EUROPEAN POLICY CENTRE

Commentary

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09 July 2013

Between a rock and a hard place: What is Turkey's place in the transatlantic market?

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At the recent G8 summit, the EU and the US kicked off negotiations for a comprehensive Transatlantic Trade and Investment Partnership (TTIP), which, if successful, would lead to an estimated GDP increase of some $180 billion in five years. The transatlantic market would easily be the largest integrated market in the world, with the US and the EU already accounting for nearly half of the world's GDP and 30% of global trade. The TTIP would also enhance the USA and the EU's ability to set global standards – perhaps the real prize at stake – and the spill-over effect in terms of the capacity of EU and US firms to compete in their relevant sectors in third-country markets should not be underestimated either.

Obstacles to success

While such an agreement would bring significant economic gains to both partners, the road ahead will not be easy. Reaching and ratifying an agreement quickly may prove extremely difficult, given that there is considerable opposition on both sides of the Atlantic: the recent US 'spying' scandal has already rocked the boat, and a number of difficult issues, including agriculture, are still to be resolved. While some steps have been taken to alleviate concerns related to particularly sensitive issues such as agricultural subsidies, there remain a number of other controversial areas, ranging from privacy rules to cultural rights. Harmonising business rules for companies operating in both jurisdictions may also prove problematic. Both US Congress and the European Parliament need to ratify the eventual deal, meaning that they have the power to kill the entire process.

But there is real political will to drive this forward, with many seeing it as the last chance to get something significant agreed. If successful, the TTIP will inevitably have a global impact, particularly on the multilateral system: emerging economies and developing countries may view it as a tool for their exclusion or a way of pushing them into making concessions in the Doha Round, while for some countries, including a number of close allies and partners of the US and the EU, is likely to create a tough and detrimental situation in terms of their ability to compete.

Turkey's conundrum

Turkey is one key partner to be considered: Turkey has a vital strategic partnership with Washington and has been part of the European Single Market through its Customs Union (CU) agreement since 1995. Over 55% of European economic legislation has already been transposed into the Turkish legal order, showing that Turkey is closely integrated into the European economy. Nevertheless, Turkey will have no direct say in the negotiations.

Given the nature of the CU, Turkey has no say in negotiations that the EU carries out with third countries. Ankara is also barred from pursuing bilateral trade agreements with any country until the EU has finalised one (de jure). While FTAs signed by the EU open the Turkish market to those countries, Turkish products and services are not allowed to enter these third countries since Turkey is not an EU member. As a result of rules designed to determine the origin of a product, it is impossible to re-export through the CU. Therefore those countries with which the EU has negotiated FTAs have little or no interest in negotiating an FTA with Ankara, which leaves Turkey in a disadvantageous situation.

In addition to the losses on Turkey's internal market, the FTAs also remove the privileges of the Turkish business community in European markets. The more FTAs the EU signs with countries around the world, the more difficult Turkey's situation becomes. While the FTAs with smaller countries did not cause much concern, those negotiated (or in the process of being negotiated) with countries such as South Korea, Mexico, Canada, Japan and even India have made Ankara increasingly uneasy. Most of these countries have exports that compete with Turkish ones. Thus it is a 'lose-lose' situation: Turkey faces greater competition in the EU as well as in its own domestic market, without enjoying preferential access to these other markets. In early April, Turkey's Economy Minister, Zafer Çağlayan, stated that the CU had become "an agreement of servitude".

This dissatisfaction has been exacerbated by existing grievances over the CU, which range from ground transportation quotas (which deny Turkey the possibility of exporting greater volumes of goods) to requiring Turkish business people to obtain visas for travel to the EU. To many in Turkey, such practices seem to be deliberate barriers that restrict Turkey's full export potential to the EU market. Combined with growing frustration over the stalling of Turkey's EU accession talks, it comes as little surprise that the old question of the 1990s is once again being discussed: namely "does the CU serve the interests of Turkey under these circumstances?"

How to exit this vicious circle?

The CU was designed to help the Turkish economy integrate with the EU's until Turkey's membership of the EU becomes a reality. Thus the CU was formulated to serve a purpose for a limited time, which it did. The Turkish economy gained competitiveness at the beginning of this century after having heavily lost out to European companies at the end of 1990s. The CU also served as a sound basis for foreign investment in Turkey. Ankara has few alternative options to exit the vicious circle it now finds itself trapped in. Clearly, the optimal solution would be to advance the accession negotiations and become an EU member, as originally envisaged. Yet with Turkey's eventual membership at best a decade or more away, and at worst, unlikely to happen at all, this option is not very realistic in the foreseeable future.

Turkey could also ditch the CU and aim to sign an FTA with the EU instead. However, this option may threaten the membership negotiation framework by opening new negotiations over issues that have already been negotiated. Moreover, it may be interpreted as Ankara pulling the plug on membership talks. This would have serious implications, not least with regard to foreign investment in Turkey as markets may lose confidence, as well as on broader EU-Turkey relations, with Ankara being a key partner in many different sectors including energy security, foreign policy and migration. Therefore, this option harms interests on both sides.

Turkey could also try to renegotiate its current bilateral Investment Treaty with the US, to replace it with an FTA. With Turkish-US bilateral trade now at some $19 billion, there is significant scope for expansion. In addition, the US is currently heavily reliant on the support of Turkey in Syria, Iran and elsewhere in this turbulent region, and Washington cannot afford to sour relations with its key ally. The key obstacle here is convincing the US Congress and Senate, which would almost certainly be a very long and hard struggle with no guarantee of success. While it is clear that "Turkey needs to play a significant role in the TTIP," as stated by US Secretary of State John Kerry in Ankara in March, this mechanism remains unclear. But there are possible solutions.

One option would be to have the EU ask third countries to start parallel negotiations with Turkey. This option has been partially tested without delivering concrete results, as neither the EU nor third countries have been particularly enthusiastic about it due to the difficult nature of the talks and a reluctance not to add further tension due to the requests of a third party.

Another option would be to allow Turkey to obtain observer or consultative status at Council meetings at which the TTIP is discussed. This would give Turkey the opportunity to put forward its point of view. However, this option – so far – has not been accepted by the Council. Furthermore, it may be possible to add a clause to the final agreement which relates to "transition countries" (those negotiating EU membership), stating that they may become part of the agreement if they accept all the provisions.

Despite this year marking the fiftieth anniversary of relations between the EU and Turkey, the EU does not seem to be overly concerned about Ankara's plight. This was reflected in the TTIP Impact Report prepared by the European Commission, which makes no reference to Turkey or how the TTIP would impact on the CU (although the European Parliament raised the issue, requesting the European Commissioner for Trade to consider this question). However, more positively, the World Bank is now in the process of preparing a report on this topic – at the request of the EU and Turkey – due to be published in the autumn.

Not involving Turkey risks damaging the already beleaguered EU-Turkey relationship further. In contrast, engaging Turkey in the TTIP could act as a tool to further anchor Ankara to the West and reinvigorate Turkey's reform and democratisation process, as well as creating an agreement which could be transformed into a more multilateral framework, thereby maximising not only economic but also political gains for all sides.

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