

IKV BRIEF

A QUICK GLANCE TO TURKEY'S FREE TRADE AGREEMENTS

Selen Akses
IKV Project Manager



A Quick Glance to Turkey's Free Trade Agreements

IKV Project Manager, Selen AKSES

Over the last decade, Turkey has been pursuing an active policy in terms of negotiating and concluding Free Trade Agreements (FTAs) with countries from all around the world. Without doubt, the Customs Union established with the EU has been a main determinant in Turkey's policy orientation for FTAs. Within its obligations arising from the Customs Union, Turkey is following closely EU's policy approach on bilateral and regional FTAs. But Turkey has been encountering difficulties in maintaining the same pace as the EU in the FTA negotiations with third countries. These difficulties have partly arisen from the malfunctioning elements of the Customs Union.

Turkey's approach towards FTAs

By becoming a contracting party of the GATT and founding member of the WTO in 1995, Turkey has favoured the multilateral approach to encourage trade liberalization. In this respect, Turkey wants the successful completion of the Doha Development Round negotiations which would help developing countries to gain better access to new markets and to integrate into the world trading system. Within this respect, as holder of the G20 Presidency in 2015, Turkey undertook the mission to represent the low-income developing countries and to draw the attention on the problems encountered by these countries in their development process.

All this put aside, Turkey is also developing and reinforcing its trade relations with third countries by means of bilateral and regional agreements. In line with the principles of GATT/WTO, Turkey has established a Customs Union with the EU in 1996 and concluded many FTAs with third countries around the world. According to Article XXIV of GATT, any member can grant more favourable treatment to its trading partners within a customs union or a free trade area without extending such treatment to all WTO Members, but with certain conditions. This Article allows countries to sign regional and bilateral agreements without putting in jeopardy the spirit of multilateral trading system.

Over the past twenty years, Turkey's trade policy and especially the approach it has adopted towards FTAs have been shaped in accordance with its obligations towards the EU as a result of the Customs Union. In this context, EU's approach towards bilateral and regional FTAs has been a determining factor in Turkey's position on FTAs. When establishing a Customs Union with the EU, Turkey has agreed to align its trade policy to EU's preferential trade agreements and the autonomous regimes which grant unilateral concessions to least developed countries. According to Article 16 of the Decision 1/95 of the Turkey-EC Association Council, of 22 December 1995 on implementing the final phase of the Customs Union, *"Turkey shall align itself progressively with the preferential customs regime of the Community within five years as from the date of entry into force of this Decision. This alignment will concern both the autonomous regimes and preferential agreements with third countries. To this end, Turkey will take the necessary measures and negotiate agreements on mutually advantageous basis with the countries concerned"*.

Under the obligation of aligning its trade policy with EU's common trade policy, Turkey has been mainly negotiating and concluding FTAs with countries with which the EU concluded a FTA or is undergoing negotiations. But Turkey faces situations where some countries with whom the EU has concluded a FTA show reluctance in signing a separate agreement with Turkey. This is due to the fact that trade agreements signed by the EU with third countries cover the customs union area to which Turkey belongs along with the current 28 EU Member States. As a result, these countries in question benefit from the free movement of goods ensured by the Customs Union and their goods can enter to Turkish market via the European market without paying customs duties. But on the other hand, being excluded from the negotiations and the decision making process, Turkey was not included in the negotiations, Turkey does not benefit in return from the same concessions granted to EU in terms of trade facilitation.

All these put aside, there are also some cases where Turkey has signed a FTA with countries prior to their engagement towards the EU. Turkey has signed before the EU an agreement with Macedonia, Bosnia-Herzegovina, Georgia and Malaysia. These agreements are considered to be a breach of the Turkey-EU Customs Union.

With the negotiations for the modernisation of the Customs Union expected to be launched in 2017, it is of outmost importance to overcome this asymmetric situation by strengthening the consultation process between Turkey and the EU, by enabling Turkey's participation to EU Committees on trade related issues and by setting a mechanism that will encourage third countries with whom the EU wants to sign a trade agreement to start negotiating a similar agreement also in parallel with Turkey.

FTAs concluded by Turkey

So far, Turkey has concluded in total FTAs with 34 countries but 11 of them have been annulled after these countries have joined the EU. Turkey had a FTA with Hungary, Lithuania, Estonia, the Czech Republic, Slovakia, Latvia, Slovenia, Poland, Bulgaria, Romania and Croatia. Following their accession to the EU, these FTAs have been annulled and Turkey further pursued its trade relations with these countries within the Customs Union framework.

Currently, Turkey has 18 FTAs in force; namely EFTA, Israel, former Yugoslav Republic of Macedonia, Bosnia-Herzegovina, Palestine, Tunisia, Morocco, Egypt, Albania, Georgia, Montenegro, Serbia, Chile, Jordan, Mauritius, South Korea and Malaysia. Turkey has also signed a FTA with Syria in 2004 which entered into force in 2007 but the agreement has been suspended following the rise of tension between both countries. As a reaction to the excessive use of violence against protestants of the government, Turkey imposed some economic and financial sanctions against Syria. In response to these sanctions, Syrian government decided on 4 December 2011 to suspend the FTA. In such a context, Turkey also took the decision to suspend the implementation of the agreement.

Beside these agreements in force, Turkey also signed FTAs with Lebanon, Kosovo, Faroe Island and Singapore but these agreements are currently under the ratification process. Furthermore Turkey has also concluded its FTA negotiation with Ghana but the agreement has not yet been signed.

Table 1: Turkey's FTA with third countries

COUNTRY	DATE OF SIGNATURE	DATE OF ENTRY INTO FORCE
EFTA	10 December 1991	1 April 1992
Israel	14 March 1996	1 May 1997
Macedonia	7 September 1999	1 September 2000
Bosnia and Herzegovina	3 July 2002	1 July 2003
Palestine	20 July 2004	1 June 2005
Tunis	25 November 2004	1 July 2005
Morocco	7 April 2004	1 January 2006
Syria	22 December 2004	1 January 2007 (Suspended since 6 December 2012)
Egypt	27 December 2005	1 March 2007
Albania	22 December 2006	1 May 2008
Georgia	21 November 2007	1 November 2008
Montenegro	26 November 2008	1 March 2010
Serbia	1 June 2009	1 September 2010
Chile	14 July 2009	1 March 2011
Jordan	1 December 2009	1 March 2011
Mauritius	9 September 2011	1 May 2013
South Korea	1 August 2012	1 May 2013
Malaysia	17 April 2014	1 August 2015
Moldova	11 September 2014	1 November 2016

Turkey has concluded FTAs mostly with the neighbouring countries, more specifically from the Balkan and Middle East regions. Turkey had, in a way, to incline towards concluding FTAs with Central and Eastern European countries and with Balkan countries since EU has been looking to reinforce its economic and trade relations with the neighbouring countries with the aim to ensure peace and prosperity within the region. But more recently, it can be observed that, Turkey, following EU's pattern, is also extending its geographical diversification of its partners and strengthening its trade relations with countries from Asia, Latin America and Africa.

In the era of globalization and the development of global supply chains, it is important for Turkey to strengthen its trade relations with other countries and regions in order to explore new market opportunities. The severe debt crisis in the Eurozone which had a

negative impact on Turkey's exports to the EU has revealed the importance for Turkey to diversify its trading partners and reduce its dependency on EU.

But one must also not forget that Turkey is negotiating and concluding these FTAs in order to meet its obligations arisen from the Customs Union established with the EU. And with the slowing down of talks for multilateral trade liberalization under the auspice of WTO, the EU shifted its focus on bilateral and regional FTAs within its trade strategy. The EU wants to help Member States overcome the impacts of the global economic crisis and debt crisis in the Eurozone by stimulating economic growth and creating new job opportunities through the development of trade relations. With EU's new strategical approach, to align its trade policy with EU's common trade policy, Turkey is also enlarging its target groups for FTAs.

The FTAs have been an important factor fostering an increase in trade volume between Turkey and other contracting countries. These FTAs enable Turkey to better access to new markets and to reduce to some extent its dependency on the European market for its export. In 2015, the share of Turkey's exports to countries with whom it has currently FTA represents 14,3 percent in total trade while it was limited to 8,3 percent in 2007 prior to the global economic crisis.

Turkey has witnessed a significant increase of its exports especially with countries such as Syria, Egypt, Bosnia Herzegovina, Jordan and Morocco. A year after the entry of force of the FTAs, Turkey's exports have increased for instance, by 59 percent with Bosnia Herzegovina, by 58 percent with Egypt, by 52 percent with Jordan, by 40 percent with Syria and by 31 percent with Morocco. The increase of exports has been more important than the increase of imports for Morocco, Syria and Tunisia. Following the decision taken to suspend the FTA between Syria and Turkey, it can be observed that the trade volume between the two countries have dropped significantly. For instance, Turkey's exports to Syria have decreased by 69 percent and imports by 80 percent between the period 2011 and 2012.

Table 2: Turkey's export with countries with whom it has a FTA in force (in Million in USD \$)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total export	23224	26261	26974	26587	27775	31334	36059	47253	63167	73476	85535	107272	132027	102143	113883	134907	152462	151803	157610	143839
EFTA Countries	336	414	357	362	324	316	409	538	667	821	1189	1328	3262	4336	2416	1887	2601	1662	3795	6 202
Israel	255	392	480	585	650	805	861	1083	1315	1467	1529	1658	1935	1522	2080	2391	2330	2650	2951	2698
Macedonia	74	77	68	94	108	90	101	123	149	162	173	272	296	283	263	299	274	294	348	325
Bosnia and Herzegovina	22	32	38	40	27	28	43	63	100	128	151	445	572	227	224	269	252	274	322	293
Palestine	0	0	1	2	6	6	5	6	9	9	21	21	21	30	40	49	63	76	91	82
Tunis	95	120	351	238	162	141	121	220	256	295	325	530	778	646	714	802	797	892	915	819
Morocco	52	52	99	90	70	98	138	181	330	371	551	722	958	599	624	921	1015	1193	1407	1338
Syria	308	269	309	232	184	281	267	411	395	552	609	798	1115	1422	1845	1610	498	1024	1801	1522
Egypt	316	304	474	467	376	421	326	346	473	687	709	903	1426	2599	2251	2759	3679	3200	3298	3125
Albania	54	41	45	66	61	73	80	114	161	191	214	295	306	273	241	271	256	267	319	287
Georgia	110	174	164	114	132	144	103	155	200	272	408	646	998	763	769	1092	1253	1246	1444	1109
Montenegro	0	0	0	0	0	0	0	0	0	0	8	20	48	26	27	27	29	29	35	38
Serbia	0	0	0	0	0	0	0	0	0	0	279	475	458	306	306	355	381	441	506	492
Chile	7	13	27	12	16	20	20	16	25	25	35	42	150	37	81	131	175	219	199	188
Jordan	151	107	141	88	100	119	117	150	229	289	322	389	461	455	571	507	771	744	907	834
Mauritius	4	1	2	2	1	1	1	2	4	6	8	23	31	19	22	45	36	40	38	34
South Korea	102	54	37	102	130	62	55	58	80	100	156	152	271	235	304	529	528	460	470	569
Malaysia	134	134	42	37	39	35	152	227	52	57	60	83	98	139	225	183	165	272	315	357
Moldova	14	21	28	21	26	28	40	47	66	81	107	146	198	118	148	209	224	276	286	201

FTAs under negotiation with Turkey

Following EU's track, Turkey has intensified its efforts to conclude other FTAs with countries from all around the world. In this context, Turkey is currently undergoing negotiations with Peru, Ukraine, Colombia, Ecuador, Mexico, Japan, Singapore, Democratic Republic of Congo, Cameroon, Seychelles, Libya, Gulf Cooperation Council and MERCOSUR. Turkey was also undergoing negotiations with Gulf Cooperation Council but currently the latter has suspended all of its FTA negotiations.

The EU has already signed a comprehensive trade agreement with Colombia and Peru. This agreement is provisionally applied since March 2013 with Peru and since August 2013 with Colombia. The EU has also concluded its negotiations with Ecuador who will join the existing agreement between the EU and Colombia/Peru once the approval of internal authorities of both parties will be received. So far Turkey only concluded only one FTA in Latin America that being with Chile.

While the FTA between the EU and Mexico is in force since 2000, Mexico is one of the countries which have shown reluctance in signing a separate FTA with Turkey since it already benefited from entering to the Turkish market via the Customs Union while preserving its tariffs against Turkish exporters. It is important for Turkey to conclude these negotiations especially at the stage in which the EU and Mexico are on the verge to upgrade the existing FTA and exploring the opportunities of extending the scope of the agreement to new areas such as services.

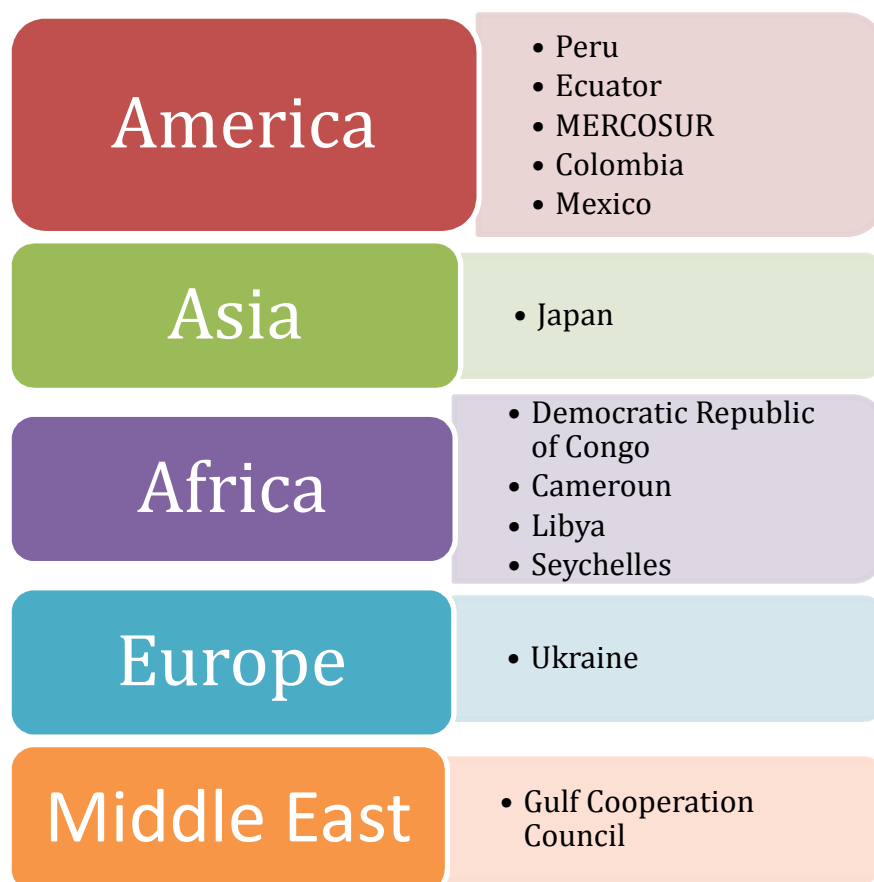
The negotiations for a trade agreement between the EU and Mercosur countries have proved to be difficult. It is also expected to be difficult for Turkey but nevertheless the successful conclusion of negotiations with Peru, Ecuador, Colombia, Mexico and Mercosur countries will enable Turkey to benefit better from entering the market in Latin America.

Considering that the location of the centre of world production is moving towards Asia, it is essential for the EU as well as Turkey to strengthen their economic and trade relations with these countries, especially with South-eastern Asian countries. In this respect, the conclusion of a FTA with South Korea has been an important stepping stone both for the EU and Turkey.

Besides the South-eastern countries, while Japan is EU's second biggest trading partner in Asia, it is not among the most important 10 trading partners for Turkey. However Japan represents an important market especially in terms of high value added and high-tech goods. As world's fourth largest national economy, it is important for both Turkey and the EU to reinforce their economic and trade ties with Japan.

Ukraine is Turkey's 8th most important import partner. The EU and Ukraine signed the Deep and Comprehensive Free Trade Area (DCFTA) in June 2014 as part of their broader Association Agreement. It has been applied provisionally since 1 January 2016.

Figure 1: Turkey's FTAs in course of negotiation



Turkey has also taken initiative to start negotiations with the USA, Canada, Thailand, India, Indonesia, Vietnam, Central American Countries, other ACP Countries, Algeria and South Africa. Turkey gives great importance to start negotiations with the USA in parallel to Transatlantic Trade and Investment Partnership (TTIP) negotiations.

As it is known, the negotiations conducted between the EU and Canada regarding a Comprehensive Economic and Trade Agreement (CETA) has been finalized in September 2014 and signed on 30 October 2016. The agreement will enter into force once the agreement will be approved by the European and Canadian authorities. The framework of CETA represents a reference point for the Europeans during their negotiations with the USA on the TTIP.

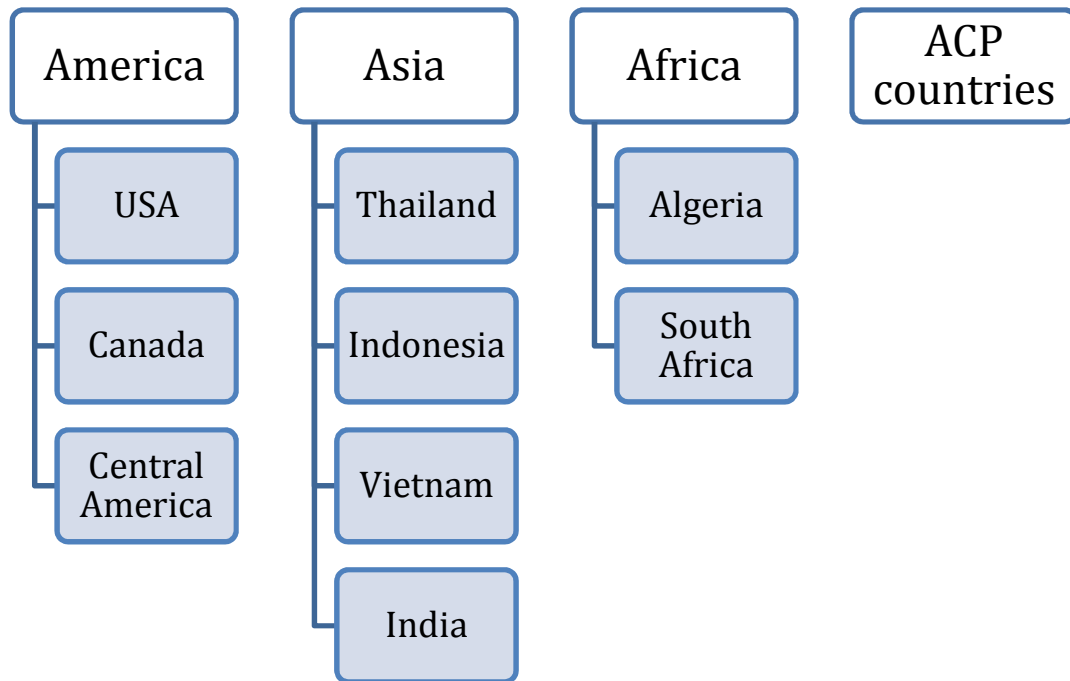
Regarding the Asian countries with whom Turkey took the initiative to start negotiations, the EU is undergoing negotiations with Thailand and Indonesia. The EU has completed FTA negotiations and the approval of both authorities is required for the entry into force of the agreement. As for India, the negotiations have reached an impasse and were halted since 2013.

In regards, to Central American Countries, the trade pillar of the Association Agreement signed by the EU in June 2012 has been provisionally applied since 1 August 2013 with

Honduras, Nicaragua and Panama, since 1 October 2013 with Costa Rica and El Salvador, and since 1 December 2013 with Guatemala.

The countries in Africa with whom Turkey wants to launch FTA, namely Algeria and South Africa have shown so far reluctance to negotiate a separate agreement aside of the one they conclude with the EU.

Figure 2: Turkey’s initiatives to start FTA negotiations with third countries



The scope and framework of FTAs changing over years

Turkey’s first FTA with EFTA

In respect to its obligations deriving from the Customs Union, the first group of countries with whom Turkey has signed a FTA was EFTA countries (Iceland, Norway and Switzerland). As for EFTA countries, this agreement signed with Turkey was also among the first FTAs they have concluded. The agreement was signed on December 1991 and entered into force on 1 April 1992.

The agreement aimed to promote economic relations between Turkey and EFTA countries by strengthening their trade relations. In this respect, the agreements foresaw the elimination of the customs duties and other trade barriers.

The agreement covers the trade on goods, more specifically on industrial products, processed agricultural products, fish and marine products. The customs duties and charges having an equivalent effect have been abolished for the industrial goods as of 1 January 1999. In regards to fish and marine products, parties agree to grant duty free access on all these products. As for the agricultural products, parties have granted

concessions for products such as sugar confectionary, pasta, soups and sauces. Furthermore, Turkey and EFTA countries have also individually concluded bilateral agricultural agreements which provide substantial concessions on basic agricultural products. While the services are not covered by the FTA, a review clause has been introduced in the agreement with the aim to further liberalize public procurement markets of all parties.

The agreement contains provisions in regards to trade related issues such as the rules of competition, safeguard measures, protection of intellectual property, state monopolies and state aids. The provision on the protection of intellectual property rights covers the patents, trademarks, copyrights and geographical indications. It can be observed that the level of protection in certain areas have gone beyond the framework of the WTO Agreement on Trade Related aspects of Intellectual Property. On the other hand, the articles on competition and state aids have been laid down to ensure a fair competition environment between the economic actors of all the parties.

In addition to all of these, Turkey and EFTA countries have also agreed to establish a Joint Committee which will supervise the implementation of the agreement. In case of a difference arises, both parties are obliged to solve their difference through the mechanism of consultation, and if necessary, through consultations in the Joint Committee.

Turkey's first new generation FTA with South Korea

With the EU starting to focus on concluding bilateral and regional FTAs around the world, Turkey has to follow the same road due to its commitments/obligations resulting from the Customs Union. The FTA concluded between the EU and South Korea constitutes an important turning point in EU's trade policy since it is the first agreement among the first new generation of FTAs. The scope and the framework of this agreement go beyond all the agreements signed so far by the EU. The EU-South Korea FTA constitutes an important milestone in EU's trade policy since it is the first most comprehensive bilateral trade agreement signed by the EU. This new agreement aims the reduction of tariffs on industrial and agricultural goods but also the liberalization of trade in services and the elimination of non-tariff barriers so as to gain better access to each other's' markets. This FTA also deals with trade related regulatory issues such as intellectual property rights, public procurement, investment, competition rules and sustainable development.

The Turkey-South Korea FTA is an important development in Turkish trade policy since it is the first most comprehensive bilateral trade agreement signed by Turkey while aligning its trade policy with EU's preferential regime. In parallel to this development, Turkey has been thus conducting negotiations and concluding FTA with South Korea. The FTA negotiations between Turkey and South Korea started in March 2010, following the EU's FTA negotiations with South Korea, which began in May 2007. The FTA between Turkey and South Korea was signed in August 2012 and entered into force on 1 May 2013, almost two years after the entry into force of EU-South Korea FTA.

With this agreement, Turkey and South Korea aims not only to liberalize gradually trade relations in goods, services and to promote investment and competition but also to reinforce the protection framework of intellectual property rights. Turkey-South Korea FTA also give a special emphasis on the aspect of sustainable development by ensuring

that the promotion of trade and investments relation does by no means hamper environmental and labour standards.

Turkey-South Korea FTA is foreseen to be composed of four agreements:

1. Framework Agreement;
2. Trade in Goods Agreement;
3. Agreement on Investment;
4. Agreement on Trade in Services.

The first pillar, namely Framework Agreement has laid down the general structure of the Turkey-South Korea FTA. The second pillar, the Agreement on Trade in Goods foresees the elimination of customs duties on all industrial goods within seven years. As regards to agricultural goods, it was agreed on dismantling period of maximum ten years with the exception of products that are considered by the parties to be socio-economically sensitive.

The Framework Agreement and the Trade in Goods Agreement were signed on 1 August 2012 and entered into force on 1 May 2013. While this is the case for the first two pillars of Turkey-South Korea FTA, the Agreement on Investment and the Agreement on Trade in Services have been signed on 26 February 2015 but they are still under the ratification process of both the parties, thus these two agreements did not yet entered into force. The negotiations regarding the trade in goods have progressed in a more rapid pace than the field of investment and services.

Comparison between the two agreements

The example taken of these two agreements is a perfect reflection of the tendency changes occurring in the world trading systems and in the globalized economy. Over the past years, along with globalization, the world trading system is facing an important increase of trade in services, an expansion of international investments, emergence of global value chains and new emerging trade related topics such as intellectual property rights, competition and state aid rules, public procurement. While important achievements have been made in reducing the tariffs on goods especially within the WTO framework, it became essential to deal with new forms of protectionism and to better tackle non-tariff measures in multilateral trade negotiations in order to push the trade liberalization further.

While the FTA concluded between Turkey and South Korea addresses these new priorities and embraces these new challenges, the framework and scope of the FTA between Turkey and EFTA countries became insufficient in terms of serving the new trade tendencies. Therefore, in parallel to the changing of international trade environment, Turkey and EFTA decide to revise the scope of their FTA agreement with the aim of further strengthening trade and economic relations. In this respect, Turkey and EFTA countries launched negotiation process in September 2014 in regards to the update and expansion of the scope of the FTA. The second round of negotiation between parties was held in February 2015 and third round in June 2015.

Both parties foresee to extend the scope of the agreement by including provisions that will encourage the liberalization of trade in services. Furthermore, parties also aim to tackle non-tariff barriers trade. For that purpose, it is envisaged to negotiate provisions on sanitary and phytosanitary measures, trade remedies, technical barriers to trade and

trade facilitation. Turkey and EFTA countries will also revise the clauses on the intellectual property rights and competition. In the negotiation process, the sustainable development will also be on the agenda since it is lately one of the most recent topics discussed in the FTA which will cover probably the protection of environment and workers. Both parties will also discuss about the legal and institutional issues. In this respect, it is envisaged to revise the regulations concerning the dispute settlement mechanism.

While it is important to tackle the asymmetric situation caused by EU's FTAs in disfavor of Turkey's economic and trade interest, Turkey needs also to revise the framework and scope of its first FTAs since they became outdated over time and in the context of the new global trade dynamics.