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Introduction:

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PROCEEDINGS

MS. HILL: Ladies and gentlemen, if everyone has managed to find a seat? There's a couple of seats here at the front for those of you who are standing at the back unless you would prefer just to stand next to the cookies and the coffee, which I can certainly relate to.

I'm Fiona Hill, the director of the Center on the United States and Europe, and I'm really delighted to see so many people turning out here just one day after the Labor Day break. It just shows we're all ready for action and for work again and in good Washington, D.C., mode.

We have a very interesting event today on Turkey and the Transatlantic Trade and Investment Partnership, which is a bit of mouthful. I've had to practice that several times in the elevator on the way down the stairs not to trip myself over TTIP, perhaps not the most promising acronym for a big, major trade negotiation, but nonetheless one that has really gained a lot of scrutiny and a lot of attention around town, which is testament to how there are so many of you turned out today.

Today we are going to take a look at the Transatlantic Trade and Investment Partnership from a slightly more unusual angle: from the role of Turkey. Our colleague Kemal Kirişci, who is the TUSIAD senior fellow here at Brookings and also the director of the Center on U.S. and Europe's Turkey project, just wrote a report which it looks like most of you

have managed to get a copy of, on Turkey's interest in and potential role in the transatlantic trade negotiations.

For those of you, just in case, if you didn't get a copy, you will also be able to download this from the Brookings website and plus, as I know from coming into the office today, we have boxes of it sitting around. So if any of you didn't get a copy, please get in touch with us and we can certainly get one out to you again.

Kemal is launching the report today and will be talking to us about some of his conclusions from having spent several months now looking at Turkey's interest in the negotiations and how this is likely to unfold and the challenges that this will pose, not just for Europe and the United States, but for Turkey itself and, by implication, for some of the other countries. It will be very interesting to see how the trade deal between Europe and the United States may unfold.

We're also very much delighted to have our new neighbor and colleague, Uri Dadush from Carnegie Endowment, who is one of the U.S.'s leading experts on economic and trade topics and is the director of the International Economics Program next door at Carnegie.

The format is going to be that Kemal will give a brief overview of his report, which you all have, and then Uri will give some commentary based on his experience and his own work on this issue. And then they will

both open it up to you in the audience for more of a discussion and also for questions.

And finally I would like to thank our colleagues from the Turkish Industry and Business Association, TUSIAD -- we have their U.S. representative Baris Ornarli sitting here in the front row -- for their support for this project, the Turkey project overall, but also the work that Kemal has been doing on this topic. As you can all imagine, there are a lot of people in Turkey itself who are very interested in reading Kemal's report, so we hope that this will also be of use to people in Istanbul, Ankara, and elsewhere as they address this question.

So, Kemal, without any further ado, I hand it over to you and very much look forward to having our interaction with all of you who have come today. Thank you very much.

MR. KIRIŞCI: Well, thank you, Fiona. I wasn't very sure whether we were going to do this from standing on the stage, sitting on the stage, or standing at the stage.

Well, I'd like to thank you for joining us this afternoon. TTIP is a topic that I became exposed to or encountered as soon as I arrived at Brookings earlier in the year, in January. I can't say that I had heard of it before, but it was a topic that evolved to be one close to my heart, so I feel very committed to the topic. And I'm delighted that Uri is able to join us

because I can tell he's going to try to bring me down to Earth, on solid grounding.

July was a very interesting month because the Transatlantic Trade and Investment Partnership's first round of negotiations took place and in the same month also took place the 18th round of the Trans-Pacific Partnership negotiations. Now, when you put the two together on the basis of the 2012 statistics they constitute just under two-thirds of the world's GDP, the gross domestic product, and at the same time, a little bit under 50 percent of the world's trade. I think when you put these two figures together, one can begin to understand why Turkey is very much interested in joining, in finding a way, in participating in TTIP.

What I also got to observe soon after I became interested in the topic is that government bureaucracy and the business world appear to be on the same wavelength on this topic. The prime minister himself has written a personal letter to Obama. The Minister of Foreign Affairs Ahmet Davutoğlu, when he received his counterpart, John Kerry, in Ankara in March, this was a topic he also brought up. And in the meantime, major Turkish business associations from TOSED, from TAAB -- the union of chambers of commerce -- TUSKON, and MUSIAD, whose representatives are here, too, have expressed interest in Turkey's participation in TTIP.

I believe out there amongst government bureaucracy and

business circles there is an, if I dare to say, intuitive feel why this is important in terms of Turkey's future economic performance. And all this is happening against the following background that here is Turkey, who has been part of the Western economic order since really the very beginning, since the period when IMF, World Bank, GAAP all got started. Furthermore, it's also taking place against the background of Turkey becoming a trading state.

I just realized I need this. You may have heard that once Churchill at the House of Commons, when he pulled out his watch, people from the floor were yelling at him, saying that you need a calendar, a calendar, not a watch. (Laughter) But I doubt I'll perform at his level here.

In the last 20, 30 years, the Turkish economy has been transformed dramatically and trade has come to play a very important role. I'll return to this issue. But we have also entered since January, since I took an interest in this topic, a terrible long time both in Turkey's region in terms of the Middle East, I need not go into the details of it, but also in terms of Turkey itself. And many would agree that Turkey's democracy has taken an important dent and that there are the early signs of economic difficulties in the horizon building up.

Part of the background is also that Turkey is in a very important geography there. I believe it is in a geography where two forms of

governments, what we could call the transatlantic form of government that relies on democracy, liberal democracy, free markets, and human rights, and, on the other hand, there's the government's model that puts more emphasis at what they call sovereign democracy and states' involvement in capitalism, one way or the other.

So what I'd like to say in the remaining time is what is at stake here. Why is Turkey so keen? Go a little bit more into details of it, what has been so far the U.S. and the EU responses. And let me say, they have not been very exciting so far. What should be done and what are the challenges and opportunities there?

A few very quick words about the Trans-Pacific Partnership and TTIP itself. Very simplistically, again, I see these two exercises as exercises that are trying to pick up from where Doha failed: to deepen liberalization of world trade with what they call a WTO-Plus agenda, not just removal of tariffs, but also addressing the issue of non-tariff barriers; much more importantly, begin to harmonize rules to do with investments, public procurements, labor rules; and much more importantly, particularly for the U.S., harmonizing rules that govern intellectual property. In the words of one author, one expert in the area, this is an attempt to create a new trade rulebook for the coming decades, if not the century, and both aim to achieve job creation and growth. Much more interestingly, what Karel De Gucht, the

European commissioner responsible for trade, called the tipping point strategy. In a way, get a number of like-minded countries together that constitute an important part of the world trade and develop these rules in a way to compel others to come on board if they want to benefit from the more open and liberalized markets.

Robert Hormats, the under secretary of state, also made references alluding to TTIP as an economic NATO. The notion that if the U.S. is strong, the EU is going to be stronger; if the EU is strong, the U.S. is going to be stronger in international relations at large. And I can't help but think that that reminds me of the period immediately after the Second World War.

Let's say a few words about where Turkey stands these days. I believe Turkey, in the last two or three decades has gone through a massive economic transformation. We actually had an event in the spring here that looked at this phenomenon here at Brookings. In 1975, when I was still a junior student at University at Boğaziçi in Istanbul, Turkey's foreign trade was just a mere \$6 billion. In 2012, last year, this had gone up to \$390 billion -- a huge change. And maybe the best way of capturing what otherwise evades statistics is that back in 1975, foreign trade corresponded to just about 9 percent of Turkey's GDP. Today it corresponds to 50 percent of Turkey's GDP. And I think this should give you a rough idea of

the significance of foreign trade as far as Turkey's contemporary recent economic performances.

Now, what is the background there? Customs Union is very critical. That came into operation in 1996. And in terms of TTIP, what is significant here is that Turkey has incorporated 55 percent of the European Union's key rules that govern the internal market. So you could say, for all intents and purposes, Turkey is part of the internal market there. Even though the European Union's place in Turkey's overall foreign trade has fallen from 47 or 49 percent in the late 1990s, early 2000s, to about 38 percent today, the EU is still the largest partner of Turkey as far as foreign trade goes. And through the interviews I made, I came to realize how businesses in Turkey are trying to give priority to what they call the one, one and a half, percent profit they're going to make with business in the European Union to 80, 90, 100 percent profits elsewhere in the world.

Most of the foreign direct investment that comes to Turkey -- around 75 percent -- comes from the European Union and about 65 percent of Turkish investment abroad goes to the European Union as well. This is also a period during which Turkey's engagement with the neighborhood in economic terms increased significantly. This has important implications for TTIP; I won't go into the details for benefit of time.

And thirdly, for all the criticism we may direct these days to the

Turkish government, the prime minister as well as his foreign minister, by the late 2000s, Davutoğlu had a very clear vision about what he wanted to achieve in the Middle East in terms of economic regional integration and visa liberalization. He had envisaged a Middle East where they would be a bit like Europe -- free movement of goods and people from Kars, the most eastern city, to the Atlantic Ocean. However, that, as you're all aware, has turned sour.

Lastly, with Obama coming to power and then his famous visit to Ankara at the very early stage of his first term, the model partnership was launched, one of its important legs being improving economic relations. And in that context the framework for economic and commercial cooperation was set up.

Against this background, what is it that is at stake? And this is where impact studies -- that is, studies of what the impact of TTIP will be on countries participating in TTIP and on third countries -- comes up. These studies are still at a preliminary stage. There are some more substantive ones that are in the pipeline and whose results are expected about the end of this year.

TTIP will impact differently, of course, whether you're part of it or outside it. But when you look at these studies -- and I must admit that some of these studies are being challenged and questioned, but that's what

is at the moment available -- Turkey is going to be one of the losers. It is almost cut and dried. And the loss is going to correspond to roughly \$20 billion, and that is about the trade that occurs between Turkey bilaterally or occurred in 2012 between Turkey and the United States. This is not surprising. It has a lot to do with the Customs Union and the way in which the Customs Union has been formulated. I believe Uri will be reflecting on that.

What happens with the Customs Union is that each time the European Union signs a free trade agreement with a third country, it automatically binds Turkey, which means that Turkey has to lower its customs tariffs and open up its markets to this third country, whoever it may be -- and in the case of TTIP it would be the United States -- whereas the third country is not obligated to open up its markets. Instead, Turkey has to engage this third country in an effort to negotiate its parallel treaty.

I realize that to some of you this might be a funny deal there, but we can always go back into the details of it. This arrangement had been okay until a couple of years ago because most of the free trade agreements that the EU had signed were ones with relatively smaller economies. However, as the EU began to engage bigger and bigger economies, and as Turkey began to have difficulties persuading these countries to come to the negotiating table -- ranging from Algeria, Mexico, South Africa, and more

recently the EU has started negotiations with India, Japan, and a number of other important countries -- alarm bells began to ring in Turkey with respect to this particular arrangement of the Customs Union.

What does that mean if TTIP comes into effect in terms of U.S.-Turkish relations? First of all, Turkey runs an \$8.5 billion trade deficit with the United States. It means that that trade deficit is clearly going to increase because American companies are going to have a freer access to Turkish markets while the Turkish companies will continue to face similar restrictions.

Furthermore, TTIP is going to lead to also trade diversion. That is, Turkish companies are going to find that there are, for example, European companies as a result of TTIP, but also South Korean ones as a result of the South Korean-U.S. free trade agreement, and then members of TPP, that these companies are going to have easier access to the U.S. markets and Turkish companies are going to be squeezed out. So the outcome: greater trade deficit for Turkey.

Madeleine Albright and Stephen Hadley last year, with the Council of Foreign Relations, published a very interesting and rich report on Turkish-American relations and they point out that this is the kind of problem that would fuel already high levels of anti-Americanism in Turkey. And one impact study that I made references to has actually calculated that Turkey

would be losing 95,000 places of employment as a result of TTIP. You are, of course, welcome to challenge those statistics there, but it does suggest that it could lead to unemployment while generating employment within the EU and the U.S.

Similar outcomes would be observed in the case of Turkey's trade relations with the European Union. Turkey runs a large deficit. That deficit will continue to expand. American companies will compete -- will have a better deal in competing against Turkish companies as well as the companies of countries with which the EU has been signing these free trade agreements. Hence, it's no wonder we have ministers -- I will choose not to name the name of these ministers -- who have been using, unfortunately, somewhat denigrating language towards the European Union. And I think this is very much a function of this frustration and grievance that has been felt towards the way the Customs Union is operating and the way the EU is responding to these grievances to such an extent that I'm sure you've heard our prime minister, back sometime in January, revealing at a TV program that he would like to take Turkey out of the European Union, into the Shanghai Cooperation Organization. I call it our prime minister having a Shanghai's blues mood of life there.

Would Turkey actually leave the European Union? It's probably very, very doubtful. However, the grievances are there and the

grievances are getting larger and larger and more and more intense.

What's the cost to the EU and to the U.S. of these? Leaving Turkey outside TTIP or some similar arrangement is going to make it very difficult for Turkey to maintain its growth rate that has attracted so much attention and praise internationally. It will mean loss of jobs, but it will also mean loss of jobs for the neighborhood for the very reason that I cited earlier on, that the neighborhood has a growing part in Turkey's economy and foreign trade.

Migration pressures would increase. Turkey, compared to 20 years ago, has moved from an emigration to an immigration country. People from the neighborhood are coming to Turkey; they would be going most probably elsewhere towards the European Union. And I doubt whether I would be wrong if I would also say that there runs the risk of Turkey being less stable and democratic.

Inclusion of Turkey into TTIP is the other side of the medallion, and I need not stress how the mechanisms would work in the other direction. What can be done in this respect? There are a number of scenarios that could be followed. The one that the government, Turkish bureaucracy, and the business world throughout February, March, April, and May pushed very hard was the inclusion of Turkey into the TTIP negotiations themselves. However, that did not materialize and it would be

unrealistic to expect that Turkey would be invited to the negotiating table for a string of reasons that we maybe could go back into during the Q&A session.

The best that Turkey was able to extract from both the EU and the U.S. vis-à-vis TTIP was the promise to be informed about TTIP negotiations and where they're getting it. And, as you might imagine, the word of the EU in Turkey does not carry much credibility.

The second idea that has been propagated is this notion that TTIP, if it gets to that stage, could be concluded in such a manner that those countries -- there are very few of them -- who have Customs Union with the European Union, or who are negotiating for a full membership, could be admitted or the door would be kept open. However, that one is also not a very highly likely avenue that will materialize.

A third idea that has been advocated in the context of TPP, which is called docking, the idea that you reach an agreement that leaves the door open to third countries who might want to joint this partnership, in a way, apply for membership. We will yet see if this will be the case for TTIP, too. However, we will have to bear in mind that in this case, if docking was made available with TTIP, Turkey's membership would still have to go through congressional and EU approval process. And imagine what if that failed or if that turned into what EU Turkish membership negotiations have

turned into, the grievances and the negative attitudes it would generate.

Lastly, there is the possibility of Turkey and the U.S. negotiating a free trade agreement. Actually the Albright and Hadley report that I made references to came up with this idea and called it, interestingly, Turkish-American Partnership, TAP. However, that idea could not be pursued because of the way in which the Customs Union works in the other way around, that Turkey cannot negotiate free trade agreements with a third country unless that third country has a free trade agreement with the European Union. So because the U.S. did not have such an agreement with the EU, this idea of Albright and Hadley could not really be put into practice, even if there was political will behind it.

The idea of a U.S.-Turkey FTA was brought up by the prime minister when he came to visit Washington, D.C., in May and has also been brought up by his deputy prime minister, Ali Babacan. However, it doesn't seem to have gained much traction in the U.S. for a string of reasons stretching from the very fact that the U.S. trade representatives have already a heavy agenda in front of them. And then I've also heard the excuses of Turkey's democracy problems being brought up as well as congressional politics.

What Turkey has, at best, managed to extract from the American side so far is what a disappointed diplomat called yet another

committee. And this committee that has been set up has been set up at least at the cabinet level. Ministers of economy, that is the USTR, as well as its Turkish counterpart will be engaged. I am somewhat optimistic because I see the Turkish officials, the bureaucrats, at least on the Ministry of Economy side, being optimistic about it as they consider this as an avenue that could eventually lead to something like the high-level working group that had been set up when the EU and the U.S. first embarked on the path of TTIP. What is critical in this last scenario is that there should be a bottom-up pressure building up, especially from the American side and American businesses.

My concluding remarks, Uri, before I turn the floor over to you, Turkey over the last couple of decades has indeed massively transformed. The size of its economy corresponds to the 6th largest economy in the European Union, and if you add Russia, it makes it the 7th largest in Europe and 17th in the world. But what, from my point of view, is much more important when one talks about Turkey's engagement in TTIP is that when you exclude Russia and Iran in Turkey's neighborhood -- and with "neighborhood" I also mean countries across from the Black Sea -- is that Turkey's GDP corresponds to the total of all those other countries, excluding Russia and Iran. Now, that is significant when Turkey engages these countries economically as well. So one needs bear this in mind as well.

Turkey's soft power and economic performance had received a lot of praise, but this has been changing real fast in the last year or so. And Turkey's commitment to the transatlantic alliance or community is increasingly being questioned as well. And this, the TTIP, would be one way in which this could be regenerated and it could also, besides bringing economic benefits to the EU in terms of jobs and growth, to the United States in terms of jobs and growth, to Turkey in terms of jobs and growth, but also to the neighborhood, to every single country in the area, stretching from Armenia all the way around the neighborhood itself.

And there I'd like to conclude with the remarks of Stuart Eizenstat, who reflected on TTIP earlier in the year, arguing that TTIP, if successful, would be a mechanism that is going to help the transatlantic form of governance around the world compared to the alternative one. Now, Turkey's sitting on the fence, they're straddling both countries. Which way it goes is going to be very critical in terms of which form of governance prevails in the neighborhood and beyond. And for Turkey, it will be very critical if our prime minister really believes that he wants to see Turkey as the 10th largest economy in 2023.

Thank you for bearing with me and Uri is going to take me apart now. There you go. (Applause)

MR. DADUSH: Thank you, Kemal. Well, I'm certainly not

going to take Kemal apart, although I would disagree with him in one or two areas. And, in fact, I wanted to congratulate him for having prepared a very good, comprehensive, balanced report that also happens to be a good read on a rather dry subject. So I strongly recommend that you carefully examine what he has written.

I'm going to make one main point. Before that, let me say as a premise that trade agreements should be looked at as two-dimensional chess: at the top layer and the less important is trade, and the bottom layer and the more important is the politics. And these trade arrangements are very much motivated by politics. Just about any one are due strategic considerations, any one of the them that you want to consider. But I like to keep some separation between the political discussion and the economic discussion. And since I'm an economist, I'm going to focus on the economic implications of the current setup for Turkey and I will listen obligingly to those who will correct me from the political dimension, which I recognize is very important.

I basically take the view that the current arrangement, the Customs Union with the European Union, is a very costly arrangement for Turkey and one that has become increasingly more costly. And I would advocate on economic grounds that the arrangement be reconfigured into a free trade arrangement, enabling Turkey to negotiate with third parties,

including the United States. And I believe that one can be very much favorable to Turkey eventually joining the European Union, but be against the current setup of the Customs Union. That's the main point I want to make and let me give you three arguments to support that point.

The first is that the world has changed. The global environment has become a lot less propitious for the Customs Union that Turkey has with the European Union as currently configured. Not only, of course, have prospects for EU accession dimmed into the indefinite future and have been made a lot more problematic by the enormous problems, challenges that the EU faces internally, its own euro crisis, and the difficulties, the political developments within Turkey are well known, not only have those prospects for accession receded into the indefinite future, perhaps as important a development is that we have a completely changing picture of world trade. So in my book *Juggernaut*, I look forward 15, 25 years, 30 years. You can take all that with a pinch of salt, except that a lot of what I'm talking about is already happening. And 25, 30 years from now, 6 of the 7 largest economies of the world will be developing countries. None of the European countries will be part of that select group, only the United States will be among them. These rising powers, the developing countries of the G20, that today represent about a third of world trade or 35 percent, will represent something like 70 percent of world trade within a generation.

Just as important is the fact that these are the countries where actually the biggest trade barriers exist today. So the highest trade barriers in the world are not in the United States or Germany. The highest trade barriers of the world are in India, are in Brazil, to a lesser degree they're in China, and they are in a number of other very rapidly growing developing countries. So those are the object of trade policy of today and the trade policy for the future. That's where the big growing markets are and where the barriers have to come down and have been coming down. And this has been reflected in a majorly direction of trade in the direction of these economies, including in the case of Turkey by the way, where the share of exports going to the European Union has fallen very markedly in the course of the last 15, 20 years, and the share going to the United States is weak and has also been declining over the last 15 to 20 years. The growth markets for Turkey are in the developing world.

These economies, of course, that I'm talking about with the exception -- these economies are excluded from TTIP. Even if Turkey was part of TTIP, it would not actually affect its capacity in a significant way to improve its export performance towards these very rapidly growing third markets. So that's one argument.

The second argument is, as Kemal has already pointed out, the establishment of TTIP and, to an extent, the establishment of TPP -- not

the establishment, but the negotiation. And eventual success which may or may not happen of these negotiations can significantly raise the costs for Turkey of the Customs Union arrangement. And, in fact, the incentives on the EU and the United States to correct this problem are all wrong. The incentives don't exist. So as somebody who has followed trade negotiations for a long time, you know, I empathize with what Kemal was saying. But, you know, the idea that you go to the U.S. Congress and you basically say to them really we need to lower the barriers for Turkey to export to us -- Turkey's a big economy; has a lot of unskilled labor; its labor cost is competitive; et cetera, et cetera -- and then they ask, well, what are we getting in return? You say, oh, no, we get nothing in return because we got everything already through the negotiation with the European Union, that just doesn't work politically. It does not work. So the incentives for the United States are not there to do this free trade arrangement with Turkey if TTIP succeeds.

And similarly, the incentives for the EU to change this arrangement are completely absent. In fact, the EU negotiators, some of which I know personally, can go and very happily go to USTR and give away -- "give away" -- access to the juicy, fast-growing, large Turkish market without actually demanding anything in return from the Americans for Turkey, just demanding things in return for themselves. So this is like a little

bit of a trade negotiator's dream to be able to do that. So it's actually a win-win for the United States and the European Union to maintain the status quo on the Customs Union with Turkey and negotiating processes.

Meanwhile, as Kemal has mentioned, with these negotiations, Turkey stands to suffer erosion of preferences in the EU and trade diversion in the United States. The same would apply if there's progress on government procurement, access in the United States and potentially in the European Union as well. The regulations negotiations are less problematic for Turkey because, you know, shifting regulation, by definition -- well, for the most part, cannot be discriminatory, so it'll be a choice that Turkey faces whether they want to adopt those regulations or not, and they might actually benefit from doing so.

Another important element here is that the TPP and TTIP are going to cause very likely a big push globally towards competitive liberalization. The countries that are left out -- and there's a very large number of them and they're very important countries -- are going to feel a lot of pressure to themselves to enter into -- it's not just Turkey that's feeling this pressure, they're going to feel the pressure to enter into trade agreements with the European Union, with the United States, and with each other. But Turkey will, in effect, not be able to do that.

Now, in theory, they can do that, right, so long as they get

agreement from the European Union when the European Union is done negotiating. But the European Union isn't going to give that approval except perhaps in some marginal cases. And once the negotiations are embarked upon with the European Union there's very little incentive to negotiate with Turkey, just as I have discussed for the United States. The same would apply for India, the same would apply for Brazil, et cetera, et cetera. So Turkey is stuck in this changing world in terms of a very, very important part of its policies, which is trade policy.

The third and last point I want to make in support of the idea is that the Customs Union arrangement has become dysfunctional and can be improved upon by moving towards a free trade arrangement is Mexico. I want to use the example of Mexico.

Mexico is an interesting example for Turkey, partly because it's a country more or less in the similar per capita income. And back in 1994, two years before Turkey signed its Customs Union with the European Union, back in 1994, Mexico negotiated NAFTA Free Trade Agreement with the United States and Canada, which, as a free trade agreement does, left Mexico completely free to negotiate with third parties.

Well, you know, Mexico did not do disastrously from the point of view of trade at all. In fact, if you look at the trade intensity of Mexico, Mexico's trade has grown relative to its GDP much faster than that of

Turkey and that of other comparable countries, like Brazil for example. So Mexico shows that you can get a very large boost to your trade by having a free trade area. You don't have to have a Customs Union.

Mexico was also able to negotiate a large number of regional trade arrangements. Turkey also negotiated some, but the quality of Mexico's free trade agreements is much better than that of Turkey because Mexico has been able to negotiate an agreement with the European Union whereas Turkey has not negotiated an agreement with the United States. Mexico also negotiated agreements with AFTA, with the Pacific Alliance, and now with the TPP they are negotiating a free trade agreement with Japan, and they're negotiating a number of other very large trade agreements.

One of the effects of this is that Mexico can probably aim to be better integrated in global value chains, these global networks of productions that have arisen over the last several decades, in part because if you produce in Mexico, you not only have access to the U.S. market and the Canadian market, but people see Mexico as a base from which you can export all over the world. And you can import easily from all over the world as well. So I think Mexico has been helped in that way.

Mexico did not do as well on growth as Turkey has, but it has done much better on macroeconomic stability and balance of payments.

And ironically, since a big objective of the Customs Union is to create these closer links with Europe, if you look at remittances, which, of course, depend on migration, remittances in Turkey have come down hugely in recent years. They're now a very small feature of the Turkish economy. But remittances in Mexico that does not have a Customs Union, is not part of, you know, a political arrangement, so to speak, with the United States, remittances in Mexico are a very important feature of the economy.

So that's what I wanted to say. I wanted to challenge a little bit the conventional wisdom of which I associate with the secular middle class in Turkey, with whom I share many, many sympathies, et cetera. And I'm a big believer in the European Union and in the need for Turkey over time to move in that direction. Nevertheless, I wanted to bring out what are the costs, which are very significant costs, of the current trade arrangement and inject a note of realism about what can be done in particular with regard to convincing the United States to take a different tack.

Thank you. (Applause)

MR. KIRIŞCI: We may be having a technical problem. We don't have any microphones here. I think, Uri, I should maybe very quickly respond to your remarks and then let's open the discussion to the floor.

Uri has clearly set the cat amongst the pigeons, as the saying goes: the notion of questioning the Customs Union and replacing it with a

free trade agreement. However, it is an issue that has come up in Turkey and has been discussed, debated, maybe not as extensively as Uri might advise or would want to see it take place. The challenge here, I think, is results from the fact that Uri takes a very economic trade-oriented perspective whereas when you look at the Customs Union and you look at Turkey's relations with the European Union, inevitably the political dimension is very critical, and this is why I think I chose to put that quotation from Stuart Eizenstat there in an effort to take a shortcut.

Now, as I listened to you, Uri, I was trying to say what would be the most cleverest way of responding to this? And I couldn't help, and I mean no offense here, I couldn't help think whether after all Mexico is not a very good example to choose to question the significance of the Customs Union for Turkey. I think you're absolutely right in all the observations you have made as far as trade policy and maybe trade relations go.

Although, very quickly in brackets, I'd like to point out that trade experts -- I'm not a trade expert -- are going to have to look at the fact that some of these countries, including Mexico, including South Korea, and now including Japan, and most probably soon some other countries, who could keep the cake and eat it at the same time with Turkey are kicking and yelling coming to the negotiating table. The Mexican president was in Turkey not long ago and it looks like although the Turkey side has been

fighting for more than a decade to drag Mexico to the negotiation table, very recently some green light began to flicker on the Mexican side. The same thing is happening on the Japanese side. However, I'm not experienced enough to be able to speculate on what might be happening there, and something interesting may actually be unfolding. And I'm closing the bracket there.

When I look at Mexico -- and I'm not an expert on Mexico; I only look at Mexico through *The Washington Post* and what gets debated here -- although Turkey's been having serious problems in the last couple of months with respect to the performance of its democracy, at least there is not the kind of insecurity and instability that reigns in the northern part of Mexico bordering the United States when it comes to drug trafficking and kidnapping of people, smuggling of migrants, et cetera. I'm just wondering whether we may be able to establish a relationship there between the difference of a free trade agreement and an agreement like the Customs Union, which should be coming with a political package or was coming with a political package there.

Again, in the case of Mexico remittances, in some ways I'm wondering whether the high level of Mexican remittances is not also a reflection that the Mexican economy is not performing at the level that it should to be able to employ its own people. The Turkish economy relied on

remittances because in the '60s, '70s, partly in the '80s, too, the Turkish people had to go to Europe to be able to live a living and then ship their remittances to Turkey. Whereas these days, we will see how long this is going to last, these days most Turkish labor stays in the country or goes into the neighborhood with Turkish companies to work on construction projects, et cetera. And again, here, if time would allow us, I would be able to establish a link there between the Customs Union and this particular development there.

My last response, Uri, to you is that I do agree that there's a major transformation that is taking place. However, when I look at Turkey and I look at Turkey historically and the way in which, from my point of view -- and there you can turn around and point a finger at me as a member of the secular middle class elite in Turkey -- I see a major historical connection that has been there for centuries. And one cannot just wash one's hands of it and it bears on Turkey.

And when I talk to businesspeople, including businesspeople that may not directly be associated with what you called as the secular middle class, they do give importance to the rule of law and to transparency and to accountability. And the last two months since the Gezi Park events and the way in which the government has come hard on some of the big businesses in Turkey, noises have been coming out from those business

circles, too. I think in Turkey, in successful business circles, there is this craving for the rule of law, for a level field. And as far as I can see, for the time being, that level playing field and the rule of law is very closely associated with the European Union. And I see TTIP at a time when the link to the European Union is weakening as a vehicle that could again reinvigorate the primacy of the rule of law. But this is all from a political perspective, Uri.

Let's turn to the floor and start taking some questions and comments. And let me remind you the Brookings custom here, talking about Customs Union, to do mention your names and maybe the institution that you're associated with. And bear in mind that there may be others who might also want to ask questions and make comments.

Yes, sir. Should we take two or three together?

MS. HILL: Whatever you're --

MR. DADUSH: You're the boss, yeah.

MR. KIRIŞCI: Yes, Cathy.

MR. BEARY: Brian Beary, Washington correspondent for *Europolitics*. Just I was very interested when you unpacked the consequences of the Customs Union and how it's working out as seemingly a bit of a bad deal for Turkey the way the trade patterns have developed. How serious are Turkey's ruling class about renegotiating or just pulling out

from the Customs Union? And what would be the political consequences of Turkey withdrawing from the Customs Union?

MR. KIRIŞCI: Cathy, let's take a second and a third question and then -- right next to you, Cathy, there.

SPEAKER: Thank you very much for your suggestive presentation. My name is (inaudible) from SAIS Japan (inaudible). There's two questions.

One is Japan is proceeding the joint study on FTA with Turkey. But also, as you mentioned, we have started a negotiation between EU FTA. So what do you wish to happen between the Japan and Turkey negotiation? I think the situation is very similar to the U.S.-Turkey situation, so I would like to have the implications from you.

And the second one is I heard some media is saying that Turkey is willing to join the attack against Syria. If it happens will it enhance the economic partnership between U.S. and Turkey?

MR. KIRIŞCI: There was one more in the front here and then we'll come back to -- no. Uri, shall I --

MR. DADUSH: Go ahead, please.

MR. KIRIŞCI: Shall I?

MR. DADUSH: Both questions are really your territory.

MR. KIRIŞCI: Okay, but I think the first question was directed

to you.

MR. DADUSH: Go ahead.

MR. KIRIŞCI: And I feel you may be able to give a more balanced and objective initial response, and I can give a more biased one.

MR. DADUSH: I see. So the first question was how serious is the Turkish ruling class about getting out of the Customs Union? The answer is I don't know. And, you know, what I will say is that based on the economic evidence, which I'd like to put forward, I think there is a very serious argument for looking at it. Yeah. Whether they're ready to do it, whether politically they can do it, no doubt. You know, these are international treaties and unraveling them, including, by the way, implicitly the access that countries that have negotiated with the European Union since free trade agreements, since Turkey signed on, these would have to be undone. So this is a very complicated process. But nevertheless, I retain my point that, you know, the arguments are very strong.

There was a second part of the question, but I can't remember what it was.

MR. KIRIŞCI: Political consequences, I think.

MR. DADUSH: The political consequences. I think it's not clear to me that the political consequences would be that significant in the current context. It's not like anybody saying that Turkey is going to accede

to the European Union in 5 years or 10 years or 15 years or 20 years, number one.

Number two, as I said, I think this is a very sweet deal for the European Union. And Turkey has sort of unwittingly, because this was supposed to be a temporary arrangement, maneuvered itself into a very difficult corner now. From the point of the European Union, it has Turkey in its back pocket. As I said, it can give away the Turkish market without asking anything in return for Turkey, just asking things in return for itself. So Turkey pulling out of the Customs Union technically could actually improve the negotiating position of Turkey vis-à-vis accession of the European Union in the long term. Because they can say, you know, over the next 10 years, 15 years, we will join the Customs Union and you're going to get the benefit of a bigger area in which -- when you are conducting your international trade negotiations. Right now they have all of those benefits, but they're not taking any of the costs.

MR. KIRIŞCI: Thanks, Uri. I partly agree with Uri's remarks there, but I should mention that this is -- we have entered the period in Turkey where this Customs Union issue and the grievances about it, besides the grievances concerning the broader EU-Turkish relationship, is growing. And through the grapevine we hear that the World Bank has been commissioned to study the Customs Union and to --

MR. DADUSH: They have.

MR. KIRIŞCI: Yes.

MR. DADUSH: They have, yeah.

MR. KIRIŞCI: And we yet have to see the report. And I suspect once the report comes out, this debate in Turkey might liven up.

However, I'd like to underline this. The Customs Union, I think, is very much a product of, because of a lack of another term, function of a path dependency. That path dependency for some might go back to 1959, when, together with Greece, Turkey applied to the then EEC -- the European Economic Community -- to have an association relationship that culminated in the 1963 treaty which is being celebrated this year, if there's much to celebrate about it. And that treaty, you know, Uri, you made a very important point how these international treaties bind countries with each other and undoing them is a very difficult exercise. So the Ankara Treaty in a way bound the two sides to follow a certain path.

And when the Customs Union was signed in the mid-1990s, one needs to remember the context as well. It was seen as a critical step, a transitional step towards Turkey's eventual membership to the European Union. The world, in the meantime, has changed significantly. I think both on the EU side and on the Turkey side there are those who recognize the minuses and the pluses of this relationship, and I feel that increasingly

there's going to be a move. My personal opinion on this is that there's going to be a move towards improving the Customs Union, towards restructuring it rather than replacing it completely with a new arrangement. Restructuring it may be for the technical reasons (inaudible) Uri cited might be an easier exercise than tearing it apart. Tearing it apart and throwing it away in the context of today's Turkish domestic politics would really be setting the cat amongst the pigeons. I mean, Turkey's an already terribly polarized society and I can imagine how all kinds of dreadful scenarios would be read into such an exercise.

The same could be said about the EU side. I mean, in the European Union, yes, the public opinion, by and large, wants to keep Turkey at an arm's length. But when you engage business circles, when you engage some governments, when you engage part of the civil society, the perspective is a different one, that things are not cut and dry.

In that context, one last observation I would like to make even though Uri and I, too, mentioned that the place of the European trade with the European Union in Turkey's overall trade has been proportionally been falling, Turkey's trade with the European continues to grow. And I have looked at the statistics for the first seven months of this year and trade with the European Union of Turkey has been increasing at a time when trade with the U.S. has shrunk somewhat. And the one with the Middle East is in

disarray. With some countries it's increasing, with others it is collapsing. The EU is there, for all its weaknesses. And I liked the remark about the sweet deal and having Turkey in the back pocket. The European Union market still remains an important market for businesses that may come from a secular tradition or may come from a tradition much closer to the values of this current government.

The point about Japan, yes, I have also just found out that Turkey and Japan has agreed on a report that now has to be accepted on the Japanese side and on the Turkey side. If these two -- the common report on opening negotiations for a free trade agreement is agreed upon, then negotiations will start. And I suspect that if things have come to the point that they have, that these negotiations are actually going to take place.

The Syrian issue, I think that deserves an event on its own. All I can say is that the crisis in Syria is impacting on Turkey politically and economically. Turkey's trade with the Middle East is being impacted. The way in which the Egyptian crisis is unfolding or rather the Turkish government's response to the Egyptian crisis is unfolding may further undermine Turkey's economic relations with the Middle East. And the departing ambassador of Egypt to Ankara made it quite clear that this may actually be the outcome.

Now, if Turkey -- I listened to the deputy prime minister

yesterday when he came out from the cabinet meeting and listed the different scenarios. My reading of it is that even though some members of the government, including the prime minister, are keen to see some kind of an intervention in the Middle East, in Syria, actually beyond just punishing Assad for using chemical weapons, it doesn't look like Turkey is going to go and do it out on its own. And I think it is because they're very well aware of its economic consequences, not to mention political ones.

Another round? We have a little bit more time here, 10 more minutes. Cathy, the lady there in the back. Yeah, yeah, right there. And then --

MS. HINDERER: My name is Ade Hinderer. I'm the trade counselor here at the EU delegation and we have discussed several of these issues, Kemal, and we know each other. I'll just make a small comment on especially Uri's presentation. I think the only thing I would say here is that the EU's policy, it's been the case for the U.S. as with other trading partners we are negotiating with, is always to support Turkey entering into FTA negotiations with the partners we are negotiating. It has worked, I believe, in the case of Korea, where I don't know what is your assessment, but Turkey did sign a free trade agreement relatively soon after our agreement entered into force. You may want to talk about that.

And obviously, with the way negotiations work things are not

automatic, so it's not that from day one Turkey would have to adjust tariffs. Things take time and there's usually a time span that allows Turkey also to conduct its negotiations. So that's just a clarification from our side.

I had a question steering away from controversies about what is the best path. In terms of the level of ambition that you see in the U.S. free trade agreement and the EU free trade agreement, to what extent do you feel Turkey is ready for what we call in Europe deep and comprehensive free trade agreements? So beyond tariffs, you know, looking at intellectual property, regulatory aspects, sanitary, phytosanitary -- SPS measures basically, to what extent are there issues that would be difficult for Turkey regardless of the support of a large part of the Turkish business community? Thank you.

MR. KIRIŞCI: Yes, there's one here, Cathy, right in the front.

MR. SAVUG: Aaron Savug, American-Turkish Council. You know, I'm trying to like think of ways in which Turkey might be able to think a little beyond out of the box in the sense that perhaps maybe there's -- are there provisions that you know of within NAFTA that if, you know, Turkey were to strengthen its trade ties with Mexico, it could somehow gain access into the American market because of a third party intervention, a third party playing a role in perhaps helping Turkey not necessarily wean itself off the Customs Union, but ways to think beyond just a conventional means of, you

know, zero-sum ways of thinking about this issue?

MR. KIRIŞCI: Okay. One more question there and then we'll turn -- we may be able to have -- yeah, I think this -- we're running out of time.

MR. DADUSH: (inaudible) long way.

MR. MOZZA: Amil Hyer Mozza from the Turkish embassy.

Thank you so much for the report.

I think the discussion is a bit drifted apart from the constructive part of TTIP in Turkey. I mean, from the Turkish point of view, TTIP is an area of cooperation between Turkey and the United States. And as we have seen in the recent visit of the prime minister there is political will on both parts to go ahead and I think there is also (inaudible) support for that and for the Customs Union. I mean, the Customs Union is not something that Turkey realizes as deconstructive. Rather it has served its purpose of Turkish trade and expansion of trade with the European Union. So, I mean, maybe we should a little bit evaluate TTIP as an area of cooperation between Turkey and the West rather than seeing it as an area of risks and challenges. Thank you.

MR. KIRIŞCI: Thanks, Amil. Uri, would you be able to answer that question? Because I feel I'm on a (inaudible).

MR. DADUSH: Yeah. Well, no, so I haven't looked at the

Turkey-Korea deal and I suppose I should have in preparing for this, but my point should not be seen as you cannot negotiate any trade agreement with countries that have already negotiated with the European Union, that Turkey will find this impossible, I'm not saying that. But it is the quality of the agreement, what is contained in the agreement that really matters. Why would the United States -- and I'm really, you know, in part, repeating what Kemal has written in his report -- why would the United States on economic grounds? There may be political insecurity issues and those may overwhelm everything. But on economic grounds, in a Congress that is very hardnosed about these issues, once the European Union negotiates its deal with the United States and the United States has full access, you know, according to the TTIP to the Turkish market, what interest does the United States have to give Turkey access? So it's a question about the quality of the agreement, not necessarily whether any type of agreement can be negotiated.

I'm sure there are issues. There are always issues, that are regulatory issues, behind the border issues, et cetera, et cetera, which are very specific and country-specific that are not actually the province of DG Trade or the European Union, but of decisions made at the country level which can be included in these agreements, but they will tend to be secondary.

There was a second part to the question. I can't remember what it was from the DG Trade.

MR. KIRIŞCI: The extent to which Turkey might be ready for deeper integration.

MR. DADUSH: That is probably more for Kemal, but my sense is that -- you know, my reading is that Turkey has done a lot already in terms of taking on the key (inaudible) competition policy, et cetera, et cetera. There are these statistics about a very large part of Turkish commercial law basically conforming to the EU model, however you would want to define that. So my guess is that Turkey would be ready to go the additional mile in this regard, but maybe Kemal has a better assessment.

MR. KIRIŞCI: You have seen an example of how the European Union through the Commission can sweet talk. Adeline's points were very good there, but let me make a couple of very quick observations.

I think the reason why Mexico, Japan, South Korea are behaving, to use Uri's line of thinking, in an irrational way in the sense that --

MR. DADUSH: Economically.

MR. KIRIŞCI: Yeah, in the sense that they have this access to the Turkish markets, but they are accepting to come to the negotiating table and negotiate a parallel free trade agreement with Turkey. It's a puzzlement. It deserves to be studied, and the answer maybe to your

question about thinking out of the box may come out of such a study. I can only speculate on it. Part of it, I'd like to give some credit to the institution whose member Adeline is. I think they're putting pressure on it.

But the second factor, which is related to the first one, is the fact that the Turkish economy has become an important economy in its region and beyond it as well. When I was listening to Uri's point about why on Earth should the Congress, beside political, geostrategic, and security reasons -- be that as it may, you know, they have an impact -- why would the Congress be interested?

I think they would be interested in it because of not only the investments that would come to the United States from Turkish companies, which is already happening, and I recognize that this is not going to make a major impact on a huge economy like the United States, but it may well make a difference when it comes to localities, to localities within various states around the Union. So the domestic politics of that could well impact itself on the Congress.

Secondly, the body that I made references to that was set up in 2009 has been working very hard towards encouraging projects that the two sides together can embark on in Turkey's neighborhood. So there are American companies who clearly see that with Turkish companies they can work in the neighborhood and do business, and that translates itself back

into employment and jobs here in the United States.

So we need to look at two factors there: the way in which the Turkish economy has grown and its size is beginning to attract attention and to impact on players, not necessarily just states, but players in the wider sense of the word, their calculus; and the second one is the way in which maybe political, geostrategic, and security factors play into it as well.

My last remark is that it's very interesting that if the Turkish economy has come to where it is and is beginning to impact on players' calculuses -- you may challenge me on this, Uri, and we will see what the World Bank report will say -- I think it is at least partly a function of the Customs Union and a function of the fact that Turkey has incorporated EU legislation. And by incorporating EU legislation, it has made its production more competitive and more interesting to third countries, too. Often, even African countries who are trading with Turkey, when they are importing from Turkey, they are saying are what we are importing up to the standard of the European Union? They don't want to be shortchanged in any way. So the Customs Union's contribution needs to be recognized there.

And one last remark is that I need to be fair. The grievances are not one directional. There are grievances that are coming from the EU side towards Turkey. And the fact that the EU has grievances towards Turkey as far as the functioning of the Customs Union goes, I think, is

making the European Union think twice of the idea that they have Turkey in their back pocket; that to be able to address and resolve those grievances they have vis-à-vis Turkey, they are going to have to come to the negotiating table and address Turkey's grievances, too. And I believe that there are internal forces from within the European Union that is seeking such negotiations there, so we need to bear this particular aspect of that relationship there, too.

I believe we have run out of time here. Yes, it's exactly what they call Swiss timing here. And I'd like to thank you on behalf of Brookings as well as the Turkey Project at the Foreign Policy part of Brookings.

And I'd also like to thank Uri for having participated in this, read my report, and reflected on it. Thanks. (Applause)

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