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AND THE CASE OF  
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## INTRODUCTION<sup>1</sup>

The 7<sup>th</sup> round of negotiations between the EU and the United States to create a Transatlantic Trade and Investment Partnership (TTIP) were completed early in October.<sup>2</sup> The negotiations have reached the point where both sides have started to work on preparing draft texts that will eventually constitute the basis of an agreement. In spite of frequent references to problems associated with TTIP and speculations that the likelihood of an agreement emerging before the end of the Obama administration is slim, the leadership on both sides remains committed to the project. There are calls for completing negotiations by the end of next year. This is not surprising, because TTIP aspires to create a “truly seamless Atlantic market”,<sup>3</sup> comprising close to one billion consumers generating economic activity worth 34 trillion U.S. Dollars (USD) (see Table 1), more than almost forty times the Turkish GDP. In 2013, the EU and U.S. engaged in trade in goods equaling 787 billion USD,<sup>4</sup> corresponding to roughly 2.2 billion USD per day. Furthermore, TTIP also aspires to put into place a “new trade rulebook” on issues like labor, environment, investment, competition policies and state-owned enterprises. These new standards would implement a “state of the art” trade regime and set a precedent for future trade negotiations. Hence, it is not surprising that a growing number of countries ranging from Brazil to Canada, Israel, Mexico, Norway, and Switzerland are taking an interest in TTIP, and some are exploring ways of joining it. Turkey is one such country, and may well have been one of the first, if not the first, country to raise the issue of being included in the negotiations and expressing interest in joining TTIP. Then Turkish Prime Minister Recep Tayyip Erdoğan wrote a letter to President Obama on March 2013 seeking his support on the issue of Turkey’s inclusion in TTIP, and

then raised the subject once more during his visit to Washington, DC, in May of that year. Subsequently, this interest has been expressed on numerous occasions at both governmental and civil society levels. However, so far, the issues of TTIP’s enlargement in general and Turkey’s inclusion in particular remain unresolved.

In the meantime there is growing concern in academic, business and government circles in Turkey that the exclusion of Turkey from TTIP raises the risk of adverse economic, geostrategic and political impacts on Turkey.<sup>5</sup> This concern is accompanied by efforts to raise awareness regarding the bases for these potential adverse effects and to mobilize support for Turkey’s accession to TTIP. This paper aims to discuss Turkey’s concerns and options; as well as how Turkey could best proceed in either accessing TTIP or alleviating the potential damaging effects of exclusion from TTIP. The paper, however, will first offer a brief discussion of what TTIP entails in general and where the question of its enlargement today stands. The paper’s argument is that resolving Turkey’s concerns would create a “win-win” situation both economically and geo-politically for all the parties involved, including those in Turkey’s increasingly fragile neighborhood. Although addressing these concerns will depend heavily on what, if any, action the EU and the U.S. take, there is also much that Turkey must do.

### TTIP and its significance

There are a number of factors that imbue TTIP with significance. Firstly, TTIP negotiations aim to go well beyond traditional trade liberalization that focuses on lowering or removing customs tariffs. These negotiations aim to remove all tariffs but also aspire to address the tougher and more significant issue of non-tariff barriers (NTBs), achieve greater regulatory coherence, possibly by way of mutual recognition of regulatory certifications and approvals, and move on to a WTO-plus agenda to govern reciprocal investments and open up new sectors such as agriculture, government procurements and services to greater international competition. The immediate objectives of TTIP have frequently been defined as boosting the sluggish EU and U.S. economies by providing for economic growth and employment through increased trade and an expansion of reciprocal foreign direct investments.

1 Author would like to acknowledge the research support of Mert Özkaplan, graduate student at SAIS, Washington, DC as well as the helpful feedback given to an earlier version of this paper by Onur Bülbül, Deputy Commercial Counselor at the Turkish Embassy in Washington, DC and Sinan Utku, Special Counsel, Covington & Burling LLP, London.

2 “EU-US Trade – 7<sup>th</sup> Round of Talks on Transatlantic Trade Pact Ends in the US,” <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1158>, accessed October 7, 2014. For details of topics covered see European Commission, *Report of the 7<sup>th</sup> round of Negotiations (29 September – 3 October 2014)* [http://trade.ec.europa.eu/doclib/docs/2014/october/tradoc\\_152859.pdf](http://trade.ec.europa.eu/doclib/docs/2014/october/tradoc_152859.pdf) accessed October 30, 2014.

3 Charles Ries, “The Strategic Significance of TTIP,” in Daniel S. Hamilton (ed.), *The Geopolitics of TTIP: Repositioning the Transatlantic Relationship for a Changing World* (Washington DC: Center for Transatlantic Relations, 2014), p. 10.

4 Daniel S. Hamilton and Joseph P. Quinlan, *The Transatlantic Economy 2014: Annual Survey of Jobs, Trade and Investment between the United States and Europe* (Washington DC: Center for Transatlantic Relations, 2014), p. x.

5 For detailed studies of these issues see Faik Öztrak and Osman Berke Duvar, *AB-ABD Arasında Gerçekleştirilecek Transatlantik Ticaret ve Yatırım Ortaklığı Anlaşması: Türkiye Ekonomisi Üzerine Etkileri* (Toplumcu Düşünce Enstitüsü Değerlendirme Raporu, January 20, 2014); Kemal Kirişçi, “Turkey and the Transatlantic Trade and Investment Partnership,” *Turkey Project Policy Paper*, No. 2, (Washington, D.C.: Brookings Institution, 2013); and Bozkurt Aran, “Global Partnership Quests: New Contentious Dynamics in Trade and Prospects for Turkey in an Age of TPP and TTIP,” *TEPAV-ILPI Turkey Policy Brief Series*, Eleventh Edition, 2013.

**Table 1: Trade Indicators for TPP and TTIP in 2013 in billions of USD**

	GDP	GDP as % of World GDP	Exports, Goods	Imports, Goods	Total Trade as % of World Trade
TPP*	10950	14.8	2751	2804	15.3
TPP* + Prospective	12172	16.5	3310	3320	18.2
United States	16800	22.7	1579	2329	10.8
European Union	17372	23.5	2374	2306	**12.9
TPP* + Prospective + TTIP	46343	62.6	7263	7955	41.9
World	73982	100	18026	18322	100

Notes: TPP\* includes Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam; excluding USA. Prospective indicates Korea.

\*\*Excluding intra-EU trade. This figure increases to about 33 percent if the trade that occurs within the EU is also included.

Sources: IMF WEO, IMF DoTS, Eurostat.

Domestic political considerations have led EU and U.S. politicians, not surprisingly, to emphasize these economic objectives. Various studies show important net welfare gains for both sides, in the form of growth of GDP and employment.<sup>6</sup>

Secondly, if TTIP is indeed concluded and put into effect, it would apply to a geographic area that generates more than 45 per cent of the world GDP, and close to 24 percent of world trade (see Table 1).<sup>7</sup> In addition to TTIP, the U.S. is also negotiating the Trans-Pacific Partnership (TPP) with eleven East Asian and

Pacific countries.<sup>8</sup> South Korea, which already has the most advanced free trade agreement (FTA) with the U.S., is likely to join TPP negotiations as well. TPP aspires to address similar issues as TTIP, while remaining less ambitious with respect to addressing the tougher regulatory issues and a WTO-plus agenda.<sup>9</sup> However, TPP negotiations are at a more advanced state compared to those for TTIP. Yet, if both TTIP and TPP succeed, they would bring together a group of countries that account for almost two-thirds of the world gross domestic product (GDP) and close to half of world trade volume (see Table 1). TTIP and TPP are also referred to as mega- or super-regional trade agreements that aspire to circumvent the deadlock into which WTO talks have fallen and to induce a new round of trade liberalization and expansion of world trade and business.<sup>10</sup> Countries excluded from both trading arrangements would either have to accept less favorable access to these large markets, suffer from trade diversion and loss of welfare, or would have to

6 For a selection of impact studies see, Gabriel Felbermayer, Prof. et al., *Dimensions and Effects of a Transatlantic Free Trade Agreement Between the EU and the US*, German Federal Ministry of Economics and Technology (Munich, Germany: Ifo Institut, February 2013); for an extended version of this study see Gabriel Felbermayer, Prof. et al., *Transatlantic Trade and Partnership (TTIP): Who Benefits from a Free Trade Deal*, GED Project Part I: Macroeconomic Effects (Gutersloh, Germany: BertelsmannStiftung, June 2013) and Joseph Francois, *Reducing Transatlantic Barriers to Trade and Investments: An Economic Assessment*, (London, UK: Center for Economic Policy Research, March 2013). European Commission has commissioned an additional and more thorough impact study expected to be completed by the end of 2014. See *Trade Sustainability Impact Assessment on the Transatlantic Trade and Investment Partnership (TTIP) between the European Union and the United States of America*, Draft Inception Report, (Ecorys, Rotterdam, March 17, 2014), [http://trade.ec.europa.eu/doclib/docs/2014/march/tradoc\\_152285.pdf](http://trade.ec.europa.eu/doclib/docs/2014/march/tradoc_152285.pdf) accessed November 2, 2014

7 Calculated from IMF *International Financial Statistics*, April 2014, <http://elibrary-data.imf.org/> accessed November 2, 2014 and IMF *World Economic Outlook*, April 2014, <http://www.imf.org/external/pubs/ft/weo/2014/01/weodata/index.aspx> accessed November 2, 2014. If the trade within the EU is also taken into consideration the figure of 24 percent would increase by another 20 percent to almost 44 percent of world trade.

8 TPP negotiating countries are: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam and USA. <http://www.ustr.gov/tpp> accessed October 6, 2014

9 Daniel S. Hamilton, "TTIP's Geostrategic Implications," in Hamilton (ed.) (2014), p. xxii.

10 For a critical discussion of these regional agreements see *Mega-Regional Trade Agreements: Game Changers or Costly Distractions for the World Trading System?* (Global Agenda Council on Trade & Foreign Direct Investment, World Economic Forum, July 2014).

adopt the regulatory structure set forth in these two partnerships without having any say in their adoption.

Lastly, TTIP also has a geopolitical dimension that is sometimes overlooked.<sup>11</sup> TTIP is seen as the most significant economic undertaking since the Marshall Plan that would help revitalize and strengthen the transatlantic alliance at a time at which the West faces growing economic difficulties at home as well as strategic challenges in Eastern Europe, the Middle East and Asia. TTIP is also regarded as a project that would lend greater legitimacy to the Western form of governance in the eyes of both the people of the EU and U.S. as well as populations world-wide. Domestically, TTIP, by helping to boost economic growth and employment, is expected to help the U.S. and European governments to regain legitimacy lost in the financial and Eurozone crises as well as to recover from the accompanying recession that began in 2008. Externally, it would show to the world that governance based on liberal democracy, liberal markets, rule of law and transparency offers greater prosperity and legitimacy than alternative forms of governance based on state capitalism and authoritarianism that is advocated especially by China, Iran and Russia. In turn this would help to strengthen the liberal international order and revitalize the West.<sup>12</sup>

### TTIP and its enlargement

In light of the significance attributed to TTIP, it is not surprising that a number of countries have been interested in acceding to TTIP. The interest has been driven by mostly strategic and, not surprisingly, economic reasons. Interestingly, most of these countries so far have been countries that already enjoy close or preferential economic relations with the EU or the U.S. Accordingly, in one impact study prepared by the Ifo Institut, the U.S. and Britain emerge as enjoying the greatest welfare gains in the long term from a comprehensive TTIP agreement that liberalizes tariffs as well as NTBs.<sup>13</sup> However, the report also warns that “countries with which either the EU or the United States already enjoy free trade agreements [would be] the main losers”.<sup>14</sup> For example, Canada, Chile, Norway, Switzerland and Turkey, all with preferential trade agreements with either one or both the U.S. and EU, are countries that are listed as likely to experience

welfare losses.<sup>15</sup> Interestingly, these countries also happen to be those countries that have been most intensely interested in TTIP, and some have raised the issue of its enlargement.

A recent report on world trade prepared by a former deputy U.S. Trade Representative advocates “(j)ust as TPP is open to members of APEC, TTIP could be opened up to the other 28 members of the Organization for Security and Cooperation in Europe (OSCE)”<sup>16</sup> at the appropriate time. Japan was included in ongoing TPP negotiations through a process that came to be known as “docking”. For inclusion, Japan was only required to accept progress achieved in previous rounds of negotiations. However, so far, neither the U.S. nor the EU has been open to the idea of expanding TTIP negotiations to include third-party countries. The U.S. has taken the position that the negotiations are complicated as they currently stand as they involve twenty-nine countries comprising the U.S. and EU member countries. Bringing on board third-party countries, it is noted, would slow the negotiations process but would also aggravate concerns that regulatory standards could be diluted due to the need to achieve compromise among a larger group of countries. The EU raises similar objections, but adds that EU member governments have granted the European Commission a mandate to negotiate only with the U.S. Adding third-party countries to TTIP negotiations would require a new mandate by EU member governments, which in itself could be difficult to achieve.

The idea of TTIP’s enlargement after it comes into effect is only just beginning to draw attention. A report published by Carnegie Europe examines the issue of enlargement and suggests a number of ways third countries could access TTIP.<sup>17</sup> These range, from negotiations of bi-lateral FTAs between third countries and each of the TTIP partners to the inclusion of provisions in the final TTIP agreement that would permit countries with existing regional arrangements to be integrated into TTIP, or permit them to apply for accession to the TTIP. The main challenge in connection with the accession of third countries would arise from the fact that they would not have been involved in the rule making stage during negotiations and would

11 See chapters in Hamilton (ed.) (2014).

12 Charles A. Kupchan, “Parsing TTIP’s Geopolitical Implications” in Hamilton (ed.) (2014).

13 Felbermayer et al., *Dimensions and Effects of a Transatlantic Free Trade Agreement*, p. 6.

14 Ibid, p. 7.

15 Ibid, Figure 8, p. 30. <http://www.bfna.org/sites/default/files/TTIP-GED%20study%2017June%202013.pdf> accessed October 6, 2014.

16 Miriam Sapiro, “Why Trade Matters?” *Policy Papers, 2014-03, Global Economy and Development at Brookings*, (Washington DC: Brookings Institution, July 2014), p. 13.

17 Sinan Ülgen, *Locked in or Left Out? Transatlantic Trade Beyond Brussels and Washington* (Washington DC: Carnegie Endowment for International Peace, June 2014).

simply have to adopt the rules promulgated under TTIP. However, TTIP is envisaged to be a “living” agreement”. It would be an agreement that would continue to “make rules” as relations between the parties continue to deepen. This would permit new TTIP members to participate in such rulemaking in the longer run. This would allow them to become “rule makers” rather than just “rule takers”. However, during a discussion of the Carnegie Europe report in October 2014, a number of participants recognized that the debate on TTIP’s enlargement was only just starting and that it was unrealistic to expect the issue to make it onto the agenda of TTIP negotiations in the near future.<sup>18</sup>

### TTIP’s impact on Turkey

The extent of welfare loss resulting from Turkey’s exclusion from TTIP is still not clear and open to debate. The Ifo Institut impact study estimated that Turkey’s losses would, in the long run (without specifying duration), amount to around 2.5 per cent of Turkey’s GDP.<sup>19</sup> Accordingly, this would amount to 22 billion USD, if Turkey’s GDP in 2013 were to be taken as a basis. In November 2014 Volkan Bozkır, the Minister for EU Affairs and Chief Negotiator, put the possible cost of being excluded from TTIP at 3 billion USD.<sup>20</sup> However, the World Bank, in its report examining the customs union between the EU and Turkey (Customs Union), places these losses at a much more modest level of 130 to 160 USD million annually, depending on the nature of the agreement reached during TTIP negotiations. The report also notes that the gains in the event that Turkey was able to finalize an FTA with the U.S. would be between 130 to 260 USD million.<sup>21</sup> The completion of ongoing studies commissioned by the European Union<sup>22</sup> as well as the Turkish Ministry of the Economy<sup>23</sup> should help provide a better understanding of the welfare losses that would result from Turkey’s exclusion from TTIP or its failure to sign an FTA with the US. Nevertheless, there is wide-spread

recognition that Turkey would indeed suffer because of peculiarities in Turkey’s Customs Union with the EU. A report by a Turkish think-tank warns that the consequences for Turkey of being left out of TTIP and an accompanying failure to sign an FTA with the U.S. would be dire and would undermine the government’s ambitions of becoming the tenth largest economy in the world.<sup>24</sup>

The Turkish economy has dramatically transformed in the course of the last two to three decades. Once dominated by agriculture and an import substitution industry, the economy is now driven by services and an export-oriented manufacturing sector. One important aspect of this transformation is that foreign trade has acquired a much greater place in Turkey’s GDP compared to the past (see Table 2). In 1975, foreign trade was only 9 percent in proportion to Turkey’s GDP. In 2013 this figure had increased to almost 50 percent. Turkish foreign trade increased from around 6.1 billion USD in 1975 to about 400 billion in 2013. This was a period during which Turkey became a “trading state”, that is, a state whose foreign policy is shaped increasingly by economic considerations.<sup>25</sup> The Customs Union dramatically improved the competitiveness of Turkish industry as a consequence of Turkey’s adoption of the EU’s trade and competition rules. Today, over 55 percent of European economic legislation has corresponding provisions in Turkish law, which effectively means that Turkey is part of the EU economy.<sup>26</sup> This has not only helped Turkey expand its trade and broaden its economic relations with the EU, but has also made Turkish exports more attractive to many countries outside the region.

18 “TTIP and Third Countries: Multilateralization or Balkanization?” Panel held at Carnegie Endowment for International Peace, Washington DC, October 7, 2014.

19 Felbermayer et al., *Dimensions and Effects of a Transatlantic Free Trade Agreement*, p. 6.

20 “EU Customs Deal at Risk if TAFTA Excludes Turkey”, *Today’s Zaman*, November 5, 2014 [http://www.todayszaman.com/business\\_eu-customs-deal-at-risk-if-tafta-excludes-turkey\\_363620.html](http://www.todayszaman.com/business_eu-customs-deal-at-risk-if-tafta-excludes-turkey_363620.html)

21 *Evaluation of the EU-TURKEY Customs Union* (Washington DC: World Bank, March 28, 2014), p. 27, Box 5.

22 See op cit note 6.

23 References were made to this study during the “New Era for Turkey-USA-EU Perspective: Transatlantic Trade & Investment Partnership, Opportunities & Risks Conference,” September 18-19, 2014, ESBAŞ Technology Center, Aegean Free Zone, Gaziemir-Izmir, Turkey.

24 Özturak and Duvar, *AB-ABD Arasında Gerçekleştirilecek Transatlantik Ticaret ve Yatırım Ortaklığı Anlaşması*, p. 39. For a similar conclusion see also Aran op cit note 5.

25 Kemal Kirişçi, “The Transformation of Turkish Foreign Policy: The Rise of the Trading State,” *New Perspectives on Turkey*, No. 40 (Spring 2009): pp. 29-57.

26 Bahadır Kaleagasi and Baris Ornarli, “Why Turkey belongs to the Transatlantic Economy,” *The Hill’s Congress Blog*, March, 13, 2013, <http://thehill.com/blogs/congress-blog/foreign-policy/287675-why-turkey-belongs-to-transatlantic-economy#ixzz2ZEDc9sMg> accessed November 13, 2014

**Table 2: Transformation of the Turkish Economy (in current billion USD)**

TURKEY	1975	1985	1995	2005	2013
Export	1.4	7.9	21.6	73.5	151.8
Import	4.7	11.3	35.7	116.8	251.6
Total Trade	6.1	19.3	57.3	190.2	403.4
GDP*	64.5	67.5	244.9	484	820.2
GDP (per capita)	1,564	1,316	2,773	6,801	10,782
GDP (nominal ranking)**	17 <sup>th</sup>	25 <sup>th</sup>	24 <sup>th</sup>	17 <sup>th</sup>	17 <sup>th</sup>
Foreign Total Trade (% of GDP)	9	29	23	39	49.2

\*Current GDP used for GDP section

\*\*Rankings of 1975 and 1985 to be interpreted cautiously due to large amount of missing data

Source: World Bank Database, IMF, Global Finance magazine and Hazine Kontroleri Derneği

The biggest gains in foreign trade were actually achieved within Turkey's immediate neighborhood,<sup>27</sup> where trade expanded from about 3 billion USD in 1992 to over 88 billion USD in 2013, an almost thirty fold increase (see Table 3). This growth in trade has also been accompanied by a greater flow of people through Turkey as tourists and business people. The total number of third-country nationals entering Turkey increased from just over 5.2 million in 1991 to around 33 million in 2013.<sup>28</sup> The number of people entering Turkey from bordering countries increased from about 2.0 million to 12 million during this same period, comprising almost 36 per cent of the total number of entries. Lastly, Turkish business presence and investments in these neighboring countries, such as Bulgaria, Romania, Russia, Georgia and Iraq also greatly expanded over the course of the last two decades. These investments include bakeries and restaurants set up by individuals, as well as manufacturing plant investments of major Turkish companies. Determining the exact figures for these investments is a difficult exercise.

While the economic importance of trade with its neighbors has increased dramatically since the end of the Cold War, Turkey remains deeply integrated with

the EU. The EU is still Turkey's largest trading partner even though the EU's relative share in Turkey's overall trade fell from 47 per cent in 1992 to 38 per cent in 2012. This trend has in fact started to reverse and in 2013 the EU's share in Turkey's trade picked up by one percentage point to 39 per cent (see Table 3). This trend has continued into 2014 against a background of chaos in the Middle East and a crisis in Ukraine. In the first eight months of 2014, Turkish exports to the EU increased by 13 per cent compared to 2013. This increase was more than twice the increase in Turkey's overall exports to the whole world at 6 percent.<sup>29</sup> Similarly, the EU continues to be the largest foreign direct investor in Turkey. Almost 69 percent of the 83.5 billion USD of FDI funds that were invested in Turkey between 2007 and 2013 originated from EU countries.<sup>30</sup> During the same period, 60 per cent of Turkey's FDI funds abroad were invested in the EU. In 2013, Turkey was the 6<sup>th</sup> largest trading partner of the EU in goods, just ahead of Japan and Brazil, but behind Norway and Switzerland.<sup>31</sup>

<sup>29</sup> Calculated from provisional data from the Turkish Statistical Institute [www.tuik.gov.tr](http://www.tuik.gov.tr)

<sup>30</sup> Central Bank of the Republic of Turkey (CBRT) Statistics, <http://www.tcmb.gov.tr/wps/wcm/connect/TCMB+EN/TCMB+EN/Main+Menu/STATISTICS/Balance+of+Payments+and+Related+Statistics> accessed November 4, 2014. Data for 2013 is provisional.

<sup>31</sup> European Commission, *European Union, Trade in goods with Turkey* (DG Trade Statistics, August 27, 2014), p. 10, [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113456.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113456.pdf) accessed November 2, 2014

<sup>27</sup> Immediate neighborhood is defined as: Greece, Bulgaria, Romania, Moldova, Ukraine, Russia, Georgia, Armenia, Azerbaijan, Iraq and Syria.

<sup>28</sup> Movement of people figures have been obtained from the General Directorate for Migration Management.



Table 3: Turkey's Foreign Trade in 1992, 2002 and 2013 (in million USD)

TURKEY	1992				2002				2013			
	Export	Import	Total	% of Total	Export	Import	Total	% of Total	Export	Import	Total	% of Total
EU	7,600	10,049	17,649	47%	18,458	23,321	41,779	48%	63,034	92,445	155,479	39%
US	865	2,600	3,465	9%	3,356	3,099	6,455	7%	5,636	12,596	18,232	5%
Neighborhood (except Iran and Russia)	970	758	1,728	5%	2,493	2,997	5,490	6%	25,683	16,103	41,786	10%
Russia	441	1,040	1,481	4%	1,172	3,891	5,063	6%	6,964	25,064	32,028	8%
Arab Middle East	3,382	1,584	4,966	13%	3,504	1,511	5,015	6%	34,492	12,384	46,876	12%
Israel	89	97	186	0%	861	544	1,405	2%	2,650	2,418	5,068	1%
Iran	455	364	819	2%	333	920	1,253	1%	4,192	10,383	14,575	4%
Trans-Pacific Partnership (TPP except USA)	380	1,652	2,032	5%	873	2,649	3,522	4%	3,358	10,877	14,235	4%
China	147	172	319	1%	268	1,368	1,636	2%	3,601	24,687	28,288	7%
Shanghai Cooperation Organization (except Russia and China)	76	40	116	0%	288	337	625	1%	2,273	2,983	5,256	1%
Sub-Saharan Africa	46	232	278	1%	430	380	810	1%	4,103	2,522	6,625	2%
Others	1,083	4,906	5,989	16%	5,826	12,334	18,160	21%	14,824	49,978	64,802	16%
Turkey TOTAL	14,715	22,871	37,586	100%	36,059	51,554	87,613	100%	151,812	251,651	403,463	100%

Neighborhood: Bulgaria, Greece, Romania, Moldova, Ukraine, Azerbaijan, Georgia, Iraq, Syria

Arab Middle East: Iraq, Syria, Lebanon, Bahrain, Jordan, GCC, Yemen, North Africa (Egypt, Libya, Algeria, Morocco, Tunisia)

TPP: Australia, Brunei, Chile, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, USA, Vietnam

Shanghai Cooperation Organization: Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan

"% Total" column is more than 100% because of double counting of some countries in the Arab Middle East and Neighborhood Rows

Sub-Saharan Africa: TUIK category of "Other Africa"

Source: TUIK

Turkey's deep integration into the global economy and its close ties to the EU through the Customs Union are the primary drivers of Turkey's concerns about being shut out of TTIP. The Customs Union was negotiated in 1995 with the expectation that it would be a transitional arrangement that strengthened the Turkish economy while the country moved towards eventual full membership in the EU.<sup>32</sup> Indeed, the Customs

Union contributed greatly to Turkey's economic development and the competitiveness of its manufactured products as a result of its adoption of EU regulatory standards and the securing of preferential access to the EU's internal markets. However, in addition to such harmonization, Turkey was also required to adhere to the EU's common commercial policy. This means that each time the EU negotiates and signs a new free trade agreement with a third party, Turkey must launch its own initiative to conclude a similar agreement with the third party in order to have rights equal to those of the EU in terms of market access and eliminate the

<sup>32</sup> Kamil Yılmaz, "The EU-Turkey Customs Union Fifteen Years Later: Better, Yet not the Best Alternative" *South European Society and Politics*, Vol. 16, No. 2 (June 2011), pp. 235-249.

risk of possible trade diversions. The absence of any provisions in the Custom Union that allow for greater coordination between the EU and Turkey in encouraging third parties to negotiate such FTAs with Turkey has worked to the disadvantage of Turkey.

In practice, this has meant that export goods from these third parties have been able to enter Turkey via the EU without reciprocal preferential access being granted for Turkish goods.<sup>33</sup> Until a few years ago, this situation did not constitute a major problem because the countries in question either had relatively small economies or Turkey was able to sign its own parallel free trade agreements with them. But, as the EU began to sign as well as initiate negotiation of preferential agreements with major countries in world trade, the picture began to change. For example, despite repeated efforts, Turkey failed to initiate negotiations with Algeria, Mexico and South Africa after those countries signed their respective agreements with the EU in the early 2000s. Similarly, Turkey is experiencing difficulties in engaging countries such as Canada, India, Japan and Vietnam for similar purposes; Canada has concluded its FTA with the EU, whereas the others are in the process of negotiating FTAs with the EU. So far, these countries have not responded favorably to Turkey's efforts to start talks. They appear, not surprisingly, to want to benefit from accessing the Turkish market without opening up theirs to Turkey, hence leading to a welfare loss for Turkey.<sup>34</sup> The frustration resulting from this coupled with the prospects of being left out of TTIP on a number of occasions has led ministers to threaten to have to suspend the terms of the Customs Union.<sup>35</sup> Additionally, Turkey also suffers from preference erosion as more and more countries access the EU market through FTAs on better terms and squeeze

Turkish goods out of that market. Lastly, the EU is signing "second generation" FTAs with a growing number of countries that provide much deeper integration with the EU than provided for by the Customs Union.<sup>36</sup> A case in point is the trade agreements that the EU signed with each of South Korea and Canada, as well as the deep and comprehensive free trade agreements with Georgia, Moldova and Ukraine.

In the event that TTIP comes into force without Turkey's inclusion or without any provision for Turkey's concerns, this would mean that U.S. products would enter the Turkish market freely without duties, while Turkey would continue to face duties and other limitations, especially in the form of NTBs, in the U.S. market.<sup>37</sup> One immediate consequence that would be expected is that the current roughly \$ 6 billion USD (see Table 3) deficit that Turkey had in its trade with the U.S. in 2013 would likely grow larger. Furthermore, it is also highly likely that some trade diversion would result as European, South Korean (thanks to the South Korea-US Free Trade Agreement, i.e., KORUS FTA), as well as other potential TPP countries' goods would be able to enter the U.S. market preferentially, squeezing out Turkish goods. This is not implausible at all, because the top export items from Turkey to the U.S. (vehicles, machinery, iron and steel products, and cement) greatly overlap with the major exports items of the EU, as well as South Korea and some Asia-Pacific countries. Furthermore, there would also be serious preference erosion for Turkey as U.S. products, especially in the automobiles and heavy vehicles sectors, such as buses and trucks, would enjoy improved access to the EU under the terms of TTIP.

There are also geopolitical considerations at stake. Since the end of WWII, Turkey has been part of all major Western economic, military and political institutions except for the EU. Turkish decision makers recognize the significance of TTIP especially in light of references to TTIP as constituting an "economic NATO".<sup>38</sup> Turkish policy makers will not want to be shut out of a transatlantic arrangement, especially at a time when Turkey's neighborhood has drifted into geopolitical chaos and instability. Actually, this

33 For detailed discussion of this problem see Onur Bülbül and Aslı Orhon, "Beyond Turkey-EU Customs Union: Predictions for Key Regulatory Issues in a Potential Turkey-U.S. FTA Following TTIP," *Global Trade and Customs Journal*, Vol. 9, No. 10 (2014), pp. 444-456; *Evaluation of the EU-TURKEY Customs Union*; Sait Akman, "The European Union's Trade Strategy and Its Reflections on Turkey: An Evaluation from the Perspective of Free Trade Agreements," *Sosyal Bilimler Enstitüsü Dergisi*, Vol. 12, No. 2 (2010), pp. 17-45; and Mustafa Kutlay, "The Changing Policy of the European Union towards Free Trade Agreements and its Effects on Turkish Foreign Trade: A Political Economy Perspective," *USAK Yearbook of International Politics and Law*, Vol. 2, (2009), pp. 117-132.

34 This is leading to trade diversion and loss of welfare for Turkey. According to the World Bank report on EU-Turkey Customs Union the absence of FTAs with for example Mexico and South Africa has led to a loss of exports amounting to an estimated 226 million USD a year, *Evaluation of the EU-TURKEY Customs Union*, p. 26.

35 Most recently Volkan Bozkır, the Minister for EU Affairs and Chief Negotiator, threatened the prospects of suspension see Şeyma Eraz, "Turkey to suspend EU Customs Agreement if Isolated from Talks" *Daily Sabah*, November 11, 2014 <http://www.dailysabah.com/economy/2014/11/11/turkey-to-suspend-eu-customs-agreement-if-isolated-from-talks> accessed November 13, 2014

36 See op cit. note 34, p. 28.

37 For a detailed discussion of these impacts on Turkey see Öztrak and Duvar, (2013), pp. 36-38.

38 Numerous prominent personalities have employed this term. Most recently Secretary General of NATO did so at an event at Brookings Institution in Washington DC, Transcripts of "The Future of the Alliance: Revitalizing NATO for a Changing World", featured speaker: Anders Fogh Rasmussen, March 19, 2014, [http://www.brookings.edu/-/media/events/2014/3/19percent20rasmussenpercent20nato/20140319\\_nato\\_transcript.pdf](http://www.brookings.edu/-/media/events/2014/3/19percent20rasmussenpercent20nato/20140319_nato_transcript.pdf), accessed May 15, 2014.

mood is also reflected in Turkish public opinion. After consecutive years of decline, those among the Turkish public who have a favorable view of the EU increased by 10 percentage points to 45 per cent from 2013 to 2014. Regarding NATO, 49 per cent of the public considered the alliance as essential for Turkey's security, a 10 point increase compared to 2013.<sup>39</sup> Furthermore, now that foreign trade constitutes an important share of Turkey's GDP, market access for Turkish exports has acquired greater urgency. This urgency has been further accentuated as Turkish companies' access to markets in the Middle East is being adversely affected by the violence in Iraq and Syria. For example, exports to Egypt, the Gulf States and Libya have fallen by 12, 4 and 20 per cent respectively over the first eight months of 2014 compared to 2013.<sup>40</sup> Furthermore, a prominent Turkish economist argued that the instability around the country was discouraging investors from coming to Turkey.<sup>41</sup> It is not surprising that the former Minister of Foreign Affairs and current Prime Minister, Ahmet Davutoğlu, had argued back in November 2013 that TTIP would help anchor Turkey in the West.<sup>42</sup>

### TTIP and Turkey's options

There are a number of proposals that have been advocated with respect to Turkey's inclusion in TTIP. An early ambitious proposal called for the automatic inclusion of Turkey in the final agreement on TTIP on the grounds of the Customs Union with the EU and the ongoing EU membership accession process. The argument was that Turkey is deeply integrated into the EU economy through trade and investments. This integration also involves a considerable degree of regulatory harmonization with the EU, which is a sign of Turkey's capacity and will to download and incorporate regulations into its national law, and hence its ability to adapt to TTIP. This approach is preferred especially by those in Turkey who fear that Congressional politics would prevent ratification of a separate trade agreement with the U.S. This proposal has also been supported by those who have explored the possibility of including Turkey

directly in TTIP negotiations. Another proposal contemplates including a provision in the text of the TTIP agreement that specifies the possibility for third countries to accede to the agreement once it is signed. For example, TTIP could be left open for accession by countries that have long standing trade agreements with the U.S. or the EU.<sup>43</sup> Finally, and more recently, the Turkish business community has made a proposal that Turkey should at least be allowed to participate in the negotiations as an observer.<sup>44</sup>

None of these proposals have gained traction so far. The EU and the U.S., as mentioned earlier, prefer to remain focused on negotiating and signing a TTIP agreement that only includes them. The nature and substance of the negotiations are considered to be very difficult as it is, with the added challenge that public opinion, especially in the EU, is not favorably disposed towards TTIP. There is considerable public resistance in Europe to at least some aspects of TTIP, such as potential TTIP provisions relating to genetically modified organisms (GMOs), data protection and privacy issues. Additionally, there are concerns about whether the U.S. administration would actually be able to renew the Trade Promotion Act that expired in 2007. This Act, also known as Fast Track Authority, allows the U.S. administration to secure ratification of a trade agreement without opening it to debate and amendments in Congress. The absence of such an authority would deeply complicate and significantly lower the probability of the successful conclusion and eventual adoption of TTIP. Currently, neither side appears prepared to address in any official manner either the broader issue of TTIP's enlargement or Turkey's inclusion in TTIP.

### What are other alternatives that Turkey can pursue?

Foremost, Turkey may pursue negotiating and signing an independent free trade agreement with the U.S. Both sides for some time have advocated the expansion of economic relations between them. A number of national as well as bi-lateral committees, such as the Framework for Strategic Economic & Commercial Cooperation (FSECC), have been established to pursue such expansion. However, these arrangements failed to achieve progress and, subsequently, the Turkish side raised its desire to negotiate a free trade agreement with the U.S. during the then Prime Minister's visit to

39 "Turkey Turns Towards Europe" in *Transatlantic Trends, Key Findings 2014*, (Washington DC: German Marshall Fund, 2014) p. 29, [http://trends.gmfus.org/files/2012/09/Trends\\_2014\\_complete.pdf](http://trends.gmfus.org/files/2012/09/Trends_2014_complete.pdf) accessed October 30, 2014

40 Calculated from provisional data from the Turkish Statistical Institute [www.tuik.gov.tr](http://www.tuik.gov.tr)

41 Güven Sak, "Why Do Investors Pick Brazil Over Turkey?" *Hürriyet Daily News*, November 8-9, 2014 <http://www.hurriyetdailynews.com/why-do-investors-pick-brazil-over-turkey.aspx?PageID=238&NID=74023&News-CatID=403> accessed November 13, 2014

42 Ahmet Davutoğlu, "With the Middle East in Crisis, Turkey and the United States Must Deepen Alliance," *Foreign Policy*, November 15, 2013 [http://www.foreignpolicy.com/articles/2013/11/15/turkey\\_and\\_the\\_united\\_states\\_must\\_deepen\\_alliance\\_davutoglu](http://www.foreignpolicy.com/articles/2013/11/15/turkey_and_the_united_states_must_deepen_alliance_davutoglu) accessed November 13, 2014.

43 This is one of the approaches advocated in the Carnegie Europe report on TTIP's enlargement, see op cit note 17.

44 "Turkey Seeks Observer Status in EU-U.S. Trade Talks," *World Bulletin*, October 31, 2014 <http://www.worldbulletin.net/turkey/147472/turkey-seeks-observer-status-in-eu-us-trade-talks>

Washington, DC in May 2013. The U.S. side was less than forthcoming. Concerns ranging from an already loaded trade agenda, congressional politics and democratic setbacks in Turkey appear to have played a role in this decision, in addition to outstanding trade issues in American-Turkish economic relations. The latter involves complaints from U.S. companies about issues ranging from access to the Turkish market to respect for intellectual property rights. Actually, Secretary of Commerce, Penny Pritzker, during her visit to Turkey in October, referred to a “laundry list” of such issues that must be addressed before a discussion of Turkey’s inclusion in TTIP or a free trade agreement with the U.S. could be seriously considered.<sup>45</sup> However, she also recognized the economic importance of, and the need to expand economic relations with Turkey as well as the geopolitical benefits that would be derived from such expansion. In the meantime, the High Level Committee (HLC)<sup>46</sup> set up in 2013 within FSECC is providing a venue for a dialogue between officials from the Turkish Ministry of Economy and the Office of the U.S. Trade Representative. On the Turkish side, there is some hope that this committee might evolve to something like the High Level Working Group that had been established between the EU and the U.S. and that had eventually recommended initiation of negotiations for TTIP. In this way, the HLC could provide an inter-governmental forum where both sides could discuss and develop the idea of a free trade agreement between Turkey and the U.S.

Turkey may also pursue modernizing its Customs Union with the European Union. Turkey has long had complaints regarding the functioning of the Customs Union. These range from the problem of free trade agreements that the EU signs with third countries, discussed earlier, to the disadvantages that Turkish business people experience in connection with visa

requirements for travel to the EU compared to their EU counterparts, who are able to travel more freely.<sup>47</sup> Similarly, the Turkish government has also complained about limited transit quotas for trucks ferrying Turkish goods to EU member countries.<sup>48</sup> These practices have caused considerable frustration among Turkish business people, but also have led to accusations that both practices constitute an NTB against Turkey’s exports to the EU. The EU, in turn, has also complained regarding various aspects of Turkish implementation of the Customs Union as well as issues to do with government procurement and services not to mention democratic regression in Turkey.<sup>49</sup>

Although, the Customs Union related complaints have been on the agenda for improvements to EU-Turkish relations for some time, it is only recently that both sides have begun to show a will to address them. Most importantly, in 2013, the EU and Turkey signed a Readmission Agreement and agreed to an ongoing dialogue regarding the visa regime that raises the possibility of the lifting of EU visa requirements for Turkish nationals.<sup>50</sup> Additionally, both sides expressed an interest in modernizing the Customs Union after publication of the World Bank report analyzing the Customs Union. So far, however, no official steps have been taken in that direction beyond the establishment of a technical committee to explore what could be done to improve the Customs Union.<sup>51</sup> Modernizing the Customs Union would bring the level of integration between Turkey and the EU much closer to the one likely to be implemented by TTIP. Currently, the Customs Union only covers manufactured goods and the industrial component of processed agricultural products. Services, government procurement and basic agricultural products would most likely be covered by a modernized Customs

45 Abdullah Bozkurt, “Pritzker’s Laundry List for Turkey,” *Today’s Zaman*, October 10, 2014 [http://www.todayszaman.com/columnist/abdullah-bozkurt/pritzkers-laundry-list-for-turkey\\_361237.html](http://www.todayszaman.com/columnist/abdullah-bozkurt/pritzkers-laundry-list-for-turkey_361237.html) accessed November 13, 2014 and Abdullah Bozkurt, “Pritzker: Turkey Needs Reforms to Engage Further in TTIP,” *Today’s Zaman*, October 2, 2014 [http://www.todayszaman.com/\\_pritzker-turkey-needs-reforms-to-engage-further-in-ttip\\_360562.html](http://www.todayszaman.com/_pritzker-turkey-needs-reforms-to-engage-further-in-ttip_360562.html) accessed November 13, 2014. The “laundry list” can be accessed from USTR, *2014 National Trade Estimate Report on Foreign Trade Barriers*, (Washington, DC: USTR, 2014). Secretary Pritzker specifically mentioned barriers to free trade in government procurement, commercial offset requirements in the defense, aviation and medical sectors, and in connection with good manufacturing practice (GMP) certification requirements in the pharmaceutical sector. <http://www.ustr.gov/sites/default/files/2014%20NTE%20Report%20on%20FTB%20Turkey.pdf>, accessed November 2, 2014.

46 Fact Sheet: U.S.-Turkey Economic Partnership”, The White House Office of the Press Secretary, May 16, 2013, <http://www.whitehouse.gov/the-press-office/2013/05/16/fact-sheet-us-turkey-economic-partnership> accessed October 12, 2014.

47 Kees Groenendijk and Elspeth Guild, *Visa Policy of Member States and the EU towards Turkish Nationals After Soysal* (Istanbul: Economic Development Foundation, Publications No. 257, 2012).

48 *An Analysis on The Impact of Road Transport Quotas: Submitted by the Government of the Republic of Turkey*, United Nations Economic and Social Council, ECE/TRANS/SC.1/2013/4, August 30, 2013.

49 Details of these complaints are raised in *Turkey: 2014 Progress Report* (Brussels: European Commission, November 2014) [http://ec.europa.eu/enlargement/pdf/key\\_documents/2014/20141008-turkey-progress-report\\_en.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2014/20141008-turkey-progress-report_en.pdf)

50 Gerald Knaus, “EU-Turkey Relations: A Visa Breakthrough?” *Global Turkey in Europe, Policy Brief* (Rome: Istituto Affari Internazionali, 2014) <http://www.iai.it/content.asp?langid=1&contentid=1079> accessed November 13, 2014 and Kemal Kirişçi, “Will the Readmission Agreement Bring the EU and Turkey Together or Pull Them Apart?” *CEPS Commentary*, February 4, 2014. <http://www.ceps.eu/book/will-readmission-agreement-bring-eu-and-turkey-together-or-pull-them-apart> accessed November 13, 2014.

51 Selen Akşes, “Revision of Turkey-EU Customs Union: An Imperative Need” *IKV Brief*, No. 23, August 2014, Economic Development Foundation, Istanbul, <http://www.ikv.org.tr/images/files/Revision%20of%20Turkey-EU%20Customs%20Union.pdf> accessed November 4, 2014.

Union. Turkey would align itself with EU regulatory standards in these areas and would open the way for reforms that could make the U.S. much more receptive to pursuing a free trade agreement with Turkey and/or supporting Turkey's inclusion in TTIP.

All the above alternative routes for Turkey unfortunately face important challenges and may not be realizable in the immediate future. However, what is clear is that Turkey needs to upgrade its economic relations with both of its most important economic partners if it is going to break out of a "middle income trap" and go beyond being just an exporter of manufactured goods typical of the 20<sup>th</sup> century.<sup>52</sup> Turkish officials and leading business associations are also conscious that TTIP aspires to lay out new standards of trade and economic relations for the future that go well beyond current WTO arrangements. They also recognize that, as a trading state, they cannot afford to be left out of these new arrangements. In that respect, they are correct in raising attention to the adverse impact that TTIP would have on Turkey if the country is excluded, and in seeking Turkish participation in it. However, in the meantime, there at least four considerations that stake holders in Turkey need to bear in mind.

Firstly, Turkey should use the ongoing TTIP and TPP negotiations as an incentive to introduce new economic reforms. After all, it was the economic and financial reforms adopted in the early part of the 2000s in conjunction with political reforms, as part of Turkey's EU accession process, which led to the Turkish economy's becoming the envy of the world. More recently, the Turkish economy has been facing structural challenges ranging from a loss of competitiveness to chronic levels of current account deficits.<sup>53</sup> TTIP negotiations are not expected to be completed before the end of 2015. This should provide Turkey

with a window of opportunity to introduce economic reforms that would address at least some of the items on the aforementioned "laundry list". This would make Turkey a much more credible and interesting economic partner for both the EU and the U.S., be it for inclusion in TTIP; as a party in a bi-lateral free trade agreement with the U.S., or in connection with the modernization of the Customs Union.<sup>54</sup> The mid-term economic and financial plan announced by the government in October might become a step in the right direction in terms of meeting some of the reform demands and rebuild Turkey's image and reputation.<sup>55</sup> As always implementation will be critical.

Secondly, Turkey, when approaching the issue of potential inclusion in TTIP, has based its argument on the uniqueness of its case in connection with its Customs Union arrangement with the EU. Although Turkey's argument that the applicable facts present a *sui generis* case for Turkey's inclusion in TTIP has indeed helped attract attention, it has not so far helped deliver any concrete results politically. Instead, a more realistic and potentially successful way forward might involve approaching other countries that are likely to be adversely impacted by TTIP, such as Canada, Mexico, Norway and Switzerland, and forming a coalition for advocating for TTIP's enlargement.<sup>56</sup> Lobbying collectively as a group of countries that have long been part of the Western liberal economic order is more likely to extract a constructive response from the EU and the U.S. than Turkey's acting on its own.

Thirdly, particular effort should be directed to the U.S. Congress and the broader American business world.<sup>57</sup> So far Turkey's efforts have been directed primarily to the U.S. administration and, to a lesser degree, the business world. However, eventually, Congress will be the ultimate arbiter of any deal involving TTIP or a bi-lateral free trade agreement with Turkey. For that reason, persuading legislators that Turkey can make a positive contribution to the American economy will be critical to Turkey's success, geopolitical arguments on

52 Princeton University economist Dani Rodrik warns that "... export-oriented industrialization, history's most certain path to riches, may have run its course." and that greater emphasis needs to be put into services driven economic growth, see Dani Rodrik, "Are Services the New Manufacturers?" *Project Syndicate*, October 13, 2014 <http://www.project-syndicate.org/commentary/are-services-the-new-manufacturers-by-dani-rodrik-2014-10> accessed November 13, 2014. For Turkey's "middle income trap" and the importance of increasing productivity especially in the services sector of the economy see Seyfettin Gürsel and Barış Soybilgen, "Turkey May Not Escape From The Middle Income Trap For A Long Time," *BETAM Research Brief* 14/169, July 23, 2014 <http://betam.bahcesehir.edu.tr/en/archives/2391> accessed November 13, 2014

53 Galip Kemal Ozhan, "The Growth Debate Redux," in Kemal Derviş and Homi Kharas (eds) *Growth, Convergence and Income Distribution: The Road from the Brisbane G-20 Summit*, (November 2014), pp. 169-178, <http://www.brookings.edu/research/reports/2014/11/think-tank-20> accessed November 13, 2014 and Ziya Öniş and Mustafa Kutlay, "Rising Powers in a Changing Global Order: The Political Economy of Turkey in the Age of Brics," *Third World Quarterly*, Vol. 34, No. 8 (2013), pp. 1409-1426.

54 The idea of introducing reforms proactively was advocated by a Miriam Sapiro, former deputy USTR, at a panel held at Carnegie Endowment for Peace. She noted that TTIP should be open to new members and noted that "The prospect of membership can provide a strong incentive for interested countries, such as Turkey and possibly Ukraine and Georgia, to reduce trade barriers, implement market reforms and embrace the rule of law." "Why Trade Matters," *The Hill*, September 5, 2014

55 See Orta Vadeli Program: 2015-2017 issued by the Finance Ministry <http://www.bumko.gov.tr/TR,42/orta-vadeli-program.html> accessed November 13, 2014 as well as statements by the Minister of Finance in Dan Dombey, "Finance Minister promises reforms to rebuild Turkey's reputation" *Financial Times*, October 1, 2014.

56 Ulgen op cit note 17.

57 Öztürk and Duvan op cit note 5, p. 40.

their own will not win a deal for Turkey. In this connection, Turkey's recent free trade agreement with South Korea with its extension into services is likely to be of interest to legislators. It will be important to explain the similarities between this FTA and KORUS, which is hailed in Congress as being the most advanced FTA ever signed by the U.S.<sup>58</sup>

Lastly, recent question marks about the quality of Turkey's democracy, especially with respect to freedom of expression and association as well as the erosion of separation of powers are not helping the cause of Turkey.<sup>59</sup> In the words of an American official very sympathetic to Turkey's commercial and economic interests, "these days it is difficult to put the words Turkey and TTIP or free trade agreement together on the Hill".<sup>60</sup> As much as anti-Americanism and anti-Western discourses in Turkey are strong and very popular, it is important to recognize that if Turkey is to become the 10<sup>th</sup> leading economy of the world by 2023, it will do so at least partly as a function of having being part of Western-led economic, political and security institutions since WWII. At a time when Turkey's neighborhood, both in the north and the south, is in a state of turmoil and chaos, strengthening Turkey's economic ties with the transatlantic community will inevitably depend not just on Turkey's economic performance, but also with respect to its democracy and foreign policy record.

## Conclusion

In the course of the last couple of years Turkey's relations with the EU and the United States have not been the best. A long list of grievances has piled up, especially with respect to the operation of the customs union and the EU membership process. More recently, Turkey had tended to see developments in the Middle East from an increasingly different perspective than the U.S. At times these differences have turned out to be very bitter. However, Turkey may well be at a crossroads. The Middle East has not turned into the economically promising and political stable reform-oriented geography that many had hoped when the Arab Spring first broke out. Instead the region is in a deep state of turmoil, and chaos is on Turkey's doorstep. Recent developments have also shown that Turkey is unable to shape these events the way it prefers on its own. Much

worse is that the instability next door is at the brink of spilling over into Turkey.

This may well be a critical moment when Turkey has to make a choice somewhat similar to the one it made at the end of World War II and the beginning of the Cold War. This strategic decision served Turkey well, how could one otherwise explain that Turkey is doing so much better than neighboring countries that chose differently. Furthermore, reinvigorating ties with the West does not mean abandoning the Middle East or its immediate neighborhood. On the contrary, all the evidence from the last decade or so is that the neighborhood prefers to see a Turkey with strong ties to the West and especially to the EU. A strong signal and commitment on the part of Turkey in support of its ties with the West surely would contribute positively to the efforts of those who would want to see Turkey in TTIP.

Furthermore, the Turkish economy once the envy of many around the world is encountering serious structural difficulties. The chaos and instability that has spread around Turkey is only complicating these difficulties. The goal of becoming the 10<sup>th</sup> largest economy of the world by the centenary of the founding of the Turkish republic in 2023 is fast becoming unrealistic as Turkey appears stuck in a "middle income trap". TTIP and TPP will profoundly impact the international economic order. Beyond immediate economic growth and employment-related objectives, TPP and TTIP also aim to reinvigorate the Western liberal order by creating a new generation of regulatory standards to govern trade and investments as well as open up new sectors such as services, government procurement and agriculture to international competition. Especially TTIP is also about reinforcing "core values" of the transatlantic governance model, with its emphasis on the rule of law, human rights and democracy. Acceding to TTIP, modernization of the Customs Union or putting into place a Turkey-U.S. FTA would be a development tantamount to Turkey's incorporation into Western institution in the aftermath of WWII. Just as the latter helped Turkey eventually to become a pole of stability and growth in its neighborhood participating in one of the former arrangements would surely make Turkey more likely to break out of "middle income trap" and head towards becoming the 10<sup>th</sup> economy of the world. Reforming and modernizing Turkey's economy, improving its democracy and lending a listening ear to EU and U.S. calls is likely to bring Turkey closer to its objectives especially when the issue of TTIP's enlargement is just beginning to be discussed.

<sup>58</sup> Bülül and Orhon op cit note 33.

<sup>59</sup> On the link between poor economic performance and democratic failures see op cit. note 53.

<sup>60</sup> Private conversation with a member of the Department of Commerce, September 15, 2014.

The EU and the U.S. will need to do their share too. There is growing recognition that Turkish economic development has reached the point where Turkey can make a difference to economic growth and employment levels in the U.S. and the EU, not to mention its neighborhood. This is accompanied also by a recognition that strategically keeping Turkey in the West and as a member of the transatlantic alliance is in the interest of both the EU and the U.S. However, what is needed is a corresponding will and policy determination to engage Turkey accordingly and not take Turkey for granted. This would require a vision somewhat similar to the one that existed in the United States in the latter parts of the 1940s and in the then European Economic Community exactly half a century ago, when an association agreement was signed with Turkey with the clear understanding that Turkey would become a member of what subsequently became the EU. Such a vision would help to open up new horizons with respect to TTIP and TTIP could become the project for the 21<sup>st</sup> century for re-anchoring Turkey in the transatlantic community, an outcome that would be a win-win for the EU, the U.S., Turkey and Turkey's neighborhood. It is no wonder that a former member of the European Parliament and a close watcher of EU-Turkish relations, Joost Lagendijk, observed "Turkey's inclusion in TTIP could become a great success story as much as its exclusion becoming a disaster".<sup>61</sup>

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<sup>61</sup> Private conversation, November 12, 2014.









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