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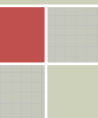
## **IKV BRIEF**

# **THE TURKISH PERSPECTIVE ON THE TRANSATLANTIC TRADE AND INVESTMENT PARTNERSHIP**

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## **THE TURKISH PERSPECTIVE ON THE TRANSATLANTIC TRADE AND INVESTMENT PARTNERSHIP**

The launching of the negotiations for the Transatlantic Trade and Investment Partnership (TTIP) has raised concerns about the future of the multilateral trading system and among key trading partners. Putting aside the impacts of this agreement on world trading system, it is foreseen that TTIP will have significant repercussions on third countries. But the major impact is expected to be witnessed on Turkey since it has the particularity of having established a Customs Union with the European Union (EU).

As it is known, the Customs Union between EU and Turkey, which is in force since 31<sup>st</sup> December 1995, abolished the customs duties and prohibited the quantitative restrictions on industrial goods and processed agricultural products thus guaranteeing their free circulation between the two trading partners. Turkey also engaged itself in aligning its commercial policy with the EU's common commercial policy, including the free trade agreements signed by the Union with third countries. However this has revealed to be a burden for Turkey once EU started to give a greater focus on concluding bilateral or regional trade agreements with emerging countries in Asia and Latin America along with key global trading actors.

At the time the Ankara Agreement establishing the Customs Union was concluded, bilateral and regional free trade agreements were not among the priorities of EU's trade policy. Indeed the shift in EU's trade policy was observed after the slowing down of WTO multilateral trade negotiations especially following the difficulties encountered with the Doha Round. At the beginning, the countries with which EU was signing a free trade agreement were not intercepted as a threat for Turkey's competitiveness, but the stakes have changed when deeper economic relations were sought with newly emerging countries and stronger trade partners.<sup>1</sup> Earlier this year the conclusion of a free trade agreement with South Korea marked a turning point in Turkey's trade policy since it turned out to be the first new generation trade agreement signed aiming not only at lifting tariff and non-tariff barriers but also at liberalizing services and at improving business and investment environment. And Turkey now is facing a bigger challenge with the transatlantic agreement since EU and the U.S represent together around 47 percent of the world GDP and around one third of the world trade.

If these bilateral and regional trade agreements signed by EU constitute a potential factor of risk for Turkey, it is mainly in relation with the current way of functioning of the Customs Union. With the pretext that Turkey is not yet a member, EU is excluding Turkey from the decision and negotiation processes in these trade agreements without taking into consideration Turkey's economic interests although it is negotiating on behalf of the customs union area which is made up currently of the 28 Member States of the European Union plus Turkey. As a result, since the free movement of industrial products between Turkey and the Union is ensured through the Customs Union, when EU signs a trade agreement with a third country, the industrial goods of this third country in question can enter in Turkish market via the European market, without encountering any customs barriers. On the other hand, Turkey's exports to this third

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<sup>1</sup> Prof. Dr. Kemal Kirişci, "Don't forget free trade with Turkey", *Brookings*, 15 April 2013, link: <http://www.brookings.edu/research/opinions/2013/04/15-free-trade-turkey-kirisici>

country do not benefit from the same tariff reductions and concessions granted to EU. As a result, Turkey is faced with fiercer competition<sup>2</sup> in three fronts: in its own market, in the European market and in the third country with whom the EU has signed a preferential agreement.

In the case of the free trade agreement EU concluded with South Korea, a major concern of losing competitiveness and market was expressed especially by the Turkish automotive sector. In the current case, while Turkey was not taken into consideration in the impact assessment of the TTIP released by the European Commission, a study conducted by Ifo Institute on the impacts of the transatlantic trade agreement<sup>3</sup> came to the conclusion that its entry into force will reduce Turkey's welfare by 2,5 percent. This study reveals that this impact is less important in the case of China (0,39) who is among the most concerned countries for this transatlantic agreement. These estimations show that Turkey will face a trade diversion and therefore it is essential for Turkey to take the necessary steps to protect its economic and trade interests.

Not only the lack of Turkish perspective in the impact assessment released by the Commission was criticized but also the importance of keeping Turkish authorities informed on the process and negotiations was highlighted by some Members of the European Parliaments.<sup>4</sup> Turkish business representatives suggested furthermore granting Turkey the observer status during the negotiations.<sup>5</sup> The preferable solutions would be to have Turkey and EU negotiating together at the same table with the United States. But considering that the first round of negotiations were already concluded between the European and American authorities, it is unlikely at this stage that Turkey will be included at the decision-making process unless Turkey becomes a member of the Union.

Meanwhile, the initiative taken by Turkey to launch a separate agreement was welcomed by the American and European authorities. Contrary to some previous cases where countries who were taking the advantage of the established Customs Union were reluctant to conclude a separate agreement with Turkey, the American authorities acknowledge the geostrategic role and economic importance of Turkey. But while initiatives are being taken for a separate free trade agreement with the U.S, it is difficult for Turkey to conclude a similar free trade agreement as the one EU currently is negotiating mainly because of the economic structural difference of the trade partners. For instance the services could prove to be one of the most problematic areas where both parties will seek to gain better market access. Nevertheless the fact that EU, the U.S and Turkey are already negotiating at the same platform along with 19 other members of WTO a plurilateral agreement on trade in services could be interpreted as a good starting point.

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<sup>2</sup> idem

<sup>3</sup> Prof. Gabriel Felbermayr, Prof. Dr. Mario Larch, Dr. Erdal Yarçın, Sebastian Benz "Dimensionen und Auswirkungen eines Freihandelsabkommens zwischen der EU und den USA", *Ifo Institute*, January 2013; link:[http://www.cesifo-group.de/ifoHome/research/Projects/Archive/Projects\\_AH/2013/proj\\_AH\\_freihandel\\_USA-GER.html](http://www.cesifo-group.de/ifoHome/research/Projects/Archive/Projects_AH/2013/proj_AH_freihandel_USA-GER.html)

<sup>4</sup> "EU should be mindful of Turkey in trade talks with US"; link: <http://www.marjetjeschaake.eu/2013/03/eu-should-be-mindful-of-turkey-in-trade-talks-with-us/>

<sup>5</sup> Bahadır Kaleağsı, Barış Omarlı, "Why Turkey belongs to transatlantic economy", *The Hill's Congress Blog*, 12 March 2013; link: <http://thehill.com/blogs/congress-blog/foreign-policy/287675-why-turkey-belongs-to-transatlantic-economy>

Considering that the service will constitute an important agenda for the upcoming negotiations within the framework of bilateral and plurilateral agreements, the urge to revise the scope of Turkey-EU Customs Union and to broaden it to the service area seems now more than ever indispensable. Already a study on the advantages and costs of the revision of the Customs Union is being conducted by the World Bank. The revision of the Customs Union could turn out to be an instrument in facilitating the future negotiations of a free trade agreement between Turkey and the U.S but this will lead the way in the future for many debates on whether this will give an impetus to Turkey's stalling EU accession negotiations or on the contrary hamper Turkey-EU relations by giving the impression of a disguised "privileged partnership".