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Toptancı, Alî

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# A Research on the Economic Integration of the Kurdistan Region and the Eurozone Countries: The Place and Importance of International Trade Companies

Alî Toptancî

Macroeconomist & International Economist

Erbil, Kurdistan Region of Iraq

[alitoptanc@yahoo.com](mailto:alitoptanc@yahoo.com)

## Abstract

Recently, there has been a significant increase in the number of international trade companies in the Kurdistan Region. This is crucial evidence that the Kurdistan Region can influence the world economy and politics. The economic integration between the Kurdistan Region and Eurozone countries is the result of international companies in the Kurdistan Region in Eurozone countries; investment, production, and trade show that the international division of labor and economic integration will be more robust between the Kurdistan Region and Eurozone countries and that this economic integration can be significant in world trade. The study will examine the economic integration between the Kurdistan Region, which has recently achieved significant agricultural production and export momentum, and the Eurozone countries. Accordingly, the study states that the agricultural products produced in the Kurdistan Region will be essential for both parties politically and economically and will provide many advantages as international trade companies established in the Kurdistan Region integrate with the Eurozone countries and enter the Eurozone markets. International economic research and analyses that have been conducted for a long time indicate that international trade companies in the Kurdistan Region will strongly impact the worldwide development of economic integration with Eurozone countries.

**JEL Classification:** F02, F13, F15, F23, F43, F62, F63

**Keywords:** Kurdistan Region, Eurozone, Economic Integration, Customs Union, International Trade Companies.

## **1. Introduction**

International trade companies play an essential role in the economic integration between the Kurdistan Region and Eurozone countries. Therefore, international trade companies show that the Kurdistan Region is competitive in macroeconomic and international economic terms. This will ensure that the Kurdistan Region will be in a significant position economically worldwide and will broadly impact the world economy. However, what is happening worldwide today; even if macroeconomic negativities such as recession, inflation, stagflation, and stagnation are observed, the economic integration of the Kurdistan Region with Eurozone countries will play an essential role in developing the world economy.

When examined from a historical perspective, capital, production, and technology are not sufficient for the socio-economic development of a country. Therefore, economic integration between countries from the end of World War II to the present day has enabled the development of the world economy. In this case, international trade companies emerged before World War II and appear to have increased since World War II. The most important reason for the increase in international trade companies is that they have played a critical role in developing the world economy by ensuring economic integration and increasing worldwide trade. Therefore, international companies' turnover seems higher than many countries' GDP. According to the research of Pitelis and Sugden (2000), the turnover obtained by international trade companies constituted approximately three-quarters of developed countries twenty-three years old.

In this study, the role and importance of international trade companies in the economic integration between the Kurdistan Region and the Eurozone countries will be discussed in general. In this case, the economic integration between the Kurdistan Region and the Eurozone countries will provide a significant advantage to the world economy by further strengthening the international economic and commercial ties between the Kurdistan Region and the Eurozone countries. Let us assume that the research conducted by Micklethwait and Woolridge (2005) is adapted to the economic integration between the Kurdistan Region and the Eurozone countries. In this case, economic integration between countries by banking and financial institutions will intensify world trade.



The study is the first on the Kurdistan Region's trade with developed countries. The recent agricultural production and exports of the Kurdistan Region after oil will play a crucial role in economic integration, both in the macroeconomic and international economic development of the Kurdistan Region and in the development of world trade. It is thought that the study may be an essential literature for both the Kurdistan Region and the Eurozone countries. One of the primary purposes of conducting the study is that the economic integration established between the Kurdistan Region and Eurozone countries will ensure economic and political development between the two parties, and international companies will play a significant role.


## **2. Economic Globalization**

Economically, globalization is one of the issues developed and developing countries address. Therefore, while globalization benefits developed countries, it is more related to differences in political and social ideas in developing countries. In this case, globalization has many meanings depending on individuals and their circumstances. Accordingly, although globalization is known as an overseas concept, it existed before the emergence of nations.

Nowadays, the importance of economic integration, which will be achieved with the increasing international economic relations, is that increasing economic integration worldwide plays an essential role in shaping globalization. The globalization process that develops with the increase in economic integration increases the welfare of developed and developing countries and will ensure that globalization will incredibly positively affect the economies of developing countries. Therefore, in cases where the export of products produced in developing countries occurs in worldwide markets, it is not easy to establish international commercial and economic relations if they invest and establish production facilities in developing countries. In this case, economic globalization will become more widespread worldwide if developing countries are also included in global production. Today, almost all developing countries want to get their share from economic globalization, with increased global trade, Foreign Direct Investment (FDI), international economic aid, and international economic borrowing activities. In this case, in addition to contributing to economic development, globalization is very effective in the lives of individuals.

## **3. An Overview of Economic Integration and Globalization**


Research conducted by the World Bank (2002) shows that economic integration is becoming more widespread among societies and economies worldwide. Economic integration has emerged due to reduced transportation costs, faster spread of international economic ideas, rapid flow of capital, and increased migration worldwide. Therefore, economic globalization, which develops due to economic integration, causes many negativities in terms of integration and globalization, such as increasing inequality, domination, and adhering to a single culture. In this case, economic integration and globalization effectively reduce poverty.



Economic integration and globalization are essential in reducing poverty worldwide. This situation enables underdeveloped and developing countries to develop in macroeconomic and international economic terms. Apart from oil, the Kurdistan Region has recently turned to agricultural production, especially; the expansion of the US, EU, and GCC markets has played a critical role in the globalization of the Kurdistan Region. The economic integration of the Kurdistan Region with developed countries will also enable the Kurdistan Region to increase efficiency in production. Therefore, the worldwide economic integration of the Kurdistan Region will be ensured within the scope of the “International Trading and International Economic Development Round” to be carried out by the US, Canada, the Eurozone, the UK, Japan, and GCC. This will play a significant role in the macroeconomic and international economic development of the Kurdistan Region.

Collier and Dollar (2002) stated that modern globalization occurred from 1870 to 1914. The increasing development of the logistics sector has enabled the fertile lands of some countries to be used more efficiently. At that time, land, capital, and labor began to be used more efficiently. Worldwide export volume doubled to approximately 8%. During the specified period, foreign investment capital increased approximately three times compared to the countries' GDP in the developing countries of Africa, Asia, and Latin America. In this situation, approximately 60 million people migrated to developed countries. In the early days of globalization, total labor flows accounted for approximately 10% of the population worldwide. Per capita income increased even more, and rapid population growth was not enough to prevent poverty. In economic integration and globalization, there was a convergence in per capita income between countries caused by migration. However, globalizing and non-globalizing countries began to create economic inequality worldwide.

In the 20<sup>th</sup> century, globalization was thought to provide many advantages. However, unsuccessful economic policies were causing unemployment. The economy of a failing country led to an increase in racism in that country. It was the biggest obstacle to economic integration and globalization during World War I, the Big Crisis of 1929, and World War II. Within the end of World II, trade as a share of income continued to increase as economic integration and globalization increased, approximately as in the 1870s.



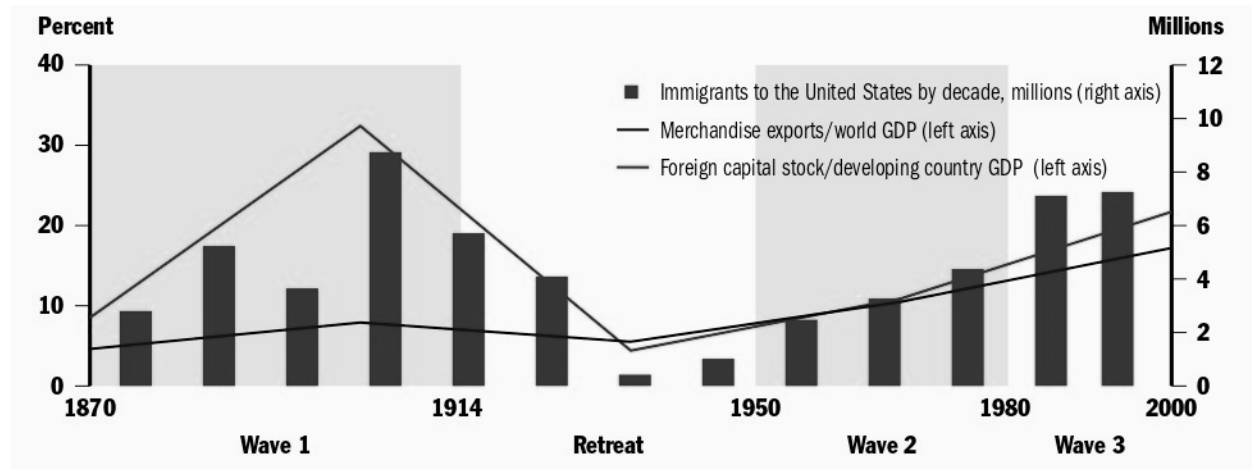
Protectionism in external trade suddenly destroyed the progress made in logistics over many years. The policy of protectionism in external trade led to the implementation of an inward-looking economic policy. This situation led to a decrease of approximately one-third of the national income per capita, causing many people to become unemployed and impoverished. At that time, economic inequalities began to increase, and protectionism policies were not implemented equally. In a period when poverty increased, some diseases lost their impact worldwide, which also had a positive impact on life. This situation shows that poverty is multifaceted and that not all of these aspects are determined by the state of the economy.

The second economic integration and globalization process began among developed countries between 1950 and 1980. In those times, developed countries such as North America, Europe, and Japan structured some commercial relations within the scope of the General Agreement on Tariffs and Trade (GATT). In the second economic integration and globalization process, many developing countries were stuck in primary commodity exports, and capital flows remained at a certain level. Developing countries are stuck in primary commodity exports, and capital flows remain at a certain level because they follow inward-looking protectionist policies. The economies of the Organisation of Economic Co-Operation and Development (OECD) member countries have begun to become leading economies worldwide as developing and growing economies. As economic integration was established between developed countries, closer economic relations began to be established between countries. Countries that were weak in industrialization began to industrialize rapidly thanks to economic integration with other developed countries.

With the recent increase in agricultural activities in the Kurdistan Region, export-oriented strategies have begun to be developed. Products produced in the Kurdistan Region have begun to establish economic integration and close economic relations with the US and EU countries, especially the GCC. In this case, industrialization for agricultural production grew rapidly in the Kurdistan Region. Economic integration with developed countries plays an essential role in the macroeconomic and international economic development of the Kurdistan Region.

#### 4. Macroeconomic and International Economic Impacts of the New Wave of Economic Integration and Economic Globalization


Since the 1980s, a significant global economic integration process has begun to take place worldwide. Economically, globalization is made possible by economic integration, migration, and capital flow. The world's trade volume can generally be analyzed according to worldwide GDP and GNP. Worldwide capital flows are represented by the ratio of developing capital stock to GDP. Capital flows in Medieval periods were not as extensive as the ones experienced today during globalization. Chart 1 shows the wave of globalization between 1870-2000.



**Chart 1.** The Wave of Globalization Between 1870-2000.

**Source:** Collier and Dollar, 2001.





As can be seen in Chart 1, all globalization activities that continued for approximately 45 years, starting from the 1870s, became more widespread worldwide with the decrease in logistics costs. This enabled the establishment of international economic integration, and world economies entered the process of complete globalization. However, globalization stopped between World War I and II as nationalism spread rapidly worldwide. Logistics costs decreased during these periods. As the nationalism movement became widespread worldwide, economically superior countries began to see other countries as third-world countries. This situation also caused international trade barriers to increase. The spread of trade barriers worldwide has caused global trade to decline to the levels of the 1870s. After World War II, many countries began implementing policies to reduce trade protectionism and restrictive measures. In this case, global trade began to reopen. The fact that the second wave of globalization lasted until the 1980s was a return to the first wave of globalization. From the 1980s to the present, it was aimed to include the goods and services produced in the world markets, including developing countries.


When the economic development of the Kurdistan Region was examined, its economy depended on oil, and the export rate was approximately 15%. He was the consumer of the remaining products. However, agricultural production and fire trucks have recently begun to be produced and exported. This situation played a significant role in the Kurdistan Region's transition from a consuming to producing society. The Kurdistan Region, generally exporting to the US, EU, and GCC countries, quickly entered the economic and global integration process. The Kurdistan Region's exports have increased by approximately 85% in the last twenty years. The Kurdistan Region's involvement in establishing economic and global integration has begun to open a new era in the global economy. Therefore, the Kurdistan Region competes with countries that produce the same products worldwide in terms of economic and global integration is spreading worldwide, which is an excellent advantage for the Kurdistan Region and enables it to achieve greater economic integration with many countries.

## **5. The Importance of Economic Integration for the Kurdistan Region**

### **5.1. What is the Economic Integration?**

Some definitions regarding economic integration form the basis of international economics. According to Balassa (2013), economic integration is the absence of any difference between the member countries of the union or the economy of the member countries. Tinbergen (1954) defines economic integration as optimizing international cooperation. Pinder (1964) states that economic integration can be achieved by eliminating differences in the economic integration process, making collaborations more intense, and implementing standard policies in the same union. The common point of macroeconomists who define economic integration is that there is a free international movement of goods and production factors and no differences between countries in the economic integration process.

As a result of international economic analyses, economic integration is an issue that is being revisited by macroeconomists today. Lewis (1960) states that the most critical obstacle to industrialization in many countries is the limited goods market within the country. After Lewis' analysis, the world economy has reached a very different point today. Macroeconomically developed countries such as the US, Canada, the EU, the UK, and Japan have played a significant role in the spread of globalization and economic integration worldwide. Economic integration is crucial in creating trade for developing countries and increasing production worldwide. Economic integration enabled the liberalization of the global economy by eliminating restrictions on international trade and ensuring compliance with the institutions, economic policies, and rules of the union member countries. In this case, international economic integration is one of the most essential factors of globalization.



There are two fundamental theories regarding macroeconomic development. The first of these is neo-classical, and the second is structuralist theory. The role and importance of economic integration and the impact of trade opening up worldwide on sustainable growth and prosperity are pretty different. The neo-classical theory is based on the principle that people can maximize their welfare by behaving in an alternative way. Under the assumption that it will provide balance in the distribution of resources in the price mechanism, it will be able to ensure the balance that one good can be chosen instead of another. Here, the Heckscher-Ohlin (H-O) Theory, which is the continuation of Adam Smith's Absolutely Advantages Theory and David Richaro's Comparative Advantages Theory, is evaluated in terms of the neo-classical approach that continues to be influential due to the abundance of agricultural products in the Kurdistan Region, it exports products to the US, EU, and GCC, while importing products such as automobile and tractor spare parts from the US, EU, and Japan. After trade, the welfare of the Kurdistan Region and the US, EU, the UK, Japan, and GCC will increase.


Structural theory is a theory that is more concerned with the macroeconomic structure and production resources of a country. According to structuralist theory, the transition between industry and sub-sector branches is limited. Therefore, contrary to neo-classical economists, there is an economic imbalance with low flexibility in factor and product markets. In other words, the difference in demand elasticity between the exported and imported goods of developing countries such as the Kurdistan Region cannot be closed by price movements and redistribution of production factors. The deficit in the balance of payments of developed countries is covered by loans from international organizations such as the World Bank (WB) and the International Monetary Fund (IMF). Therefore, the differences between the structuralist and neo-classical theories, in which there is no mechanism to ensure macroeconomic balance, are more clearly seen in the short term. When evaluating the long term, economists who adopt structuralist thought also prefer the neo-classical approach.

## 6. Benefits of Custom Union for Kurdistan Region

One of the most essential features of international trade today is that Regional Trade Agreements (RTA) are becoming increasingly common worldwide. The prevalence of the RTA worldwide dates back to the 90s. Therefore, with the increasing number of RTA made worldwide in the early 90s, it has increased rapidly until today. According to data from the World Trade Organization (2024), approximately 361 RTAs were in force as of 2024/1/1. The RTAs correspond to approximately 594 notifications from WTO members if the participants in trade are categorized separately as goods, services, and participation. The general reasons for countries to participate in Regional Integration Agreements (RIA) are economic, political, and social. According to El-Agraa (1997), the advantages of the countries participating in the RTA in the form of a Customs Union (CU) and Free Trade Zone (FTZ) are as follows:

- ✓ According to Richardo's Comparative Advantages Theory, ensuring efficiency in the production of goods,
- ✓ Benefiting from economies of scale in case of increasing production for the volume of the market,
- ✓ Increasing the terms of external trade to superior levels due to solid bargaining in international trade,
- ✓ Increased competition pushes countries to make some changes,
- ✓ Technological developments are changes in both the quality and quantity of production factors.

Kurdistan Region has started to expand its trade volume in recent years. It has started to provide comparative advantages in many countries. It increased worldwide trade by producing agricultural products and fire trucks. Therefore, increasing the trade volume of the Kurdistan Region will enable it to act together against other countries, especially by establishing a Regional Integration Agreement (RIA) with the US, Canada, the Eurozone, the UK, Japan, and GCC. There is no distinction between the countries where the Kurdistan Region provides economic integration. However, there is discrimination against countries outside the integration of the Kurdistan Region.



In this case, while trade becomes freer between the Kurdistan Region and the countries with which it has established economic integration, it also imposes trade restrictive barriers on non-integration countries. Therefore, trade-restrictive practices resulting from the established form of economic integration may positively or negatively affect the economies of the countries with which economic integration has been established. According to Robson (2002), a country with economic integration, an integrated country, or a group at a macro level cannot automatically achieve adequate economic performance or better performance than in the past. More precisely, economic integration for the Kurdistan Region requires greater attention to the profits that can be achieved by the countries participating in the RTA.

### **6.1. The Economic Effects of Custom Union on Kurdistan Region: Partial Equilibrium Approaches**

The Kurdistan Region and the countries with a Customs Union agreement apply a Common External Tariff (CET) against countries outside the union after removing trade restrictions between them. More clearly, while free trade is ensured between the Kurdistan Region and the countries that have signed a Customs Union agreement, trade protectionist policies are implemented against countries outside the union. As a result of the Customs Union agreement between the Kurdistan Region and other countries, two economic effects emerge: static and dynamic. The static effects of the Customs Union were first revealed by Viner (2014).

The statistical effects of the Customs Union are generally characterized as the effects of redistribution of resources in the countries that are members of the Customs Union before and after becoming a member of the union; it deals with production, consumption, economic well-being, and international trade comparatively. Therefore, the static effects of the Customs Union are described as the short-term effect that occurs first and last. There are some explicit or implicit assumptions within the theory that Viner uses to analyze the static effects of the Customs Union. Among these assumptions;

- ✓ Labor capital and technology are used as data.
- ✓ Production factors are accessible within the country, but their international movement is not free.
- ✓ There is perfect competition in the markets for goods and services.
- ✓ Production factors are working at total capacity.
- ✓ Production is carried out according to fixed or rising costs.
- ✓ Product prices show opportunity costs.
- ✓ External trade is balanced.
- ✓ When policies restricting external trade are implemented, only customs duties are used.
- ✓ There are no logistics expenses in international trade.
- ✓ All products produced have a homogeneous structure.

Apart from these assumptions, additional assumptions specific to the Customs Union can also be made. In this case, the balance analysis of the Customs Union includes the domestic country Kurdistan Region (K), the partner country Eurozone (E), and the country outside the union Uganda (U), which are included in three countries and a single good (a). Assuming that Uganda produces (coffee), the Eurozone produces at a higher cost than Uganda and a lower cost than the Kurdistan Region. Therefore, the Customs Union agreement affects the Kurdistan Region, Eurozone, and Uganda in very different economic ways. The economic effects of the Customs Union will be examined in more detail under the following headings.

#### **6.1.1. Trade-Creating Effect and Trade Diversion Effect of Customs Union**

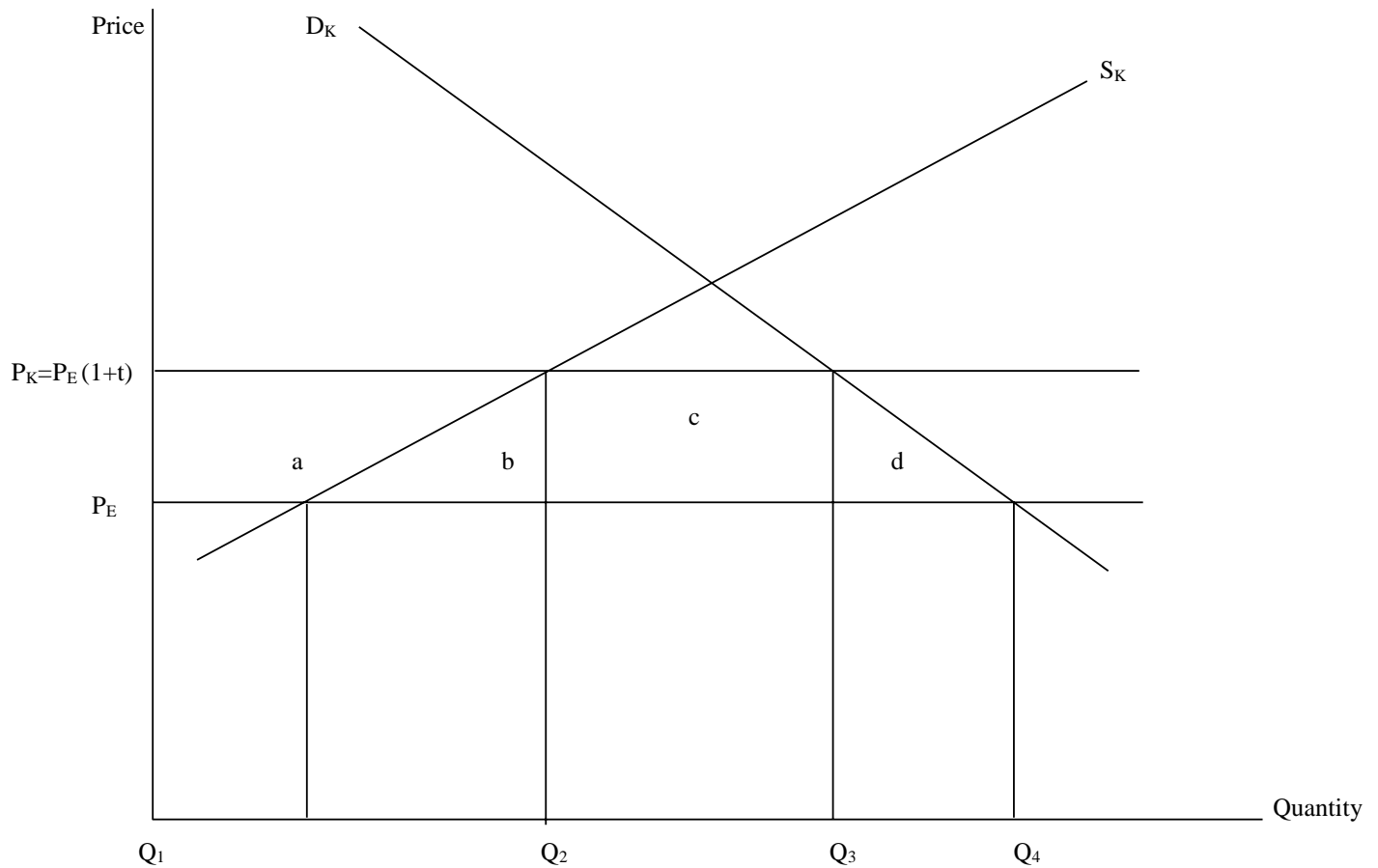
If trade restrictive policies are lifted between countries, international trade begins in the country with commodity production potential. Since the Kurdistan Region has recently contributed to increasing the world trade volume, a trade-creating effect will emerge when it starts to import a commodity, which it had previously produced under customs protection, from the Eurozone at a lower price. The Customs Union has some trade-creating effects.

In the economic expansion of the Customs Union, the trade-creating effect increases as the number of countries joining the Union increases. Therefore, expanding the Customs Union will further reduce the implementation of protectionist policies against countries outside the Union, thus weakening the trade diversionary effect. In this case, the Customs Union tariff rates are higher than those of the customs after joining the Customs Union.

Suppose the countries signed a Customs Union agreement have a competitive economy. In that case, the trade-creating effect of the Customs Union will be greater than the trade-diverting effects of complementary economies. In this case, in countries with a competitive economy, production costs begin to decrease when a country that has started efficient production after joining the Customs Union enters the markets of the Customs Union member countries. After joining the Customs Union, earnings are determined by the difference between the costs of competing commodities produced by member countries in the periods before joining the Customs Union. Suppose the countries forming the Customs Union have complementary economies. In that case, member countries can trade high-cost commodities above the worldwide prices of that commodity under the customs protection the Union applies against countries outside the Union. Since the price of a commodity produced by countries before being included in the Customs Union is lower than the tariff-tariffed prices of the same commodity produced in other countries, domestic consumption is met by domestic production. Custom tariffs will not be valid on high-cost imported products when a Customs Union agreement is made between countries. If the Union member countries and another country within the Union produce the same commodity at a lower cost, it will be imported from countries that produce it cheaper. In this case, production may be cheaper. When the production source of a commodity changes, it is the “production effect,” and when the consumption of the commodity increases or is substituted with another commodity, it is the “consumption effect.” The trade-creating effects are formulated as follows:

$$\textit{Production Effect} + \textit{Consumption Effect} = \textit{Trade-Creating Effect}$$

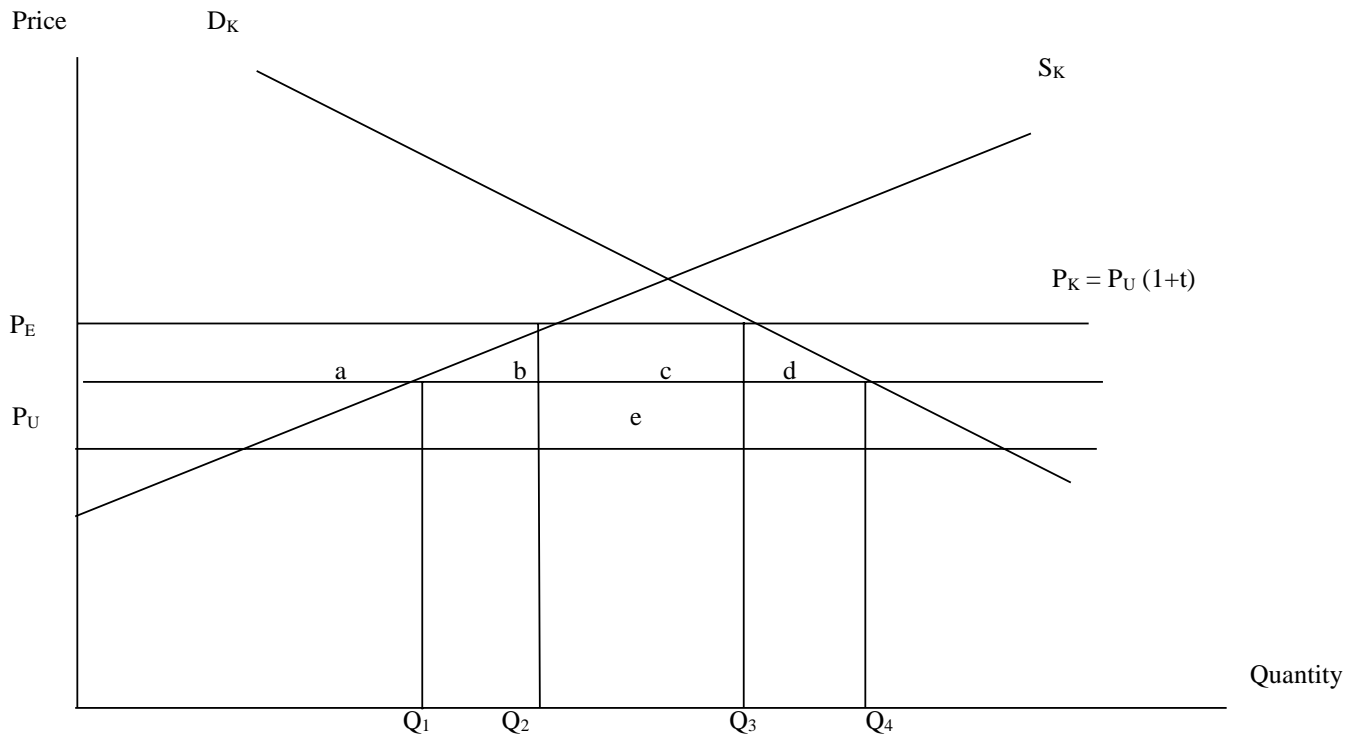
According to Viner's theory, supply prices are constant and infinite, while the demand curve equals zero elasticity. Therefore, according to Viner's theory, consumer behavior is not essential. Figure 1 shows the trade-creating effect of the Customs Union in the Kurdistan Region.



**Figure 1.** Trade-Creating Effect of Customs Union



While imports are made from the lowest-cost countries before countries join the Customs Union, the effect of directing imports to the more expensive country joining the Union after entering the Union is defined as the “*trade diversion effect.*” Since the countries that are members of the Customs Union apply Common Customs Tariffs (CCT) policies, it becomes difficult for countries outside the Union to export to countries that are members of the Customs Union. Therefore, it negatively affects the international trade volume of one or many Union member countries. This situation also negatively affects the volume of world trade. Figure 2 shows the trade diversion effect in the Kurdistan Region.



**Figure 2:** The Trade Diversion Effect of Custom Union


In the Kurdistan Region, before economic integration with the Eurozone, the price of goods was shown as  $P_K + \text{Tariff}(t)$ . As a result of the economic integration established between the Kurdistan Region and the Eurozone, customs tariffs are abolished, and the Kurdistan Region imports goods from the Eurozone without tariffs ( $Q_4 - Q_1$ ). The Kurdistan Region's increasing imports  $Q_2 - Q_1$  replace the previously produced domestic production, and  $Q_4 - Q_3$  show the large volume of imports. The prices of goods in the Eurozone show the consumption of goods ( $P_E$ ) at the new price for the consumers of the Kurdistan Region. The trade creation effects give the sum of (b+d) areas. If a general review is made, trade creation will be possible if the Kurdistan Region becomes a Free Trade Zone (FTZ) and the trade volume increases worldwide.

Before the Kurdistan Region achieved economic integration with the Eurozone, the Kurdistan Region imposed customs tariffs on commodity imports from the Eurozone. In this case, with the inclusion of Uganda's coffee imports to the Kurdistan Region in the tariff, it is formulated;

$$P_K = P_U (1+t)$$

Before economic integration was established, the Kurdistan Region imported coffee from Uganda ( $Q_3 - Q_2$ ). When the economic integration of the Kurdistan Region begins to import commodities from the Eurozone ( $Q_4 - Q_1$ ), trade begins to be carried out freely, without customs tariffs or any trade barriers.

As shown in Figure 2, trade diversion, in general, is the diversion of existing trade away from the Free Trade Zone (FTZ). The impact of trade creation on the Kurdistan Region is the difference between areas (b+d) and area (e). In this case, the decrease in prices in the Kurdistan Region causes (a) a decrease in the production of existing companies, a decrease in employment, and a decrease in profits.



The effects of the economic integration established between the Kurdistan Region and the Eurozone may occur in different ways in cases where economic integration cannot be achieved on the macroeconomic and international economic performance of the countries participating in the Customs Union. Therefore, reducing or eliminating trade barriers between the Kurdistan Region and the Eurozone creates a more competitive trade environment. In this case, the monopoly will decline before economic integration between the Kurdistan Region and the Eurozone. In this case, access to the markets of the countries that are members of the Customs Union can be achieved, and economies of scale can be developed for certain goods to be exported. Therefore, economies of scale can be developed to export certain goods. Therefore, economies of scale may reduce input costs if companies exporting to Customs Union member countries grow. This may be due to the market expansion due to membership in the Customs Union. Economies of scale for the Kurdistan Region may enable it to specialize in agricultural production, as agricultural production has recently increased in the Kurdistan Region. In this case, trade may change from inter-industry trade to intra-industry trade.

The economic integration to be established between the Kurdistan Region and the Eurozone can encourage investments within the scope of Foreign Direct Investment (FDI) to invest according to production efficiency in a member country that will prevent being left out of the Customs Union due to trade restrictions and high standard external tariffs. According to increased factors, economic integration at the common market level can result in potential benefits. In regions where economic integration is achieved, both capital and labor are abundant, productivity will increase, and, accordingly, income from the factor will also increase.

The trade-creating effect arises from the additional production of the Customs Union member countries. The product from additional production is produced by liberalizing trade between the Kurdistan Region and the Eurozone. Increasing specialization and economies of scale should further increase productivity in production in Customs Union member countries. Therefore, production will not be carried out in countries outside the Customs Union, with a comparative advantage over the Customs Union and economic integration countries.

### **6.1.2. Consumption Effect**

Economic integration developed by Viner showed that goods are consumed constantly, and relative prices will not change. Therefore, the Customs Union theory developed by Viner examined only the production effect of economic integration and did not address the consumption effect. In this case, changes in consumption are very effective for the welfare of society. The consumption effect, which Viner did not address, was examined in detail by Lipsey (1957), Meade (1962), and Gehrels (1956). In their analysis of the consumption effect, Lipsey, Meade, and Gehrels not only considered the production effect but also stated that the consumption effect of goods can change relative commodity prices and production and affect national welfare due to the substitutability between commodities.

There are two effects of consumption, both positive and negative. After the Customs Union agreement between the Kurdistan Region and the Eurozone, it is possible to see the consumption effect as trade depends on the creative effect. If we examine Nestlé Gold coffees, for example, before the Customs Union agreement between the Kurdistan Region and the Eurozone, if the customs protectionist policy is implemented, it is produced at a high price in the Kurdistan Region. However, when the Customs Union agreement is made between the Kurdistan Region and the Eurozone, coffee prices will be decreased, increasing the consumption of Nescafé Gold coffees in the Kurdistan Region. Thus, by removing some customs barriers in international trade between the Kurdistan Region and the Eurozone, the trade volume will expand, and consumption will increase due to the decrease in the price of Nescafé Gold coffees.

For example, establishing a Customs Union agreement between the Kurdistan Region and the Eurozone will decrease the prices of Nescafé Gold coffees and Mercedes-Benz cars imported from the Eurozone without customs restrictions. In this case, there may be changes in the price rates of honey produced in the Kurdistan Region before and after becoming a member of the Customs Union. If Nescafé Gold coffees and honey are substituted, honey production will decrease if cheap goods are substituted with expensive goods. In the case of complementary goods, increasing the import of Nescafé Gold coffees by the Kurdistan Region will increase honey production.

The adverse effects of consumption are revealed by the diversion of trade with the conclusion of the Customs Union agreement between the Kurdistan Region and the Eurozone. There must be at least three countries to examine the negative impact of consumption. As a result of the shift of the Kurdistan Region's cacao imports from the low-cost Uganda to the high-cost Eurozone after the Customs Union agreement, the price of coffee increased, causing the consumption of cacao in the Kurdistan Region to decrease. The impact of this shift depends on the tariff rates that the Kurdistan Region applied to cacao before economic integration, based on the difference in the production cost of cacao between the Eurozone and Uganda.

## **7. Kemp-Wan Theorem**

Jacob Viner evaluated the Customs Union from a static perspective. He stated that it is not known how the welfare of the countries that are members of the Customs Union will be affected. Unlike Viner's theory, Kemp-Wan stated that after the Customs Union agreement, all member countries could increase their income. The Kemp-Wan Theorem is based on two different assumptions:

- ✓ Countries apply unlimited customs tariffs,
- ✓ Transportation costs in international trade are not precisely known.

Under the assumptions stated in Kemp and Wan Theorem (2001), if compensatory payments are made between the countries that are members of the Customs Union, if the welfare of the countries outside the union is not negatively affected, an increase in the welfare level of the countries that are members of the Customs Union is observed. In this case, if the standard customs tariff to be applied by the member countries of the Customs Union is regulated in such a way that the initial trade amount, prices, and welfare of the countries outside the union are not negatively affected, there will be no decrease in the export volume of the countries outside the union and the terms of trade will not be negatively affected, there will be no decrease in the export volume of the countries outside the union, and the terms of trade will not be negatively affected. This means that the trade diversion effect does not occur, so the trade volume of countries outside the union is not negatively affected.

With the Customs Union agreement between the Kurdistan Region and the Eurozone, trade between the Kurdistan Region and the Eurozone is liberalized, causing domestic prices to change in these countries before the Customs Union agreement is established. Therefore, a new system in which supply and demand are equal will emerge within the scope of the Customs Union agreement between the Kurdistan Region and the Eurozone. It will, for example, increase the prosperity of the Kurdistan Region by exporting pomegranates to the Eurozone if they are produced at a low price in Halabja. Since the customs tariffs on the Kurdistan Region's pomegranate exports before the Customs Union will be eliminated after the Customs Union with the Eurozone, there will be an improvement in the terms of foreign trade.

With the scope of the Customs Union, if a country that produces a commodity at a high cost reduces its production and imports it from a country that produces at a low cost, the terms of trade of the importing country may be negatively affected compared to the exporting country. Therefore, an increase in the welfare level of the Customs Union member countries can be observed. In this case, it is difficult for the welfare level of the countries that are members of the Customs Union to increase simultaneously. Therefore, by implementing policies that will increase the welfare of the countries that are member countries of the Customs Union, it can be expanded to include the member countries of the union and the free trade volume between the countries can be increased.

## **8. Terms of External Trade**

Terms of external trade show the ratio of export prices to import prices ( $P_E/P_I$ ). By examining the changes that occur depending on export or import price indices as a result of international trade, it can be understood whether the terms of external trade are affected positively or negatively. While an improvement in a country's terms of external trade will increase its welfare, a worsening may lead to a decrease. Today, the terms of external trade of the member countries of the Customs Union are affected by the trade they conduct and the trade with countries outside the union. In order to examine the impact of international trade on the union countries, the countries that are members of the union are categorized as "large countries."

According to the generally accepted principles in Viner's (2014) Customs Union theory, they ensure that the terms of external trade are positively affected by the international trade of the union's member countries with countries outside the union. In this case, they play an essential role in improving the terms of external trade compared to the countries outside the union due to the tariff application due to the macroeconomic expansion of the Customs Union.

Mundell (1964) examined the terms of trade in a different way than Viner. According to Mundell, the discrimination and easing of external trade and customs tariffs by the member countries of the customs union will affect the terms of external trade of each member country against the countries outside the union. For example, the Kurdistan Region's implementation of policies that will ease tariffs will positively affect the Eurozone's terms of external trade compared to the Kurdistan Region and Uganda's products in the Kurdistan Region.

While the terms of external trade will improve in the Kurdistan Region, it will deteriorate in Uganda, thanks to the policies implemented by the Eurozone, one of the members of the Customs Union, to ease external trade and customs tariffs. Changes that may occur in trade in the case of mutual tariff-easing policies in trade between the Kurdistan Region and the Eurozone cannot be predicted in advance. In other words, while the terms of external trade of one of the union members improve, the other may deteriorate. According to Mundell (1964), the terms of trade of union member countries are improving compared to countries that are members of the Customs Union due to the improvements in terms of external trade against the countries outside the union may be negatively affected if there is a decrease in imports from countries outside the union before becoming a member of the union, in other words, if there is a deviation. Therefore, Mundell's analysis does not include how much income the union's member countries have. According to Lloyd and MacLaren (2004), it can balance the terms of external trade of countries outside the union by balancing the negative price effect of the income effect.

The terms of external trade of the countries that are members of the Customs Union may change depending on the external trade between the countries that are members of the Union, which affects the trade rate and prices for the Union. Considering a Customs Union consisting of the Kurdistan Region and the Eurozone, if one of the member countries implements tariff-easing policies, there will be an improvement in the terms of external trade of other countries.


For a country that is considered a “big country” in foreign trade, focusing only on exports by applying import tariffs can further increase its welfare. The Kurdistan Region has recently begun to increase its welfare by implementing policies restricting imports and increasing exports of agricultural products. Krugman and Obstfeld (2009) describe the tariff rate that increases the country’s welfare as the “optimum tariff.” According to Melvin (1969), if the tariff that a country first applies without preference is the optimum tariff, its desire to be included in the Custom Union countries will negatively affect the country's welfare. In this case, if the country joins the Customs Union and liberalizes its trade with member countries, welfare may decrease compared to the optimal tariff.

## **9. External Economies**

For some reason, if production is concentrated in one or a few places in the industry, companies that make small-scale production in the industry will be able to reduce costs. Therefore, applying economies of scale at the industry rather than at the individual firm level is called *external economics*. External economists include Alfred Marshall, who analyzed the concentration of industry in certain countries in industrial regions that cannot be explained by natural resources (such as land). If Alfred Marshall’s analysis is explained with an example, fork and knife-producing companies in Sheffield and sock-producing companies in Northampton are concentrated in one or a few specific places.

Many examples can be given where external economies are intense and robust. For example, semiconductor technologies are used in Silicon Valley and Hollywood, where the entertainment industry is intense. In this case, it can be seen that external economies are every day in China, which is the developing country where the most production is made. China is a country where various goods are produced. When India is examined in terms of products for information technologies. The most important city in India, where the production of information technologies is concentrated, is Bangalore.





According to Alfred Marshall, there are three reasons why a company has an advantage over another company with its production alone. The first of these reasons is the need for expert suppliers for companies to produce intensively. Secondly, the aim is to increase employment in a geographically concentrated sector in that country or region, and the third is to take encouraging steps towards disseminating knowledge in a geographically concentrated sector. Policies addressing the mentioned factors are still implemented today.

### **Specialized Suppliers in the Kurdistan Region**

Today, many companies focus on different geographies, reading the development of large-scale products and using special equipment and support services to produce goods and services. In this case, there seems to be insufficient cooperation with private companies and suppliers to produce goods and services. A geography-based sectoral concentration will enable many foreign companies to come together in the Kurdistan Region, providing many advantages to the expert suppliers in the Kurdistan Region. For example, commissioning a production facility in Hewlêr for the production and packaging of Nestlé's Nescafé Gold coffees will play an essential role for suppliers. Therefore, the fact that companies originating from the US, Canada, Eurozone, the UK, Japan, and GCC are producing in the Kurdistan Region is an indication that the Kurdistan Region has specialized suppliers, and by making production in the Kurdistan Region, further macroeconomic development will be ensured. As can be seen from the example, cooperation with expert suppliers in the Kurdistan Region for the production and packaging of Nestlé's Nescafé Gold coffees in Hewlêr will provide an advantage over other companies producing coffee.

One of the essential advantages of Nestlé producing Nescafé Gold coffees in the Kurdistan Region is that the input costs are pretty affordable and can be obtained more easily. Therefore, many companies compete by having affordable input costs and easy access to inputs, and companies can focus more on the sector in which they specialize and transfer other parts of the product to suppliers in other countries. For example, Nestlé developed a different taste for its consumers accustomed to Nescafé Gold coffees; with a realistic understanding of taste, smell, etc., it conducts analysis, develops its R&D, and focuses on marketing. Choosing the coffees to be produced in the Kurdistan Region following the tastes of the Kurdish people and the people of the Middle East and choosing an expert supplier from the Kurdistan Region to produce them could be very advantageous for Nestlé.

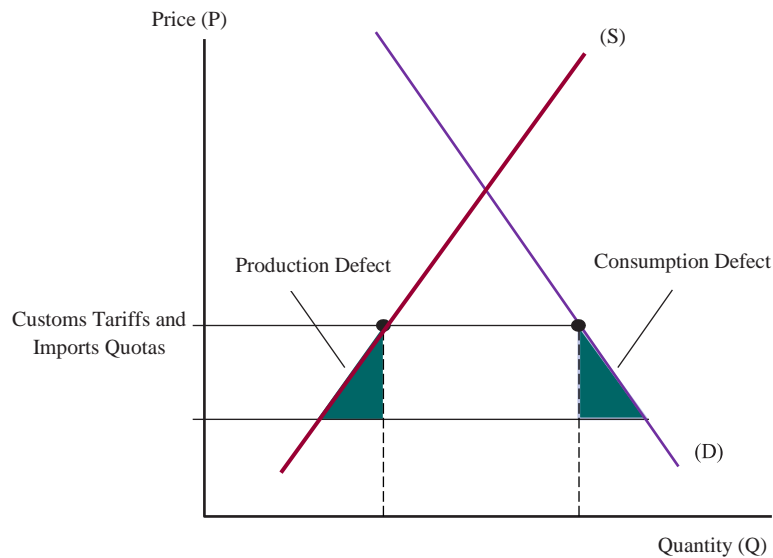
## **10. The Case of Free Trade in the Kurdistan Region**

Today, several countries have started implementing policies aimed at complete trade liberalization. Therefore, the Kurdistan Region, a region of Iraq that implements a different economic policy than Iraq, can be a modern economy where customs tariffs and import quotas are not applied. Since the 1800s, many macroeconomists and international economists have stated that trade should be liberalized and that the world trade volume could increase if trade were liberalized. The macroeconomic models indicate that free trade, in terms of trade liberalization, can prevent the damages that may arise in connection with protectionism. Although some macroeconomists state that liberalizing trade is not the right policy, many macroeconomists and international economists state that free trade is significant for countries and increases the trade volume of countries.

### **10.1. The Effects of Free Trade on the Kurdistan Region**

For the Kurdistan Region, free trade is the opposite of cost-benefit analysis. As can be seen in Figure 3 it shows a point where the prices of the goods that the Kurdistan Region will export are not affected. Measured by the area of the two right triangles painted in the figure, there is a loss from a macroeconomic perspective. This situation negatively affects both producers and consumers economically.

Trade tariffs are low, and essential quotas are not frequently applied. In this case, tariff rates are pretty low, and import quotas are rarely imposed. Estimates of the total cost of distortions resulting from imposed tariffs and import quotas should be conservative.



**Figure 3.** The Effects of Free Trade on Kurdistan Region.

### 11. Free Trade Policy in the Kurdistan Region

Although implementing policies to liberalize trade in the Kurdistan Region provides many advantages in principle, implementation is essential. Many macroeconomists and international economists state that trade policies are dominated by some policies over free trade rather than the many benefits of liberalizing trade in the Kurdistan Region regarding cost and macroeconomics. Theoretically, welfare may increase with customs duties and export subsidies, and the government's trade-related units, which want to implement a trade invention policy, may be negatively affected by self-interested groups' domination.

There are some ideas about free trade in research on the economy of the Kurdistan Region. Among these ideas;

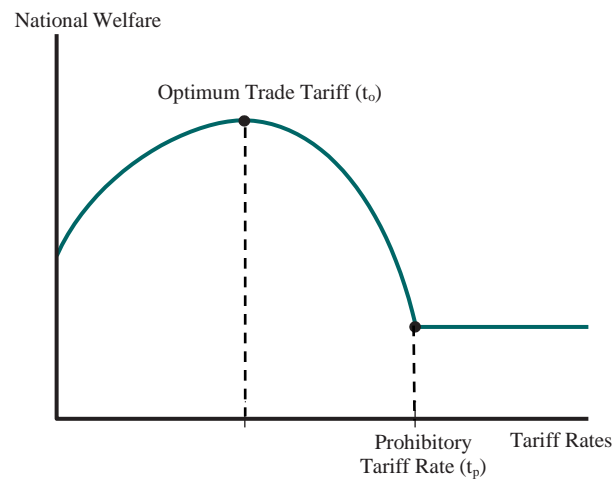
- ✓ In case of deviation from trade liberalization, the costs may be high.
- ✓ Some benefits of trade liberalization may lead to increased costs of trade protection policies.
- ✓ The government will prevent any activity that may negatively affect free trade.

### **11.1. Increasing National Wealth with Free Trade in the Kurdistan Region**

In many countries, many of the critical quotas and trade-related measures implemented to protect national welfare are taken to protect the welfare of the people. As a result of the increasing agricultural activities in the Kurdistan Region in the last two years, it was decided to impose an essential quota on some agricultural products, such as tomatoes, to increase the national income. The reason for this is the Kurdistan Regional Government (KRG)'s economic policies that will increase national welfare in order to protect domestic production. While most Kurdish economists agree that deviation from the free trade policy will negatively affect national welfare, increasing free trade in the Kurdistan Region will increase the economic development of the Kurdistan Region and foreign investments within the scope of Foreign Direct Investment (FDI).

One of the most important reasons for deviation from free trade is the examination of direct cost-benefits. For example, the customs tariffs applied to Switzerland may affect the oil prices exported by DNO ASA, a Norway-based oil and gas company operating in the Kurdistan Region, which may reduce the oil import prices to Switzerland. This creates a term of trade advantage. Therefore, this cost-benefit means that tariffs should be determined according to the costs that may arise if trade tariffs distort the incentives for production and consumption. In this case, the cost-benefit of a tariff from the terms of trade may become more critical, and there are also arguments from the terms of trade for a tariff to be applied.

For a small tariff to be imposed, the benefits must outweigh the costs in terms of trade. Figure 4 shows that the welfare of a large country is higher at low tariff rates, costs begin to rise faster than benefits, and the slope of the curve associated with the tariff rate of national welfare is downward. In this case, implementing a tariff that completely prohibits trade may cause the country to be more negatively affected than free trade policies ( $t_p$ ). Additional increases in the tariff rates ( $t_r$ ) applied have no effect and become flat after a point.



**Figure 4.** The Optimum Trade Tariff in the Kurdistan Region

When Figure 4 is examined, it is seen that national welfare rises to the maximum level at ( $t_o$ ) on the curve. Therefore, national welfare is maximized by the optimum tariff. The optimal tariff rate is always positive but appears lower than the prohibitory rate ( $t_p$ ). In this case, all imports will be eliminated.


Since export subsidies negatively affect the terms of trade and national welfare for international companies that export pomegranates and honey in the Kurdistan Region, the policy that will be advantageous for international companies that export is damaging subsidies. For example, there should be an export tax that could increase the price of exports to UAE and Qatar. Therefore, the optimum export tax is also favorable, like the optimum tariff ( $t_o$ ). However, it would be lower than the prohibitive taxes that would eliminate exports.

Terms of trade have some restrictive features against free trade. Small countries worldwide have little impact on export and import prices. In this case, the effect of applying terms of trade for small countries is also tiny. The problem for developed countries such as the US, Canada, the Eurozone, the UK, and Japan is that their terms of trade indicate that they have monopolies to sell and make profits at the expense of underdeveloped and developing countries. The US may implement this policy for a while, but developed countries may respond to such a practice, which will only negatively impact them. This situation will negatively affect international commercial collaboration.

## **12. International Trade Companies and Foreign Direct Investment in the Kurdistan Region**

Following the recent exports of the Kurdistan Region to Dubai and Qatar, the economic integration process has enabled international trade companies to remove some trade restrictions and make investments within the scope of FDI to allocate resources optimally. The Kurdistan Region has primarily focused on agricultural production, ensuring that production is made in the Kurdistan Region and exported to the whole world. In this case, the aim is to ensure the economic integration of the Kurdistan Region with developed countries. According to the data of Invest Kurdistan (2024), approximately \$12 billion is invested in the Kurdistan Region within the scope of Foreign Direct Investment (FDI).

Merger and acquisition activities of international trade companies in the Kurdistan Region play a significant role in the integration of capital. There has been a significant increase in the number of international trade companies in the Kurdistan Region from the early 2000s to the present. This increase is crucial for the competitiveness and profit maximization of international companies operating in the Kurdistan Region. In this case, although international mergers and acquisitions of international trade companies operating in the Kurdistan Region are essential for international companies to compete internationally and maximize their profits, they will ensure that the economic integration between the Kurdistan Region and the Eurozone will be more robust.



The fact that the Kurdistan Region has recently gained significant momentum in international trade among Middle Eastern countries enables international trade companies to support further the macroeconomic and international economic development of the Kurdistan Region. The increase in domestic trade in the Kurdistan Region also plays an essential role in the Kurdistan Region also plays an essential role in the economic integration of many developed countries with the Kurdistan Region, further increasing the demand for Kurdish goods and ensuring the further spread of Kurdish goods to the market of the Eurozone and other developed countries.

### **13. Conclusion**

This study examined the role and importance of international trading companies in trade between the Kurdistan Region and the Eurozone. Therefore, international trading companies ensure worldwide globalization and economic integration. In this case, international trading companies with a large volume worldwide are a driving force in economic globalization.

International trade companies play a significant role in ensuring international economic integration and commercial cooperation, regulating the flow of production factors, ensuring sound trade rules and excellence, and establishing international economic integration. Recently, in the Kurdistan Region, it exported products to Dubai, Qatar, Saudi Arabia, Sweden, France, the UK, and the US by producing other than oil, significantly growing agricultural products. Another aim of the study is to contribute to developing trade and economic integration between the Kurdistan Region and the Eurozone. Economic integration between the Eurozone, which consists of 20 countries, and the Kurdistan Region will increase the volume of world trade. In this case, the economic integration to be established between the Kurdistan Region and the Eurozone will enable the Kurdistan Region to trade goods freely between the countries with the Customs Union agreement.

Ensuring economic integration and cooperation between the Kurdistan Region and the Eurozone will enable the conclusion of Free Trade Agreements (FTA) and Regional Trade Agreements (RTA) in addition to the Customs Union agreement. With these agreements, it will contribute to the international economic development of the Kurdistan Region and to the increase of GDP by exporting the products grown in the Kurdistan Region to the Eurozone. The Eurozone is one of the most important markets in the Kurdistan Region. With the economic integration that is being established, Kurdish goods will become more common in Eurozone markets.






As a result, international trade companies play a significant role in the economic integration, Customs Union agreements, Free Trade Agreements (FTA), and Regional Trade Agreements (RTA) to be established between the Kurdistan Region and the Eurozone. International trade companies can also designate various regions of the Kurdistan Region (e.g., Zakho, Duhok, Hawlêr, and Halabja) as Free Trade Zones (FTZ) in the economic integration of the Kurdistan Region with the Eurozone.

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