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European Union's Multilateralism on Trade Policies, Custom Unions and Free Trade Agreements; Comparative SWOT Analyses of Turkey and South Korea's Automotive Industries

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Abstract

The foreign trade policies of the states may vary depending on the circumstances in the globalizing world economy. The states which seek to take advantage of the global economy by increasing the size of the foreign trade volume create regional and non-regional trade blocs. The European Union (EU), in consideration of the political and economic developments in respect to the Customs Union that it had paid attention to in the 1990s, revised its trade liberalization policies and moved from the CU to the free trade agreements (FTA). The change in the trade policies in the EU concerns developing economies including Turkey and South Korea. The automotive sector is the sixth largest sector in the world. This industry is one of the most important export areas of developing countries like Turkey and South Korea which seek to improve their welfare by adopting export-based development model. In 1996, Turkey made a trade liberalization agreement with the EU, and South Korea in 2010, to reduce the tariff rates in the field of industrial products. For both countries, the level of influence upon the exports in automotive sectors by the trade liberalization policies holds great importance for the future of the national economies. This study wants to offer some SWOT analyses of the agreements signed with the EU on the automotive sectors of the two countries.

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1. Introduction

Globalization forces the countries in the world to integrate with the global economy; in consideration of this new tendency, the states take measures to reduce trade barriers including tariffs, import tax and other protectionist tools. Economic integrations are trade blocs that the countries seeking to improve their welfare would not remain indifferent to. The GATT, signed by a number of countries in 1947, was converted into the WTO in 1994 to minimize the trade barriers before the trade conflicts and trade liberalizations in the international arena; it is the largest and most important current trade integration agreement and organization seeking to improve the trade relations between the member countries (Özkaya, 2011). See Appendix A. The contribution of the reduction of the existent tariffs with the

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trade partners upon welfare holds importance for the determination of the trade policies. Change in the tariff rates may lead to a number of internal and external economic developments.

The CU agreement signed between Turkey and the EU in 1996, as well as the EU-South Korea Free Trade Agreement which entered into force in 2011 reveal the impacts of the moves spelled out in these agreements upon the automotive industries of these two countries; these agreements underline the dynamism of these sectors, increase the share of these nations in foreign trade and the economic growth rates. For this reason, drafting of policies and strategies that would ensure healthy growth of the sectors in these two countries is of great importance.

2. Trade Blocs: Custom Unions and Free Trade Agreements

2.1. Customs Unions and Free Trade Agreements

The international trade theories, in essence, underline that the increase in the size of the commercial activities between the states would also increase the welfare in these nations. For this reason, a number of free trade agreements have been accorded between different countries. Asia-Pacific Economic Cooperation (APEC) participating countries have announced that they will have free trade by the years of 2010 for developed and 2020 for developing countries (Krueger, 1995). In the literature works on foreign trade, it is argued that it creates positive results for the developed countries while failing to do the same with respect to the developing countries (Albertin, 2008; Magee & Lee, 1998; Krugman, 1989; Bhagwati, 1993; Bilal, 1998; Rodrik, 1999). A number of trade blocs created in the aftermath of the World War II made extensive contributions to the globalization of the economic activities. The developed countries like the US and the EU which have focused on industrial products up to 2000s have moved their productions to the Eastern countries that offered incentives on cheap labor and better production opportunities since 1980s. Competition advantage in domestic and international markets has improved in favor of the developing countries in the industrial production; this led the developed countries to adopt technology and innovation-intense production models and trade policies (Karaöz & Albeni, 2003; Kılıç, Kılıç-Savrul, & Ustaoglu, 2011). The Far East countries have gone through a huge process of industrialization; and they are promoting increase in the investments in the fields of technology and innovation by developed countries. For instance, the iPhones by the Apple are produced in China after design in California, US. The US has difficulties in competing with the labor cost, environmental issues, tax reduction and low shipping cost in China, as well as the manufacturing costs in this country; however, China is unable to compete with the US in the field of creativity, innovation and productivity. For this reason, a rapid economic growth rate is observed in the Far East countries which have become the manufacturing plant of the global economy; and a result of this, their domestic markets are growing fast. The growing markets in these countries also lead to increased number of trade blocs. Since the early 1990s 380 regional trade agreements had been notified to the GATT/WTO through July 2007 (Kılıç, Kılıç-Savrul, & Ustaoglu, 2011).

CUs and FTAs are two dynamic form of the liberalize trade activities in the global economy. Under economic integration theory, contribution of the integration to the economic growth of the member countries is possible only if the integration has been made by the participation of the proper countries (İncekara & Savrul, 2011). Viner (1950) first time used the term *trade creation* which increases welfare because intra-union trade expands with abolition of tariffs on imports from member countries, on the other side and *trade diversion* decreases welfare because importers switch from low-priced world sources to higher priced member country sources after tariffs drop to zero on intra union trade (Magee & Lee, 1998; Viner, 1950). Krugman (1989) argues that because of the high tariff rates, world welfare is minimized with three large trade blocs' terms of trade effects. Therefore any increase in the size of trade size of existing trading blocs is welfare reducing (Bhagwati, 1993). Bhagwati (1993) believes that CU may lead to increase in tariff for the external trade (Magee & Lee, 1998; Krugman, 1989; Bhagwati, 1993; Duruiz, 2001). According to Kemp and Wan (1976), the CUs, compared to the previous terms, the CUs secure improvement in welfare in the member countries (Krugman, 1989; Kemp & Wan, 1976). Krueger

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