

# The Trade Relations between Turkey and United Kingdom after Brexit and in the Covid-19 Epidemic

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## Abstract

In the process of globalization, where international economic relations have further increased their significance, the separation of United Kingdom from the EU (Brexit) has literally called into question the understanding of integration. It is also noteworthy that the Brexit event coincided with the trade wars between the USA and China and the beginning of the new regional unions that China has established in the Pacific. Undoubtedly, these developments will significantly affect the future of world trade. Slowing economic growth in the world economy, deterioration in income and wealth distribution, increasing indebtedness rates, falling productivity and the threat of the COVID-19 epidemic in terms of world trade volume are commonly discussed. Especially during the COVID-19 epidemic, the supply constraints, the breaks in supply chains and the problems in logistics sector, are generally seen to mark the beginning of important changes in international trade. And Brexit has taken place amid such severe conditions. Naturally, it will have consequences for almost every country. Brexit is likely to have an effect not only on the fully-fledged members of the EU, but also on countries outside the EU. The EU and the UK are important partners in Turkey's foreign trade. Hence the question of How Brexit will affect the trade between UK and Turkey, given Turkey's customs union agreement with the EU has lately topped Turkey's agenda. This study aims to discuss Turkey's foreign trade with England prior to Brexit as well as the possible developments after Brexit.

**Keywords:** Brexit, international trade, Turkey-UK trade relations, COVID-19

**Jel:** F02, F13, F17, I18

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## Introduction

Economic relations between countries have changed in a wide range from development to textile, from industry to technology, in order to heal the wounds of the war, especially with the increasing consumption after World War II. In this context, many issues related to the future of post-war world trade began to be discussed at platforms such as the Bretton Woods conferences (1944), which convened before the war ended. In the aftermath of the war, it can be said that a number of innovations such as the International Monetary Fund (IMF) and World Bank (WB) institutions known as the Bretton Woods twins, as well as Customs tariffs agreements (GATT), which contain regulations on foreign trade, have taken a different direction in the liberal world. In the continuation of these steps, which largely eliminated the cause of the wars that resulted in mass destruction and which the United Nations (UN) organization, which increased global dialogue, described as a positive yet insufficient step. The search for a more effective and solution-oriented supranational organization required by European states also gained momentum in the same period.

The search for solutions to the problems, which had increased at the end of the 19th century and that had plunged France and Germany (previously Kingdom of Prussia) into war three times by 1945, intensified in the middle of the 20th century. Based on the strong recommendation of the French Foreign Minister Robert Schuman and the former League of Nations, founded during the First World War, Secretary General Jean Monnet, the understanding of delegating decision making in the field of coal and steel production to an independent supranational institution for the European States on May 9, 1950, would gain strength. According to the approach known later as the Schuman Plan, the centuries-old conflict between France and Germany had to come to an end and a lasting peace in Europe was established. The solution was seen as ensuring the joint production of coal and steel under the supervision of the institution in question and keeping this organization open to the participation of all European states.

As a result of the Schuman Declaration, the European Coal and Steel Community (ECSC) was established in 1951, with 6 members – Belgium, Federal Republic of Germany, France, the Netherlands, Luxembourg and Italy, – and for the first time these states transferred part of their sovereignty to a higher institution. The first president of the high authority of the community was Jean Monnet, who conceived the idea that inspired the Schuman Declaration. In the period following these developments, the European Economic Community (EEC) in 1957 with the Rome agreement and the European Atomic Energy Community (EURATOM) were established with the agreement in Rome on January 1, 1958. Europe was rapidly moving towards integration that the famous philosopher Immanuel Kant (1724-1804) wrote about centuries ago.

With the (integrative) fusion agreement realized in 1975, the integration steps were taken by gathering these communities under the name of the European Communities (EC). With this trend that found support in Europe, it was not surprising that the UK, Ireland and

Denmark applied to the community. However, Britain's admission to the community would be hampered by the President of France, De Gaulle...

In the study, along with the painful entry and exit processes of the UK in the European integration process, future relations with Turkey, which is still a candidate, will be discussed in detail, and possible scenarios for the future will be analyzed.

## European communities post-UK accession

At the end of World War II, Prime Minister Winston Churchill shared his dream of a Europe modeled after the US model. The continent should no longer be dragged into a pre-war situation any more. However, Britain chose not to be included in the ideal of a unified Europe, to stay outside and partner with the EU. Britain initially avoided both the European Coal and Steel Community established in 1951 and the later on the European Economic Community (EEC) talks. As an alternative to the EEC, Britain established on May 3, 1960 the European Free Trade Association (EFTA) in Stockholm with 6 other countries (Alakbarov, 2018). As time passed, economic pressure and difficulties intensified, as the Commonwealth reduced the UK's global competitiveness, while the country's the national per capita income was about 10 percent below the average for the EC member countries. Community membership was essential for the UK, which could not compete with the countries of the European Free Trade Association (EFTA). As the Prime Minister at the time Heath emphasized, being a member of the Community would make England "a more effective and competitive country to reach new markets not only in Europe but all over the world". Graph 1 reveals UK GDP in the relevant period and afterwards. Indicatively, an intense positive effect is not observed in the expansion and contraction waves of England for the 1956-1975 period.



**Graph 1. UK GDP Growth Rate (1956-2020)**

Source: UK Economic Accounts time series (UKEA), UK Office for National Statistics (2021)

As a result of the resistance of De Gaulle, French President at the time, England, whose application was rejected in 1961, took measures to tighten capital controls, especially in order to keep Sterling as a reserve currency. Britain, which was in a bottleneck in many aspects during this process, not only requested financial support from the IMF, but also applied for membership in the Community for the second time in 1967, with the determination that financial integration would have positive effects (Dinan, 2004; Sokullu, 2017). However, this application was turned down for the second time with a French veto, especially considering the possible negative effect on French interests.

In the early 1970s, full membership in the EC was not only attractive, but also an economic necessity from the British front. As it is known, the 1970s witnessed the turbulent processes of the world economy. The process that started with the Arab-Israeli conflicts and the oil crises that followed, gave rise to the concept known as stagflation, the continuous increase in oil prices, with the developments in the Middle East until the 1980s. When Britain became a member of the EC in 1973, it was the only candidate country that did not hold a referendum on membership. After becoming a member, when the new government took the EC membership to a referendum (1975), as it had promised during its election campaigns, 67.2 percent of Britons supported it (Sokullu, 2017).

England, which became a member of the European Community (EC) in 1973, was described as “the awkward partner” until 1997. This partnership was basically designed by Margaret Thatcher, who approached the Community as a pragmatic actor, and it was adopted by successive conservative governments (George, 1998; Sokullu, 2017).

Following the fall of the Berlin Wall (1989), the unification of Germany on 3 November 1990, the removal of the Central and Eastern European countries from Soviet control and the democratization process and the dissolution of the Soviet Union in December 1991, the political structure of almost all European countries drastically changed. With the aim of strengthening their relations, the member states of the Community started negotiations on a new treaty, the foundations of which were decided at the European Union Summit to be laid in Maastricht on 9-10 December 1991. The Maastricht Treaty or the Treaty of European Union came into force on November 1<sup>st</sup>, 1993. With this agreement, it was decided that the European Union countries would complete their monetary union by 1999, establish European citizenship and pursue common foreign and internal security and cooperation policies in justice and home affairs. However, England preferred to be in a privileged position despite these plans.

## **Brexit problem**

European Community countries would now be called EU states with the new agreement. With the Maastricht Treaty, the three-pillar European Union structure was thus created. The first pillar was the European Communities (ECSC, EEC and EURATOM), the second pillar was the “Common Foreign Security Policy” and the third pillar was “Justice and Home Affairs”. The dream of an integrated Europe was turning into reality. The EU launched

an enlargement policy towards Central and Eastern European countries. Regions where Soviet influence diminished were highly appreciated by the EU, which had adopted the liberal economic model. In order to absorb enlargement, the EU's institutional structure was changed and its decision-making mechanisms were reorganized. Candidate countries, on the other hand, reorganized social life that includes all rights within the framework of the Copenhagen membership conditions. Thus, in 1998, negotiations with Poland, Hungary, Czech Republic, Estonia, Slovenia and Southern Cyprus were planned. In 2000, the negotiations that started with Bulgaria, Romania, Latvia, Malta, Lithuania and Slovakia resulted in the accession to the EU on 1 May 2004 of all other countries, except Bulgaria and Romania. Yet Bulgaria and Romania managed to overcome the flaws in the fight against corruption and joined the Union on 1 January 2007. Thus, the number of members of the European Union reached 27.

On the other hand, the 2004 enlargement concentrated in Eastern Europe, had in fact created one of the important reasons for Brexit. When Poland became member of the EU in 2004, its per capita GNP was \$ 12,830, while in England it stood at \$ 33,640. There were many Polish immigrants who started living in England after the 2004 enlargement. In those years, the community of Polish nationals living in England was approximately 790,000, which was more than the total population of Krakow (779,000 according to 2019 data), one of the country's most densely populated cities (see Directorate for EU Affaires).

Unlike the Western European states in the enlargement process, the "Brexit" decision taken in 2016 by Britain, which became part of the integration project after a vetoed and troubled period, undoubtedly set in train a chain of events that changed the balance not only in the UK but in the whole of Europe. The UK made a net contribution of £17.8 billion to the EU budget in 2015. For example, within this amount, the EU contributed a mere £4.4 billion to Britain under agriculture and other programs. If the UK left EU, it would be able to transfer resources of this size to other national priorities.

Discomfort about disproportion was also frequently expressed in education and R&D spending. At this point, only 3 percent of the UK's total R&D expenditure was funded by the EU. While the EU was paying membership contributions, getting rid of it meant it would have more funding for the UK to transfer to R&D and education. Environmental regulations in the conditions of the EU were also seen as an expense item where the monetary resource was transferred unnecessarily. Issues such as the Common Agriculture and Fisheries Policy also put EU regulations in the background of national interests. Especially recently, it was an important issue that would bring France and England to the point of conflict, and it was also very costly for England. On the other hand, the UK did not have the opportunity to regulate its commercial interests with third partners due to the constraints of EU regulations.

Immigration crises, which are heavily discussed in the international arena, were also an important factor for the UK's choice to remain as an island country separate from the integrated Europe. Although the government's goal was to reduce immigration to below 100,000, an average of 300,000 immigrants were entering the UK each year, and the UK could not set national quotas against immigrants coming from inside and outside the EU,

as the UK is an EU member. One of the main factors that pushed the government to the referendum decision was the increasing distancing of the people of England from the idea of an integrated Europe.

The fact that the referendum for leaving the EU, which had been discussed in the UK for a long time, resulted in favor of exit with a 52% vote, precipitated the emergence of other problems in the country (Keçeçi, 2017). It is seen that agendas such as the future of Northern Ireland, skilled labor force and immigration policies, especially the issue of the independence of Scotland, are being debated again. Besides the political dimension of this separation, it is interesting what the social and economic consequences might be.

## **Trade relations between UK and Turkey after Brexit**

Given that the UK had just left the EU as of 31 December 2020, the data about the foreign trade between Turkey and the UK is limited. Therefore, only available post-Brexit data will be interpreted and unfortunately no econometric model will be presented. With this study, a projection of how the trade relations between Turkey and the UK will possibly continue is going to be explained.

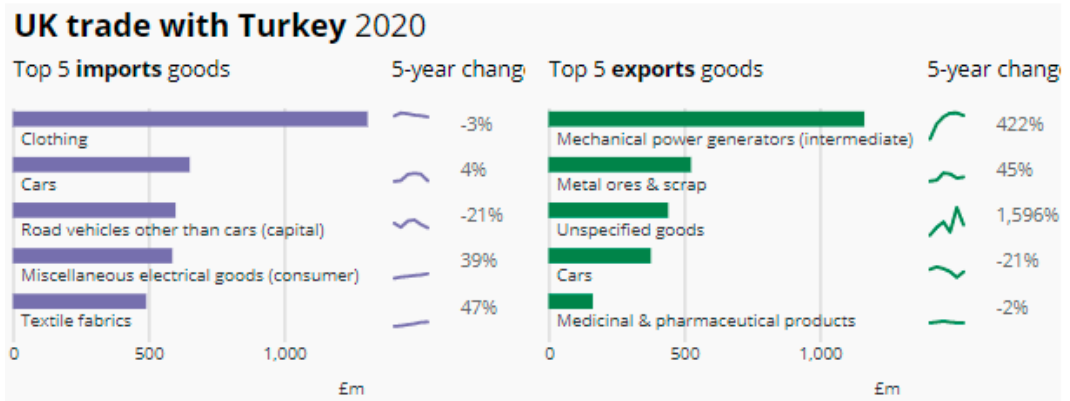
Through the departure of the UK from the EU, the necessity to draft a separate trade agreement with Turkey, which has the status of a third country but is in the Customs Union, was put to the debate at the beginning of 2020. Thus, the trade agreement between the two countries was signed in Ankara on 29 December 2020 and entered into force as of 1 January 2021.

The agreement protects supply chains in the automotive and manufacturing sectors, the UK's Department of International Trade alleged in a statement. The agreement, which also covers all agricultural and industrial goods, was worth around \$25 billion in 2019.

Britain's exit from the EU means that "any trade deal the bloc has struck will no longer apply to the UK once the transition period ends at 11 p.m. on Dec. 31 2020. Britain has so far reached deals with 62 countries and the EU, according to the UK statement" (Bloomberg, 2020).

Turkey exported goods valued at \$11.2 billion to the UK in 2019 and imported products worth \$5.6 billion. In the absence of a deal, about 75% of Turkish exports to the UK Turkey-UK free trade agreement will save about \$2.4 Billion for Turkey, according to the Ministry of Trade in Turkey (Anadolu Agency, 2020).

The UK is also Turkey's second-largest trading partner after Germany. In addition, the trade volume between the two countries hit \$15.1 billion in January-November in 2019, when Turkey's exports to the U.K. stood at \$11.3 billion, while imports totaled at \$5.6 billion (see the Graph 2). The agreement was the fifth-biggest trade deal the trade ministry had negotiated after agreements with Japan, Canada, Switzerland and Norway.



**Graph 2. Trade relations between UK and Turkey**

Source: UK Trade Statistics (2020)

The trade values between Turkey and the UK are shown as 2013-2020 values and 2021 values in order to compare what happened during the last years of EU membership and after Brexit (see Tables 1-3). As mentioned before, since Brexit has just come into force, there is only monthly data for the 2021 post-Brexit period.

**Table.1 Exports by country and year (general trade system)**

Exports by country and year (general trade system)	Value: Thousand US \$)							
	2020	2019	2018	2017	2016	2015	2014	2013
United Kingdom	11 235 582	11 278 615	11 473 927	9 932 539	11 961 673	10 822 850	10 216 479	9 126 733

Source: Foreign Trade Statistics, Turkish Statistical Institute

**Table.2 Exports by country and year, share in total exports (%)**

Exports by country and year, share in total exports (%)	2020	2019	2018	2017	2016	2015	2014	2013
United Kingdom	6,6	6,2	6,5	6,0	8,0	7,2	6,1	5,7

Source: Foreign Trade Statistics, Turkish Statistical Institute

**Table.3 Exports by countries, 2021 (general trade system)**

Exports by countries, 2021 (general trade system)	Value: Thousand US \$)								
	Total	January	February	March	April	May	June	July	August
United Kingdom	8 418 702	812 406	960 581	1 061 330	1 038 593	1 100 965	1 269 376	981 944	1 193 508

Source: Foreign Trade Statistics, Turkish Statistical Institute

The first table shows Turkey’s exports to the UK between the years 2013 and 2020. There was a continuous increase between the years 2013 and 2020. This increase can also be seen from Table 2 as percentage points. In 2013, while the exports were \$9 billion, the share of Turkey’s exports to the UK was 5.7% of total exports. Later on only in 2017 was there a drop in exports. Yet shortly in the period between 2018 and 2020, the exports again

continued to increase. Finally, when we checked the last year's values, Turkey's exports reached \$11.2 billion and 6.6% of all the exports.

Given that there is only monthly data available following Brexit, the first 8 months of 2021 have been taken into account. As shown in Table 3, in the first 8 months of 2021, the exports of Turkey to the UK, stood at \$8.4 billion and it can easily be predicted that by the end of the year, the total value will approximate the previous year's total value of \$11.2 billion.

In terms of exports, the 2021 data shows that there has not been a significant change so far (see Tables 4-6). However, the ongoing pandemic should also be considered as a serious factor in this respect.

**Table 4. Imports by country and year (general trade system)**

Imports by country and year (general trade system)	Value: Thousand US \$)							
	2020	2019	2018	2017	2016	2015	2014	2013
United Kingdom	5 582 666	5 638 296	7 637 468	6 806 375	5 479 965	5 792 390	6 195 865	6 582 729

Source: Foreign Trade Statistics, Turkish Statistical Institute

**Table 5. Imports by country and year, share in total imports (%)**

Imports by country and year, share in total imports (%)								
	2020	2019	2018	2017	2016	2015	2014	2013
United Kingdom	2,5	2,7	3,3	2,9	2,7	2,7	2,5	2,5

Source: Foreign Trade Statistics, Turkish Statistical Institute

**Table 6. Imports by countries, 2021 (general trade system)**

Imports by countries, 2021 (general trade system)	Value: Thousand US \$)								
	Total	January	February	March	April	May	June	July	August
United Kingdom	3 807 376	467 703	436 647	575 336	535 700	427 571	462 629	463 074	438 716

Source: Foreign Trade Statistics, Turkish Statistical Institute

And when it comes to imports, Table 4 shows the values for the years 2013 and 2020. Between the years 2013 and 2016 there was a \$1.1 billion decrease, but at the end of 2018 Turkey's imports reached \$7.6 billion. And this number comprises a share of 3.3% of Turkey's total imports in 2018.

However, in 2019, the imports declined to \$5.6 billion. As mentioned before, the ongoing pandemic started this year. And finally, in 2020, the imports were nearly the same as 2019, standing at \$5.5 billion.

After Brexit, in the first 8 months of 2021, the imports reached a total of \$3.8 billion. As with the exports, we can assume that imports at the end of 2021 will probably remain at the same level as in 2020.

To sum up, the trade between Turkey and the UK appears to follow the pattern of the pre-Brexit period. However, possible new trade agreements will have a positive effect, as



well as the ending of ongoing pandemic. In addition, Turkey's possible accession to the EU will also affect significantly the future of trade relations between the two sides.

## Conclusion and possible scenarios

Expressing the withdrawal of Britain from the EU, Brexit is a decision that can closely affect its trade relations with the EU and Turkey, which is a candidate member of the EU. First and foremost, Turkey's commercial relations with the UK are expected to continue to develop extensively after Brexit. After all, England's importance as an intermediary country is indisputable in automobile import, which in turn has an important place in Turkey's import. This is especially valid considering that England is the transit point of automobile and spare parts imports from the United States. Therefore, after Brexit, Turkey's commercial interaction with the UK will continue, and an agreement has already been reached between the two countries on this issue.

On the other hand, London is an important financial center and hence is an indispensable position for a country like Turkey that needs capital. Considering the London financial market activity, it does not seem possible to divert overnight financial relations that have continued for many years to different countries.

Presumably the US-UK post-Brexit relations will be an important factor for Britain's future. The US-UK relations seem to have strengthened compared to the pre-Brexit period. The military activity of Britain, especially in the Mediterranean and the Black Sea, is the most important indicator showing that Britain is trying to match the USA policies in the region. The efforts on the part of the United States to create a new trade zone have brought the US-UK trade relations significantly closer. EU-UK relations are open to discussion from this perspective, both commercially and politically. Different political views and approaches within the EU further strengthen UK-US relations. This is the framework in which the post-Brexit trade relations of Britain with the EU and Turkey are to develop and should be interpreted.

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