third of the total foreign trade of the Great Britain was to the export to the Middle East. This example shows the clear consequence of the trade relations that the empire was an open market to the Western goods (Inalcik, 1994).

Diplomatic relations with the European countries and Russia shaped the economic relations and trade agreements. Russia was given right to have active trade in the territories of the empire with the Kucuk Kaynarca Agreement in 1774, and the other agreements and capitulations issued to the number of countries such as France, the Great Britain, Austria, and Prussia. As diplomatic relations increased and it increased the trade options among countries and also merchants, goods, and money circulation increased the trade. Trade already volumed between the Ottoman Empire and Europe in 18th century but trading possibilities in 19th century caused by the intergovernmental relation resulted an increase in economic activities of the non-Muslim community of the empire as they were more involved into international trade.

Political weaknesses in the state played also an important role in signing the trade agreement that the empire was forced to open the domestic market.

The Agreement of 1838

British merchants were actively involved into the Ottoman trade since the 16th century as they were granted permission with the capitulations. But the 19th century brought a new era to the trade relations. The trade agreement in 1838 allowed the merchants important trade privileges and the Ottoman market turned to be very favorable for the foreign merchants and also for the locals holding foreign merchants position. In later years the same privileges granted to the other European countries and the Ottoman market were open to the whole major countries while their markets were totally closed due to the foreign trade policy.

However the industrial revolution, the reason or the necessity to sign a trade agreement with the Great Britain is the commercial privileges provided by the Ottoman government since the mid-19th century. As mentioned below, the Ottoman government issued capitulations to some European countries to be able to have allies against the Russian Char and Hapsburgs'. Capitulations granted to the countries chronologically are (Inalcik, 1994):

- The period of Italian states: Genoese, Venice, Florence, Napoli (1200-1569),
- The period of the Western countries: France, the Great Britain, the Netherland (1569-1700),
- European countries: (1700-1783),
- Mutual agreement with Russia (1783),
- Trade Agreement with the Great Britain (1838),

- The attempts to abolish the capitulations during the Tanzimat period (1856-1914).

The Ottoman Empire continued to have the traditional trade relations with Europe by providing more and more privileges that made the empire economically and politically depended to the west. On the other hand, the trade privileges were granted to the Ottoman non-Muslims that they were also exempt from the custom duties that are most of the time called the corruption of the system (Inalcik, 1994; Bagis, 1983).

The covered period is known as a boom in the economic activities and they were much efficient with the fast growing economies. Many countries incorporated with the Ottoman Empire such as England and France as important producers after the industrial revolution.

The industrial Revolution brought advanced technology into the production; size of production increased and economic expansion turned to be the only way for industrialization and advancement for the major European countries. One can easily say that the trade agreement is the result of the revolution as it created the necessity of new markets. On the other hand, the other very crucial reason for the trade agreement is the economic situation in Europe. After the Napoleonic wars the Great Britain, as an industrial and global trading nation, had difficulties in entering the neighboring trade partner countries as they introduced heavy trade barriers to protect their national economy. Therefore, the Great Britain aimed to enter to some new markets for the British cheap products and raw materials from those countries in return and the Ottoman Empire was one of them. (Zürcher, 2005).

When it came to the 1830s, with the necessity of expanding the markets as a result of the industrial revolution, countries and particularly the Great Britain wanted to secure and stable the Levant markets and make the capitulations permanent that was one of the main mercantilist state in Europe. The trade agreement of 1938 modified the custom duties as 3% for import and 9% for export. This was known to be a shocking effect to the sovereignty of trade policy of the empire that in the coming years until the First World War especially during the Tanzimat period the government and bureaucrats of the empire tried to abolish the capitulations. Despite the efforts of the state, the privileges on the trade activities of foreigner and some non-Muslims continued until the state declared the abolishment in 1914 by the First World War (Inalcik, 1994). Before the agreement the Ottoman Government issued the internal customs duties while crossing the administrative borders of the empire apart from the import taxes paid for the foreign commodities (Kurmuş, 1983).

Economic relations are not neutral from the political relations and the power of the region. At the time of the Agreement of 1838, the Ottoman Empire was facing a very serious treat of Mehmet Ali Pasha, the governor of Egypt. This treat made the Ottoman government to sign a free-trade agreement that eliminates the tariffs on export and import. However the local merchants were not exempt from the internal duties.

Therefore, with the trade agreement in 1838, the Ottoman Empire and the economy was opened to the international trade mainly with the effort of the Great Britain that allowed the European countries benefited from the trade as the agreement removed some trade restrictions and it reconstructed the Ottoman trade.

However the British merchants extended the market in the Ottoman Empire before the trade agreement in 1838, the real penetration to the Ottoman market was after the agreement. With the free trade agreement, export of the Ottoman goods to the Great Britain increased 6.8% per year in between 1938 and 1854. For the same years import from the Great Britain increased 3.4%. Therefore, it can be stated that growth of the foreign trade was higher after 1840s (Pamuk, 2010).

Table 1 Ottoman foreign Trade, 1830-1910 (Million pound)

Years	Export	Import
1830	3,7	5,3
1835	4,4	5,2
1830-1839	4,2	5,1
1840	4,7	5,2
1845	6,2	7,4
1840-1849	6,0	6,9
1850	7,8	8,9
1855	9,7	19,2
1850-1859	9,8	12,3
1860	11,1	13,7
1865	15,6	19,4
1860-1869	15,4	18,3
1870	17,4	22,5

1875	19,2	22,1
1870-1879	18,6	20,8
1880	14,3	15,8
1885	16,9	15,8
1880-1889	15,5	16,0
1890	17,1	19,4
1895	17,1	17,4
1890-1899	17,7	18,6
1900	19,5	18,4
1905	24,1	26,1
1900-1909	23,0	26,0
1910	26,0	39,2

Source: Pamuk, 2003.

By the beginning of the 19th century the trade within the empire was more important than the foreign trade. The table above shows the export and import of the empire and however Ottoman trade relations changed dramatically after the Napoleonic Wars until to the First World War and the empire experienced trade expansion with the European countries. Increased in the growth rate of foreign trade was almost at the same level when compared with the European countries in the 19th century (Pamuk, 2003).

The Effects of the Agreement to the Ottoman Economy

Trade agreement with the Great Britain was followed by a long term economic relations with the Western countries and it allowed the operation of the British merchants more freely as they obtain permission and protection for their goods and the duties payable on import and export. The immediate effect of the agreement was the enlargement as new trade arrangement arranged between the Ottoman Empire and the other European countries. The agreement and the enlargement were intended to protect the merchants and their trading activities of the mentioning countries.

The European powers succeeded to influence the Ottoman government and obtained privileges and established their trade in the Ottoman land. As mentioned earlier the main outcome of the agreement was lowering the customs duties to %3 from %5. Other European countries and particularly France, as a very important competitor of the Great Britain, wishing to maintain the position in trade pushed it to have the same trade privileges in the Ottoman territories.

With the trade agreement the Ottoman territories were opened to the trade and economic activities of the European countries that was the central issue of the agreement. First the Great Britain and later the other countries, in order to increase the profit from the Ottoman trade, they wanted to reorganize the Ottoman trade system and the state monopolies abolished as an outcome of the agreement because the revenue of some certain sectors such as salt, fish, tobacco, liquor, cotton, silk, cannon, cereal, mineral etc. were needed for the fast growing production of western countries. Abolishing the state monopolies decreased the tax revenues of the state treasury and in later years it resulted borrowing from bankers and European markets.

The agreement allowed the entering the foreign goods easily to the Ottoman market and raw materials from domestic market also easily exported to the European countries. The foreign trade changed hands that went to the control of foreign merchants. The increased volume of the foreign machine made goods penetrated into the Ottoman market and the domestic workshops went into bankruptcy. On the other hands, the domestic production was exported to the European countries the shortage of some particular goods in domestic market occurred. Finally the Ottoman government had to borrow from the international markets to be able to finance the Crimean War as the customs revenues dropped significantly.

The most important effect of the trade agreement to the Ottoman Empire is the depriving the state from the custom duties and financial losses. *“All through the nineteen century the empire’s economic policy remained classically liberal one without any attempts at protectionism. It is in any case doubtful whether such a policy would have been tolerated by the European powers”*. Therefore the European countries expanded their trade in the Ottoman territories as the customs duties eliminated. However, the local merchants continued to pay the internal duties. On the other hand, Armenian, Orthodox Christians and Jewish as they were the intermediaries in between the producers and European merchants benefited and expanding their business as they hold the foreign status with the ‘Berat’ system and hold a privileged position by given by the Ottoman government (Zürcher, 2005).

Table 2. Export to the Great Britain from the Ottoman Empire

Years	Opium	Wheat	Barley	Corn	Silk	Tobacco	Wool
1836	12552				695555	28420	2477094
1837	70099	258			386097	16334	2337754
1838	81125	3150			478775	1	762018
1840	56625	4802			731906	2124	690013
1842	57663				733123	5090	559852
1844	243903	44789	12105		830197	1477	1286963
1846	97887	41557	1424	721516	435558	3293	2015229
1848	197287	40327	59345	371233	395017	10498	1274110
1850	119439	382792	18416	420264	1012565	140361	1896138
1852	202926	531746	54248	836954	1496219	945948	3325412
1854	154017	834363	42346	746452	2494193	533283	4958940

Source: Kutukoglu, 1976.

Table 3. Import from the Great Britain to the Ottoman Empire

Years	Cotton goods	Cotton thread	Wool goods
1836	48079102	1913955	10296
1837	33155375	3527528	5609
1838	63902940	5624944	12953
1840	54227737	4026143	14709
1842	77157472	9934197	18649
1844	135482857	12591846	36893
1846	116807147	8793075	30358
1848	185946558	13666587	58612
1850	65597888	6962819	115964
1852	183820044	11980903	32843
1854	152407970	8805871	41399

Source: Kutukoglu, 1976.

The Table 1 and Table 2 show the trade relations and the export and import of the empire. The trade relations were based on the exporting of the raw materials such as opium, wheat, corn, silk, wool, tobacco, and importing the fabricated goods. The production and consumption structure changed, local industries, manufacturing could not stand against the cheap and fabricated products of Europe that the Ottoman craft industry was destroyed and went into the bankruptcy. This result shows that particularly British, but also other European merchants and local merchants benefited from the free trade with the Ottoman government.

The Ottoman market was considered as a competing and promising market for the European countries and their merchants. Exporting the raw materials mainly the agricultural products and importing finished or semi-finished goods in return was the general relation of the empire and the western countries (Pamuk, 2003).

Trade Relations with the European Countries and the Custom Union

Turkey and the EU member countries had an active trade relation before they merged a union and Turkey has always been the main exporting country into the European market. The main reason for being the main exporting country is the zero tariff rates to the Turkish goods in the EU market since 1971. On the other hand, geographical and transportation advantages allowed the Turkish exporters to be active in the EU market.

As presented in the table below, already before the CU, the share of the EU in the Turkish foreign trade was approximately 50% and had an increasing rate.

Table 4. Export and Import of Turkey from the EU (Million \$)

Years	Total Export	Export to the EU	Share (%)	Total Import	Import from the EU	Share (%)
1968	496	226	45.4	764	393	51.4
1971	676	329	48.7	1171	582	49.7

1972	885	428	48.4	1563	851	54.5
1974	1532	761	49.7	3778	1748	46.3
1980	2910	1300	44.7	7909	2360	29.8
1985	7958	3204	40.3	11343	3895	34.3
1990	12,959	7,177	55.4	22,302	9,897	44.4
1991	13,594	7,347	54	21,047	9,896	47
1992	14,719	7,936	53.9	22,871	10,656	46.6
1993	15,345	7,289	47.5	29,428	10,950	37.2
1994	18,106	8,269	45.7	23,270	10,279	44.2
1995	21,637	11,078	51.2	35,709	16,760	46.9
1996	23,224	11,548	49.7	43,627	23,138	53
1997	26,261	12,248	46.6	48,559	24,870	51.2
1998	26,974	13,498	50	45,921	24,074	52.4
1999	26,587	14,333	53.9	40,671	21,419	52.7
2000	27,775	14,352	51.7	54,503	26,388	48.4
2001	31,342	17,546	56.0	41,399	19,824	47.9
2002	36,059	20,415	56.6	51,553	25,689	49.8
2003	47,252	27,394	58	69,339	35,140	50.7
2004	63,167	36,581	57.9	97,540	52,696	49.3
2005	73,476	41,365	56.3	116,774	59	45.1
2006	85,535	47,935	56	139,576	401	42.5
2007	107,272	60,399	56.3	170,063	68,612	40.3
2008	132,003	63,368	48	201,823	74,801	37.1

Source: State Planning Organization, 2008; General Secretariat for Foreign Trade, 2012.

The Customs Union

Trade agreement aims to increase the mutual trade by removing barriers and eliminating custom duties that is merging a free trade agreement. It involves the implementing a common custom tariffs and commercial policies that the member countries already removed all the tariffs and restrictions before the CU agreement with Turkey. The CU is accepted as a unique case as Turkey signed the agreement on the integration of trade to the EU countries without being a member. The key point of the trade agreement is to promote trade relations accordingly. The final phase of the agreement came into operation in 1996. The agreement involves the free movement of goods between the two parts of the union, harmonization of commercial policy measures, and approximation of customs law on customs matters and other laws such as intellectual property, competition and taxation (European Commission, 2012).

The aim in both sides was to increase the trade volume and wealth by circulating goods and services accordingly. With the CU all duties were eliminated mutually but also a common custom regime against the third countries. With the agreement the tariffs rate eliminated from 5.9% and the import protection rate dropped from 10.8% to 6%.

Table 4 above shows the foreign trade volume with the world and the EU. It shows that the share of the EU member countries in Turkish trade has been on an increasing pace over years and the share has been realized around 50%.

The export of Turkey to the EU member countries increased more than the increase in import from the EU although before the union the import rate from the EU has always been higher than the export to the EU. On the other hand, before the CU the export of Turkey has been increasing but after the CU the import increased more than the increased of export that shows a disadvantages for the trade balance of Turkey. It shows that the EU benefited from the trade creation effect as the increased in import of the partner country.

As it is shown in the Table 4, Turkish total foreign trade and the trade with the EU countries has been at an increasing rate already before the union and also increased after the CU. However, this increase is not greater than the total export of Turkey to the world countries. The increase in the trade with the EU is towards the investment and intermediate goods. The increase in trade is the result of the “trade creation effect” (Akkoyunlu, 2005).

The foreign trade with the world and the CU showed an increase over years although the increase with the EU countries is higher than the increase with the world (TUSIAD, 2003). In the beginning of the union, import of Turkey from the EU countries increased and the proportion of imports covered by exports was %51,4 in between the years 1996–1997, but later it increased to 81,7% for the years 2001–2008. Domestic

financial crises of the Turkish economy in between the years 2000-2001 resulted a decrease that makes it difficult to measure the effect of the union (General Secretariat for Foreign Trade, 2012; Statistics Turkey, 2012).

When looked at the trade volumes before and after the CU, the increase started by the 1980s with the liberal policies in foreign trade. The increase fluctuated over years until the agreement and the export to the EU increased constantly while import from the EU also fluctuated.

However it is generally accepted that the union with the EU increased the trade volume of Turkey, there are other ideas saying either the reason in the increased in trade is not the union or the foreign trade has already been increasing as a result of the liberal policies after the years 1980s. It is also argued that the CU is not the cause of the increase of Turkish foreign trade deficit. On the other hand, before and after the CU, the increase in the trade volume is not significant and it was already increasing over years before the union. After the union the export increased more than the import in Turkey from the EU that is explained as an increase in the competitiveness of Turkey against the EU countries.

Effects of the Trade Agreements to the Turkish Economy

Economic historians agree that the Commercial Agreement of 1838 was a significant historical event for the Ottoman Empire and the CU was another for Turkey in terms of the economic relations with the Western European powers. Ottoman Empire in the 19th century and the Turkish Republic in 20th century experienced the foreign firms involvement into the domestic market and there has been number of trade agreements in between the local government and European countries such as the Great Britain, France, Belgium, etc. and the international institutions such as World Bank (WB), International Monetary Fund (IMF) and finally the CU with the EU countries. All these attempts were aimed to promote trade by reducing the custom and tariffs in the hosting country, the case of the Ottoman Government or eliminating trade barriers in both sides and promoting the international trade.

The Ottoman market opened to the liberal policies of the Great Britain and later to the other European countries that could be accepted as liberalization in the empire. Before this period, wars were the main revenues of the empire and addition to the foreign and local taxes but with the decline and the trade agreements the revenue of the state diminished.

The immediate effect of the trade agreement was the massive production of new factories of Europe those were cheaper than the domestic production. The cheap manufactured goods entered into the Ottoman market without encountering significant barriers which resulted the collapse of the local industries (Geyikdagi, 2011).

In the 19th century, the Ottoman Empire joined to the world trade and open embassies in major countries. Trade relations changed and economic relations increased based on the liberal policies and economic backwardness brought the intervention of the foreign power into the empire. Trade relations and agreements have a great significance on the economic development. Trade relations and foreign trade policy is shown as the one of the main reason of the Ottoman economic and industrial backwardness (Bailey, 1942). The trade policy and the international agreements ended the Ottoman small sized businesses that they could not continue their production because of the cheap and factory made production of the foreign countries. Because of trade and production and elimination of domestic industries, the Ottoman Empire did not experience the Industrial Revolution (Earle, 1923).

The empire could not control the trade activities within the territories of the empire well as the local Christians with the foreign countries had benefited from the privileged position increased the trade options (Issawi, 1980).

On the other hand, Turkey signed the CU towards liberalizing the trade activities mutually with the EU. The trade volume after eliminating the trade barriers increased and there are the positive effects to the Turkish economy. Comparing the two agreements, the first one was mainly focused on the best interests of the Great Britain and the other European countries as they wanted to increase the trade volume in the Ottoman Empire that was unilateral. On the contrary, however the second one was mainly focused on the mutual interest of the countries, the export and import did not increased accordingly between the two countries. While export to the EU countries increased less than the export to the world, import from the EU countries increased more than imports from world.

A custom union aims to increase trade volume between countries by abolishing the tariffs on both sides trade. The differences in between the export and import volumes to and from the EU countries present an asymmetric progress and already existed before the agreement. Therefore it can be claimed also that the

CU did not bring advantages to the Turkish export apart from the export to the textile products as the elimination of the quotas contributed to the textile sector particularly. Therefore, the effect of the CU by eliminating the trade barriers was not as effective as anticipated before the union.

For a better evaluation of the effects of the CU, one has to look at the sectoral changes in the national economy. When looked at the export to the EU countries, the rate of agriculture decreased while the rate of manufacturing, textile and clothing increased that are the main sectors increased the export of Turkey after the agreement (General Secretariat for Foreign Trade, 2012).

Forming a CU is generally aimed to increase the trade volume and contributes to the economic welfare of the national economies. When looked at the effects of the CU to the national economies, one can encounter two important effects of the agreement to be able to focus on the real effect of the participating countries: trade creation effect that focuses on shift to the substitute cheap imports from the member country if the domestic producer has high cost and expensive goods. The effect results efficiency in allocating the resources towards more productive areas that the country may have comparative advantages. Trade diversion effect is the replacement of the expensive import from the participating country to the cheap import from the world trade. In both cases there is a shift in domestic production to the member state or other states outside of the union (Viner, 1950).

Conclusion

Countries are not neutral to the worldwide economic trends. Trade liberalization and the changes in the foreign trade system effected the countries involved into the world trade and the Trade Agreement of 1838 and the CU were significant economic and historical agreements for the Ottoman Empire and Turkey that were signed to remove the tariffs and restrictions of the international trade. Ottoman Government granted privileges to the European traders from the very early times while it was never a problem during the rising period but turned to be a very demanding during the declining period. Trade privileges were followed by the trade agreements with the number of European countries that allowed their trading firms to be extended into the Ottoman land.

The Trade Agreement of 1838 was not based on the mutual interests of both sides, the Ottoman Government and the Great Britain. It was more based on the best interest of the Great Britain as the country and the British merchants and factory owners needed to supply the mass production of Europe into the demanding Ottoman market. The case continued to enclose the other superior countries of Europe of the 19th century. The Ottoman Empire went under the heavy control of the European countries and their political and economic institutions and the trade agreement signed in a period of political dependence of the empire. That dependence created the opening of the domestic market into the foreign fabricated good and made the competition impossible for the local producers.

On the other hand, the CU signed with the EU member countries to benefit from the free trade regime mutually. Comparing these two agreements requires focusing on the conditions of the country in different centuries. Before the trade agreements the conditions were different economically, politically but also in terms of foreign trade policies. The Ottoman Government did not set a trade policy based on the best interest of the country in 19th century. The trade policy was totally different then the European countries as the domestic consumption wanted to be fulfilled, they promoted import and the other states set trade barriers against each other.

However the similarities exist, the CU is still effective within the trade relations of Turkey and the EU is more a bilateral agreement based on the protection of interest of both sides with eliminating the tariffs of the international trade.

The major difference in between these two agreements was the foreign trade policy of the Ottoman Government. It is interesting to mention that at the time of the Trade Agreement of 1838 the European countries established and strictly increased the customs duties against the goods of the other countries. However, the Ottoman Government applied the opposite policy towards opening the market to the foreign good that first British and later the other European merchants were allowed to operate in the Ottoman market freely. Trade Agreement of 1838 is a turning point for the Ottoman manufacturing system. Import of the European cheap goods brought liberal policies to the empire that the domestic industry was kept without any protections against the capitalist countries.

The case with the CU is different CU as European countries within the member and non-member states applied a common trade policy that aimed to increase the trade volume and trade relations by

decreasing the trade barriers in between. The CU is the natural outcome of the trade relations and was not based on the interests of one side only.

Trade Agreement of 1838 signed with the Great Britain and later concluded with the other countries but the CU was signed with the member countries that were the result of the common foreign trade policy. The agreement in 1838 brought a favorable position to the foreign countries and the Ottoman Government was economically lost the trade revenues while the CU is more partnership as it was more based on equal terms. Therefore, the 1838 agreement is more like issuing privileges while the CU is a mutual agreement.

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