



# Turkey and the Transatlantic Trade and Investment Partnership

Boosting the Model Partnership with  
the United States

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# Turkey and the Transatlantic Trade and Investment Partnership

## Boosting the Model Partnership with the United States<sup>1</sup>

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**D**iversifying relations between the United States and Turkey beyond the traditional strategic ones reminiscent of the Cold War era continues to remain a challenge for both nations. At the beginning of his first administration in 2009, President Barack Obama advocated the idea of a “model partnership” to overcome this obstacle. However, giving substance to Obama’s model partnership has become another challenge in itself as both sides have experienced difficulties giving life to this idea beyond a modest expansion in economic relations.<sup>2</sup> This is also complicated by the fact that, after a decade of implementing an energetic foreign policy aimed at achieving greater regional stability through economic integration and the infamous “zero problems” approach, Turkey now finds itself deeply embroiled in Middle Eastern conflicts. This situation is further aggravated by the public protests that broke out during the month of June and the police repression that has, in the eyes of many, undermined Turkey’s internal stability and democratic credentials. These developments risk weakening Turkey’s transatlantic alliance with the U.S. This is happening at a time when the U.S. and the European Union (EU) are trying to strengthen their own partnership and the western liberal economic order as a whole through the Transatlantic Trade and Investment Partnership (TTIP). Invol-

ing Turkey in TTIP would give concrete life to the idea of a model partnership and also become a means to reconnect Turkey to the transatlantic alliance. Turkey’s involvement in TTIP would not only benefit the economy but also help consolidate and strengthen Turkey’s democracy through a continued expansion of the principles of accountability, transparency and rule of law. The size of the Turkish economy and its close economic links to its neighborhood would also bring an added value to TTIP.

Besides TTIP, the U.S. is also negotiating the Trans-Pacific Partnership (TPP) with 11 East Asian and Pacific countries. South Korea will likely join that number soon.<sup>3</sup> Both projects aim to develop and introduce a new set of rules known as WTO-plus standards to govern international economic relations. TTIP and TPP would go well beyond traditional free trade agreements. They would not only aim to eliminate remaining customs duties but also address non-tariff barriers to trade and improve the investment environment. More ambitiously, they aim to introduce a new generation of regulatory standards which would cover a range of issues from the protection of foreign investments and intellectual property to opening up public procure-

ments to international competition. Both projects signal a U.S. policy decision to supplement the traditional WTO-driven multilateral trade talks and to instead also pursue independent negotiations with like minded states. If these talks are indeed successful, they would bring together a group of countries which account for almost two-thirds of the world gross domestic product (GDP) and close to half of world trade totals. Countries left outside TTIP and TPP would either have to accept less favorable access to these markets, or would have to adopt the standards laid down by these two partnerships. Geostrategically, this means that emerging economies such as Brazil, Russia, India, China and South Africa (BRICS), which have traditionally challenged the leadership of the U.S. and have often questioned the Western economic liberal order, would be left at a disadvantage. Ironically, Turkey, a long standing member of this Western-led international economic order, would also be disadvantaged if not included in TTIP.

Turkey has been a long-standing ally of the U.S. and a member of the transatlantic alliance. It has been a loyal member of NATO since 1952 and was a founding member of Western-led economic and political organizations ranging from GATT, the IMF and World Bank to the OECD and Council of Europe. Turkey has had an association agreement with the then-European Economic Community since 1963 and a customs union with the EU in place since 1996. Furthermore, even if sporadically, Turkey is moving forward in negotiations regarding its membership to the EU. Despite a foreign policy that is at times assertive and independent-minded, Turkey's economic ties with its traditional transatlantic allies remain very strong. In 2012, more than 40 percent of Turkey's foreign trade was with the EU and the U.S.; two-thirds of Turkish capital was invested in the EU and the U.S. In the

course of the last decade, the Turkish economy has grown impressively and has become the seventh largest economy in Europe (including Russia), and the 17<sup>th</sup> largest in the world. In 2012, the economy of Turkey was larger than all its neighbors put together, excluding Iran and Russia, demonstrating its importance for the economies of the region.<sup>4</sup> Furthermore, this economic performance precipitated the expansion of a vibrant middle class which now plays a critical role in Turkey's democracy.

This economic picture has led the Turkish government and businesses to energetically advocate for Turkey's inclusion in TTIP. Turkish Prime Minister Recep Tayyip Erdoğan wrote a personal letter on the subject to President Obama and Turkish Minister of Foreign Affairs Ahmet Davutoğlu brought the issue up with Secretary of State John Kerry during the latter's visit to Turkey in March 2013. A multitude of governmental and civil society actors have also approached their counterparts in the U.S. and the EU for support. However, as the EU and the U.S. held their first round of TTIP negotiations in July 2013, the question of Turkey's inclusion remains unresolved. What is at stake? Why is Turkey so keen to join TTIP? What has been the response of the U.S. and the EU? What course of action should the U.S. take and what are the challenges and opportunities associated with maintaining a strong transatlantic relationship with Turkey? This paper will argue that the exclusion of Turkey from this new emerging international structure, composed of TPP and TTIP, risks pushing Turkey into the arms of those countries that challenge the Western economic order. It would also be damaging to Turkey's own economic development and democratization process. Instead, finding a way to include Turkey in TTIP, or alternatively signing a parallel free trade agreement between the U.S. and Turkey, would create a win-

win situation for all involved parties: Turkey, the U.S., the EU and even the Middle East.

The paper will address the above questions and thesis in four sections. The first section examines the significance of TPP and TTIP in general, followed by a section that studies the rise of Turkey as a trading state. The third section discusses why

TTIP is of particular importance to Turkey and what might be at stake for the U.S. and the EU. The last section considers an array of possible ways in which Turkey could be included into TTIP. The concluding section will stress the geostrategic significance of re-anchoring Turkey into the transatlantic alliance.

## TRANSFORMATION OF U.S. TRADE POLICY AND TPP-TTIP

Traditionally, international trade policy for the U.S. has focused on the WTO and multilateralism. However, the inability of the Doha round of trade talks to generate results and the failure of the U.S. to iron out compromises, especially with some of the major newly emerging economies such as Brazil, China and India, has culminated in efforts to develop alternative strategies. This has coincided with a period in which the world had begun to see significant increases in the number of bilateral and regional trade agreements. While there were a little more than 100 of such agreements registered with GATT between 1947 and 1995, their numbers under the WTO increased to 379 as of July 2013.<sup>5</sup> During the 1990s, the U.S. lagged behind this new trend until the 2002 introduction of the “competitive liberalization” strategy by the Office of the United States Trade Representative (USTR).<sup>6</sup> The USTR has aggressively sought to negotiate bi-lateral trade agreements with a string of Latin American and Middle Eastern countries. In 2008 the U.S. decided to join the efforts of Brunei, Chile, New Zealand and Singapore, who until this point had been negotiating among themselves, to put into place the Trans-Pacific Strategic Economic Partnership.

After the financial crisis of 2008, the U.S.’s participation was revived in December 2009 as part of President Obama’s strategic decision to reengage Asia.<sup>7</sup> The latest and 18<sup>th</sup> round of TPP negotiations took place in Malaysia late in July 2013 with the participation of 12 countries. The agenda of TPP clearly aspires to go beyond the stalled Doha talks and aims to develop a new ambitious set of rules and regulations based on the WTO-plus standards. These standards not only wish to see the dismantlement of remaining barriers to trade in goods and

services, but include the development of a whole “new trade rulebook” on issues like labor, environment, investment, competition policies and state owned enterprises. These new standards would come to constitute a “state of the art” trade regime and set a precedent for future trade negotiations.<sup>8</sup> These countries recognize that TPP would require adjustments in their domestic policies but that, in turn, this would bolster their international competitiveness as well as help them keep pace with China at home and in global markets.<sup>9</sup> This strategy is also known as the “tipping point strategy” and is predicated on the idea that “if they gather a critical mass of countries in the TPP, the costs of exclusion for other countries will go up, creating an incentive for them to seek TPP membership.”<sup>10</sup>

TTIP needs to be approached from a similar perspective. As in the case of TPP, TTIP too has a similarly ambitious WTO-plus agenda. In fact, the current level of tariffs between the U.S. and the EU is already minimal, and while the negotiations will aim to remove these remaining tariffs, both sides stand to benefit more from the development of a common regulatory framework to enhance reciprocal trade and investment. In the words of U.S. Secretary of State John Kerry, TTIP “is something that can help lift the economy of Europe, strengthen our economy and create jobs for Americans, for Germans, for all Europeans...”<sup>11</sup> The prospects of job creation and economic growth was also underlined by the EU-US High Level Working Group on Jobs and Growth (HLWG) report which recommended in February 2013 that TTIP be negotiated.<sup>12</sup> TTIP is also seen as an important bargaining chip for both the U.S. and the EU at the multilateral level in relation to newly emerging economies. This additional aspect of the TTIP is very much reflected in the remarks of Karel de Gucht, the European Commissioner for Trade:

Over time I believe that we will need to come to a new global covenant on open markets between the new leaders of the world economy, taking into account their new roles in the world. That will take time and there is no short-cut to reach that point. But a Transatlantic Trade and Investment Partnership may help strengthen our hand in any such discussion, giving us a greater collective weight.<sup>13</sup>

Lastly, there is also the recognition that TTIP does have a geostrategic dimension to it. It is expected to strengthen the transatlantic alliance in international affairs as well as the economic and political value the alliance represents. In this regard Robert Hormats, Under Secretary of State for Economic Growth, Energy and the Environment, noted that TTIP would help to establish,

“high quality norms and practices that can spread to other markets. It is also an opportunity to reaffirm and reinforce the strong economic, political, social and values we share with Europe. Much as NATO was the glue that tied the United States and Europe together during the Cold War, TTIP can reflect and promote shared transatlantic interests and values that will bind us together more closely in the coming decades of the 21<sup>st</sup> century...In many ways, America is stronger if Europe is stronger and vice versa”<sup>14</sup>

The first round of TTIP negotiations started early in July 2013. There are numerous challenges awaiting both TPP and TTIP.<sup>15</sup> These challenges include the fact that the Congress has not yet renewed the 2002 Trade Promotion Authority that lapsed in 2008. This weakens the hand of USTR against their

counterparts with respect to substantive negotiations. There will be a reluctance to enter real bargaining until TPP and TTIP partners can be sure that the Congress will not demand USTR to renegotiate certain aspects of the agreements. There are also a multitude of technical issues that will be tough to surmount as well as domestic political concerns with respect to certain sensitive topics. Nevertheless, the leadership of EU, U.S. and TPP countries all appears to be committed to the negotiation of both partnerships, at least for the time being. If these two agreements are indeed concluded and ratified they will represent states whose cumulative economies correspond to 63 percent of the world’s GDP and 42 percent of the world’s trade (Table 1) and will create, in the words of an international trade expert, “super-regional trading arrangements”.<sup>16</sup>

TTIP will institute an integrated market covering a geographic area stretching from the Pacific coast of the U.S. to the western shores of the Black Sea, with TPP expanding this zone to cover a good part of the Pacific basin. Turkey would be the only major liberal market economy standing in between the two ends of this integrated region not included in the agreement. Its exclusion is likely to adversely affect Turkey and is seen as a major cause for concern by Turkish decision makers and businesses. This exclusion would also be to the detriment of the EU and the U.S. Turkey’s economic transformation over the last two decades, its customs union with the EU and its close economic integration within its own neighborhood make it an undeniable asset for TTIP. Turkey could contribute to jobs, economic growth and investment to the TTIP, as well as passing on these benefits to its neighboring countries. Furthermore, it could help to introduce the values of liberal markets and WTO-plus standards to the region.



**Table 1: Trade Indicators for TPP and TTIP in 2012 (in billion USD)**

	<b>GDP</b>	<b>GDP as % of World GDP</b>	<b>Exports, Goods</b>	<b>Imports, Goods</b>	<b>Total Trade as % of World Trade</b>
TPP*	11,874	16.6	2,799	2,931	15.8
TPP* + Prospective	13,029	18.2	3,351	3,450	18.7
United States	15,685	21.9	1,547	2,336	10.7
European Union	16,584	23.1	2,176	2,311	12.3 <sup>17</sup>
TPP* + Prospective + TTIP	45,298	63.2	7,074	8,097	41.7
World	71,707	100	17,875	18,492	100

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

Sources: IMF WEO, IMF DoT, Eurostat.

## TURKEY AS A TRADING STATE

The Turkish economy has dramatically transformed in the course of the last two to three decades.<sup>18</sup> 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 (Table 2). In 1975, foreign trade was only 9 percent in proportion to Turkey's GDP. In 2012 this figure had increased to 50 percent. Turkish foreign trade increased from around \$6.1 billion USD in 1975 to about \$389 billion USD in 2012. This was a period during which Turkey became a "trading state", a state whose foreign policy is shaped increasingly by economic considerations.<sup>19</sup> The customs union dramatically improved the competitiveness of Turkish industry as Turkey adopted EU's trade and competition rules. Today, over 55 percent of European economic legislation corresponds to the related Turkish law on the subject, and in effect means that Turkey belongs to the European economy.<sup>20</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.

The biggest gains in foreign trade were actually achieved within Turkey's immediate neighborhood: Trade has expanded from about \$4 billion USD in 1992 to \$92.8 billion USD in 2012, a 23-fold increase (Table 3). This growth in trade has also been accompanied by a greater movement of people into 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 31.7 million in 2012.<sup>22</sup> The number of entries from countries neighboring Turkey increased from about 2.0 million to 11.8 million during this same period, constituting almost 38 percent of overall entries. Lastly, Turkish business presence and investments in these neighboring countries, such as Bulgaria, Romania, Russia, Georgia and Iraq also greatly expanded in the course of the last two decades. These investments include bakeries and restaurants set up by individuals, as well as manufacturing plants by major Turkish companies. Tracking down the exact figure for these investments is a difficult exercise. However, Turkish Central Bank figures suggest that Turkish FDI stock in neighboring countries increased from just about \$900 million USD in 2001 to \$6.5 billion USD in 2012.<sup>23</sup>

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

Turkey	1975	1985	1995	2005	2012
Export	1.4	7.9	21.6	73	152
Import	4.7	11.3	35.7	117	237
Total Trade	6.1	19.3	57.3	190	389
GDP (in current USD) <sup>21</sup>	45	67	169	483	789
GDP (per capita)	1,139	1,367	2,896	7,130	10,666
GDP (ranking)*	20th	25th	24th	17th	17th
Foreign Total Trade (% of GDP)	9	29	34	39	50

Source: World Bank (in billions of USD)

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

**Table 3: Turkish Foreign Trade (in million USD)**

Turkey	1992				2002				2012			
	Export	Import	Total	% of Total	Export	Import	Total	% of Total	Export	Import	Total	% of Total
<b>EU</b>	7.600	10.049	17.649	47%	18.458	23.321	41.779	48%	59.201	87.448	146.649	38%
<b>US</b>	865	2.600	3,465	9%	3.356	3.099	6.455	7%	5.604	14.130	19.734	5%
<b>Neighborhood</b>	1.866	2.162	4.028	11%	3.998	7.08	11.806	13%	39.398	53.386	92.784	24%
<b>Middle East</b>	2.516	3.126	5.642	15%	3.504	2.432	5.936	7%	45.665	22.487	68.152	18%
<b>Israel</b>	90	97	187	0.5%	861	544	1.405	2%	2.330	1.710	4.040	1%
<b>Trans-Pacific Partnership (TPP)</b>	1.245	4.252	5.497	15%	4.229	5.748	9.977	11%	8.812	23.694	32.506	8%
<b>South Korea</b>	191	373	564	2%	55	900	955	1%	528	5.660	6.188	2%
<b>China</b>	147	172	319	1%	268	1.368	1.636	2%	2.833	21.295	24.128	6%
<b>Sun-Saharan Africa</b>	146	233	379	1%	430	381	811	1%	3.913	2.613	6.526	2%
<b>Others</b>	1.943	2.915	4.858	13%	5.447	10.600	16.047	18%	16.613	39.964	56.577	15%
<b>Turkey TOTAL</b>	<b>14.715</b>	<b>22.871</b>	<b>37.586</b>	<b>100%</b>	<b>36.059</b>	<b>51.554</b>	<b>87.613</b>	<b>100%</b>	<b>152.469</b>	<b>236.545</b>	<b>389.014</b>	<b>100%</b>

EU-12 for 1992, EU-15 for 2002, EU-27 for 2012

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

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

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

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

Note that figures for Bulgaria, Greece and Romania appear both with the EU and Neighborhood totals; figures for Iran, Iraq and Syria appear both in the Middle East as well as Neighborhood totals and figures for U.S. appear in the TPP total.

2012 data is provisional

Source: TUIK (in million dollars)

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 if the EU's relative share in Turkey's overall trade fell from 47 percent in 1992 to 38 percent in 2012 (Table 3). Similarly, the EU continues to be the largest foreign direct investor in Turkey. Almost 72 percent of the 72.4 billion USD of FDI funds that were invested in Turkey between 2007 and 2012 came from EU countries.<sup>24</sup> During the same period, close to 60 percent of Turkey's FDI funds went to the EU. In 2012, Turkey was the 6<sup>th</sup> largest trading partner of the EU just ahead of Japan and Brazil but behind Norway and Switzerland.<sup>25</sup> In contrast to the EU, Turkey's level of economic integration with the U.S. is quite limited. The level of trade between the U.S. and Turkey stood at

just under \$20 billion USD in 2012 compared to \$3.5 billion USD in 1992. This is barely a six-fold expansion in trade in two decades compared to increases amounting to nine fold in Turkish-EU trade, 22-fold in Israeli-Turkish trade, 23-fold in Turkey's trade with its immediate neighborhood and 76-fold in Chinese-Turkish trade.

In the course of the last couple of years, however, there has been a great effort to boost economic relations between Turkey and the U.S. In 2009, both sides launched the Framework for Strategic Economic and Commercial Cooperation (FSECC) to engage each other in a dialogue at the cabinet level with the objective of enhancing these relations. Simultaneously, a common business council (FSECC U.S.-Turkey Business Council) was established to strengthen bilateral and third country

cooperation, make project proposals, and develop joint policy recommendations for the Turkish and U.S. governments. On the other hand, there is also the U.S.-Turkey Business Council (USTBC), within the U.S. Chamber of Commerce (USCC), that assists and encourages private business exchanges. Nevertheless the current level of trade is not where it could be. As the USTBC's website notes "the U.S.-Turkish commercial relationship has failed to reach its full potential when considering the size of the two economies."<sup>26</sup>

The picture that emerges from the last two decades is one that shows the degree to which Turkey has

become integrated with the world economy. This has been possible primarily because of Turkey's transformation into a liberal market economy. However, Turkey's economic integration with the U.S., the largest liberal economy of the world and a country with which Turkey has had a long-standing military and political alliance, has not fulfilled its potential. This is a paradoxical situation as Turkey has been part of the institutions of the Western economic liberal order since the early days of their conception and is deeply integrated with other liberal economies such as Israel and the EU. It is against this background that the issue of Turkey's relationship to TTIP needs to be assessed.



## WHAT IS AT STAKE FOR TURKEY, THE U.S. AND THE EU

In the absence of any specific impact studies it is difficult to predict in detail how Turkey would be adversely affected by TTIP. Existing impact studies evaluate only how trade will expand between the EU and the U.S. The welfare gains for both sides are predicted to be very positive even if they vary depending on the nature of the agreement that might be reached. According to one such report, the gains from a comprehensive liberalization of trade would be in the order of 119 billion euros for the U.S. and 95 billion euros for the EU per annum.<sup>27</sup> This report takes a very optimistic view on TTIP's impact on the rest of the world and estimates gains amounting to close to 100 billion euros.<sup>28</sup> However, these gains have been calculated on the basis of various regional groupings and it is not possible to see how individual countries would be specifically impacted. Other assessments take a more sanguine approach especially in terms of trade diversions that would result from TTIP to the disadvantage of third countries. A study commissioned by the German Federal Ministry of Economics and Technology lists the U.S. and Britain as enjoying the greatest welfare gains in the long term from a comprehensive agreement, amounting to respectively 13.4 and 9.7 percent on average.<sup>29</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>30</sup> For example, Canada and Mexico, both with preferential trade agreements with the U.S. and EU, would experience income losses corresponding to 9.48 and 7.24 percent respectively, while Turkey's potential loss is put at around 2.5 percent.<sup>31</sup> For Turkey this would amount roughly to a \$20 billion USD loss of income based on Turkey's GDP in 2012, an amount roughly equal to its current trade with the U.S.

The fact that Turkey would experience a net loss of welfare is not surprising given the terms of its customs union with the EU. The customs union was negotiated with the expectation that it would be a transitional arrangement while Turkey moved towards eventual full membership in the EU, and that it would help to strengthen the Turkish economy in the meantime.<sup>32</sup> Indeed the customs union contributed greatly to Turkey's economic development and the competitiveness of its manufactured products as it adopted EU regulatory standards and gained preferential access to its internal markets. The harmonization exercise also came with the requirement that Turkey adhere to the EU's common commercial policy. This meant that each time the EU negotiates and signs a new free trade agreement with a third party, Turkey launches its own initiatives to conclude a similar agreement with that third party so as to have equal rights with the EU in terms of market access and eliminate the risk of a possible trade diversion. However, the absence of any provisions in the custom union that would allow for Turkey to sit at the table during such negotiations or wield any tangible influence on the agreements themselves created a difficult situation in the long run. The situation is also complicated by the fact that Turkey in turn is not allowed to negotiate and sign its own free trade agreements with third countries without the consent of the EU.

In practice this has meant that Turkey has had to open up its market to export goods from these third parties without being granted reciprocal preferential access for Turkish goods. This puts Turkey at a major disadvantage and results in possible trade diversion risks.<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.<sup>34</sup> However,

as the EU began to sign as well as start negotiating preferential agreements with major countries in world trade, the picture began to change. Despite repeated efforts, Turkey failed to start 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. They are all in the process of negotiating free trade agreements with the EU and so far have not favorably responded to Turkey's efforts to start parallel talks. They appear, not surprisingly, to want to benefit from accessing the Turkish market without opening up theirs to Turkey.

In the event that TTIP does come into force without Turkey's inclusion or without any provisions that address 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 in the U.S. market. One immediate consequence that would be expected is that the current \$8.5 billion (Table 3) deficit that Turkey had in its trade with the U.S. in 2012 would most probably grow. Furthermore, it is also highly likely that some trade diversion would also occur as European, South Korean, (thanks to the South Korea-U.S. Free Trade Agreement, or KORUS FTA) as well as the potential TPP countries' goods would be able to enter the U.S. market preferentially. This is highly likely to happen because the top export items from Turkey to the U.S. (vehicles, machinery, iron and steel products, and cement) overlap to a large extent with the major exports items of the EU as well as South Korea and some Asia-Pacific countries.

This is not something to be taken lightly in U.S.-Turkish relations. TTIP is hailed as a project

that is expected to bring about economic growth in the EU and the U.S., but in Turkey's case it would have the opposite result and directly affect the prosperity of the average citizen. Irrespective of their long-standing alliance, Turkish public opinion has long been very skeptical of the U.S. This is starkly reflected in opinion surveys. In 2011, according to the Pew Global Attitudes Poll, Turkish citizens gave the United States the lowest rating out of all the countries included in the survey at the staggeringly low 10 percent approval level, finishing behind a notoriously anti-American country as Pakistan.<sup>35</sup> One of the challenges facing the implementation of the model partnership has been finding a way to lower the high levels of anti-Americanism in Turkey. The fact that negative public opinion "can damage the bilateral relations, especially now that public opinion matters more than ever before in Turkish foreign policy" according to Albright and Hadley underlines its importance in maintaining and strengthening this partnership.<sup>36</sup> It would not be difficult to speculate that if Turkey was excluded from TTIP and were to experience economic disadvantages resulting from trade diversion. Opinions and attitudes toward the U.S. would be aggravated further. One report estimates that Turkey could lose close to 95,000 jobs as a result of TTIP.<sup>37</sup>

It must not be forgotten that similar consequences would also occur in Turkey's trade with the EU. In other words, the cumulative effect of TTIP and the EU's free trade agreements with the countries mentioned above reluctant to sign parallel agreements with Turkey, would cause significant trade diversion to the disadvantage of Turkey. There is a clear recognition that Turkish companies would be seriously disadvantaged by the competition from the U.S. and other third party companies benefiting from preferential access to the EU.<sup>38</sup> It is worth noting that Turkey also runs a trade deficit with

the EU and that this deficit was in the order of \$28 billion USD in 2012 (Table 3). Under the above circumstances this deficit would be expected to expand. It is not surprising that in recent times frustration with the customs union have been increasingly voiced by Turkish politicians. The Turkish Minister of Economy Zafer Çağlayan, expressed this frustration in March 2013, when he publicly raised the possibility of withdrawal from the customs union. Both Çağlayan and Egemen Bağış, the minister responsible for relations with the European Union, stated in no unclear terms that one of the sources of this frustration in the relationship were the preferential agreements that EU was signing with third party countries.<sup>39</sup>

This frustration is also compounded by the poor state of Turkey's EU membership prospects. Technically, for Turkish accession to be completed, 33 chapters representing the EU *acquis*, the corpus of EU laws and policies, have to be negotiated and closed. So far only 13 chapters have been opened while eight chapters were suspended in December 2006 by the European Council. Another nine chapters are blocked largely by France and Cyprus but also by Germany and Austria.<sup>40</sup> In late June a partial breakthrough was achieved when a new chapter was opened but even then only conditionally.<sup>41</sup> The police brutality used against the demonstrators during protests in June 2013 provoked large scale criticisms from the European Parliament and some member states. The German Chancellor, Angela Merkel, was especially critical and once more questioned Turkey's membership credentials, voicing her reluctance to open this new chapter. Ultimately, a compromise agreement was reached by postponing the actual launch of the talks to October.

This state of affairs has provoked a deep sense of cynicism, mistrust and resentment on the Turk-

ish side. The public has long believed that the EU resists Turkish inclusion on cultural grounds and that the prospects of Turkey ever becoming a member is very dim. In an opinion survey published in January 2013 by the Istanbul-based Center for Economic and Foreign Policy Studies (EDAM), only 33 percent of those surveyed thought Turkey should persist with membership in the next five years.<sup>42</sup> It is not surprising then that even the Turkish Prime Minister has begun publicly voicing his discontent about the very long years that Turkey has been kept waiting. This frustration came to a head, during a TV interview in January 2013, when in addition to declaring he was ready to give up on EU membership, he revealed that he had asked the Russian president, Vladimir Putin, if he could help with Turkey's admittance to the Shanghai Cooperation Organization.<sup>43</sup>

Would the Turkish Prime Minister and his Minister of Economy realistically move Turkey away from the EU and out of the customs union and redirect Turkey's economic and political orientation away from the West and Western institutions? Probably not. Yet it goes without saying that the grievances held against the EU specifically and the West at large, including the U.S., is growing. Exclusion from TTIP accompanied with the disadvantages piling up as a result of EU's ever expanding free trade agreements with third parties will surely aggravate opinions even further. This public dissatisfaction is often shrewdly exploited for domestic political purposes, to the disappointment of business circles as well as many commentators and experts. Large business interest groups such Independent Industrialists and Businessmen's Association (MÜSİAD), Turkish Union of Chambers and Commodity Exchanges (TOBB), Turkish Industrialists' and Businessmen's Association (TÜSİAD) and Turkish Confederation of Businessmen and In-

dustrialists (TUSKON) have repeatedly underlined the importance of Turkey's western orientation and its relations with the EU as critical to its economic growth and performance.<sup>44</sup> The aforementioned survey by EDAM also revealed that when a panel of 202 experts was questioned about EU-Turkish relations, almost 87 percent of them supported the view that Turkey should persist with pursuing EU membership. Often these are also the very circles that are keen to get Turkey involved in TTIP. They are cognizant of the upfront technical and political costs that would be incurred if Turkey were to become part of TTIP. But, at the same time, they also recognize that the cost of being left outside TTIP, accompanied with a weakening of relations with the EU, would be even higher.

The EU and the U.S. also ought to recognize that a weakening of Turkey's commitment to Western economic institutions and values would also come at a cost to them. A Turkish state that is adrift of the Western order would indeed come with important economic, political and strategic consequences. It is unlikely that the dynamism and growth of the Turkish economy could be maintained under these circumstances. This would be a loss in terms of growth and job creation not just for Turkey but also for the EU, the U.S. as well for Turkey's neighbors. Under these circumstances Turkey could become politically less stable and less committed to democratic reform. Such a Turkey risks increasingly aligning itself with the very countries that

advocate state controlled markets, authoritarian or "sovereign" democracy and greater protectionism over liberal markets, liberal democracy and liberal trade.<sup>45</sup> Inevitably Turkish foreign policy would adversely be affected and the gulf between Turkey and its transatlantic allies would surely widen.

But should Turkey be included in TTIP, Turkey would again become an economic, political and strategic asset for the West. The Turkish economy would continue to grow and maintain its dynamism, engage its relatively young population in production and creating jobs within Turkey as well as the EU and the U.S. Furthermore, a growing Turkish economy closely integrated with its neighbors would ensure growth and jobs for the region as a whole. This would also facilitate greater access to the Middle East for American and European companies.<sup>46</sup> Much more importantly, a Turkish economy that continues to grow and is deeply integrated within the world economy as well as closely aligned with TTIP would also be the best guarantee to ensure that liberal democracy flourishes in Turkey. In many ways, TTIP would become a new geostrategic anchor for Turkey in the event that EU membership was not to materialize. There would also be geostrategic advantages for the EU and the U.S. Turkey would become an economic and political pole of attraction for Western values and institutions in a geography where the West is increasingly being challenged by Russia and Iran.



## WHAT CAN BE DONE?

The inclusion of Turkey in TTIP could constitute the very basis for giving life and substance to President Obama's "model partnership". However, there are practical challenges with respect to how this could be done. Now that TTIP negotiations have formally started, including Turkey at the table does not seem like an option. Initially, this course of action was suggested by Turkish officials and business people and they actively lobbied various EU governments as well as the European Commission in this vein. The Turkish side even tried to mobilize U.S. government support to get Turkey involved in TTIP but it was to no avail. These lobbying efforts were ultimately rejected on the grounds that Turkey is not a member of the EU. The most that the Turkish side could receive were assurances that they would regularly be informed about relevant developments on TTIP negotiations. This of course is not a terribly promising concession given the reality that the EU has signed free trade agreements with third countries in the past without much considerations for Turkey's concerns and interests.

There are also those in Turkey who have advocated that Turkey could be included in the final agreement on TTIP on the grounds of the customs union and the EU membership process. This is a method that is preferred especially by those in Turkey who fear that Congressional politics would not allow the ratification process of a separate trade agreement with the U.S. to go through.<sup>47</sup> However, this too is highly unlikely to take place, and even if it did it would mean Turkey having to accept all the terms of the agreement without being party to the negotiations. Another alternative is to write into TTIP the possibility for third countries to accede to the agreement after the fact. TTIP could be

left open to countries that have long standing trade agreements with the U.S. or the EU. Known also as 'docking,' this is a provision that the U.S. has advocated for in the context of TPP negotiations.<sup>48</sup> For this to be an option, TTIP would need to have the required clauses within the agreement, and Turkey's application would need to be accepted. The downside for such an arrangement for Turkey is that accession would most likely require Congressional as well as EU approval and this may well complicate the process. The added complication would be that Turkey would take on all the obligations of the treaty without the possibility of negotiating any of the terms. Nevertheless, by introducing transition periods for the implementation of some of the more demanding terms, this could prove to be a manageable exercise. However, it would be very important that this process not turn into an experience similar to the one with the EU. A long and drawn out accession process would be a recipe for disaster in Turkey's relations with its transatlantic allies.

Another approach would be to revisit the possibility of negotiating and signing an independent free trade agreement between Turkey and the U.S. Expanding economic relations between the two countries have been advocated for some time as one method of giving life to the model partnership. It would also be a useful method for deepening the relationship between the two countries by increasing people to people contacts.<sup>49</sup> Madeleine Albright and Steven Hadley proposed an ambitious plan in 2011 in the form of a "Turkish-American Partnership" (TAP) that would incorporate "the TPP's emphasis on market access, regulatory compatibility, business facilitation, assistance for small and medium-sized enterprises, and promotion of trade in cutting-edge technologies..."<sup>50</sup> The idea appears to have never been seriously pursued because of the restrictions placed on Turkey's ability to negotiate

and conclude free trade agreements independently of its customs union with the EU. Now that TTIP is being negotiated, such a restriction would no longer be applicable. During his visit to the United States in May 2013, the Turkish Prime Minister did raise the idea of negotiating a free trade agreement with President Obama. This idea was also pursued by his deputy Ali Babacan and constituted the focus of a major event organized by the USCC in April. Moreover, the Minister of Economy, Zafer Çağlayan, has also been in close contacts with his counterparts both in the EU and the U.S. on concluding a free trade agreement with the U.S.

The idea did not gain enough traction with the U.S. administration and the Turkish side had to settle for what a disappointed Turkish diplomat called “yet another committee”. Concerns ranging from an already loaded trade agenda, congressional politics and democratic setbacks in Turkey appear to have played a role in this decision. Instead, the Turkish side accepted the establishment of the High Level Committee within FSECC to be led by the Ministry of Economy of Turkey and the Office of the U.S. Trade Representative with the ultimate objective of continuing to deepen the economic

relations and liberalize trade as well as examine the impact that TTIP could have on Turkey.<sup>51</sup> Nevertheless, on the Turkish side there is some hope that this committee might evolve to something like the HLWG between the EU and the U.S. which eventually recommended the negotiation of TTIP. In this way the Committee would constitute a governmental forum where both sides could discuss and ripen the idea of a free trade agreement. This of course would need to be accompanied by a bottom-up process of mobilization coming from the business world. The USTBC operating under the USCC is an advocate of stronger economic relations with Turkey and is supportive of the idea of a free trade agreement. A survey held in 2011 revealed that 88 percent of U.S. senior executives advocate more U.S. government engagement with Turkey to “improve the investment, market access, and operating climate for US companies in Turkey”.<sup>52</sup> Clearly, the broader the basis of demand for deeper economic relations with Turkey the greater would be the likelihood of achieving the public support needed to negotiate a free trade agreement. But the enthusiasm of Turkish and American businesses must be matched by a genuine will in government and congressional circles.

## CONCLUSION

In the course of the last two to three decades, Turkey has been deeply transformed both economically and politically. Turkey's close relations with the EU and the U.S. have made an important contribution to this process. In turn, Turkey has continued to be an important ally of the U.S. in an increasingly volatile region. Turkey came to be praised for its soft power and has also been presented as a model for the transformation of the Middle East. However, in recent years Turkey has entered a period where its commitment and ties to this transatlantic community is being questioned and its economy is showing signs of strains. This is occurring at a time when the U.S. is negotiating TTIP and TPP, two agreements that promise to achieve greater economic integration amongst countries who produce almost two thirds of the world's GDP and half of the its trade.

Finding a means to include Turkey into this new economic integration project faces many challenges. Surmounting these challenges would reinforce Turkey's place in the transatlantic alliance, and ensure economic benefits for all sides including Turkey's neighbors. The latter is especially important if the broader geostrategic benefits are also taken into consideration. With respect to TTIP, Stuart F. Eizenstat noted:

... that there are essentially two competing models of governance in the post-Com-

munist world. One is the transatlantic model shared by many other countries, based upon democratic governance, with free peoples, free markets, and free trade; the other is autocratic governance, state-controlled or dominated economies, and managed trade. The TTIP is an opportunity to show the world that our model of governance can produce tangible gains for our people on both sides of the Atlantic and more broadly is the best model to meet the challenges of the 21st century.<sup>53</sup>

Turkey straddles the geography between these two "models of governance". Engaging Turkey through TTIP or a TAP would not only inject life and substance into President Obama's "model partnership" concept but would also bring broader geostrategic gains in support of Eizenstat's "transatlantic model" of governance. This would be a Turkey that not only shares the traditional common political and security interests it has had with its transatlantic allies since the end of World War II, but one with deep economic ties with the West as well as a commitment to the values of a pluralist democracy. This would not only help Turkey achieve its goal of becoming one of the top 10 economies of the world by the centenary of the establishment of the republic in 2023,<sup>54</sup> but would also contribute to the stability, prosperity and the transformation of at least part of the region between TTIP and TPP and win over these nations to the "transatlantic model" of governance.

## ENDNOTES

1. I would like to thank Mert Arkan, Barış İne and Galip Kemal Özhan for their assistance with the research for this paper as well as all the officials, experts and business people who were consulted and interviewed for this project. I am also grateful for the comments and feedback provided to me by my colleagues in and outside the Brookings Institution.
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  31. Ibid., 6. Canada and Mexico are members of the NAFTA together with the U.S. Mexico has a long standing free trade agreement with the EU and Canada is currently negotiating one.
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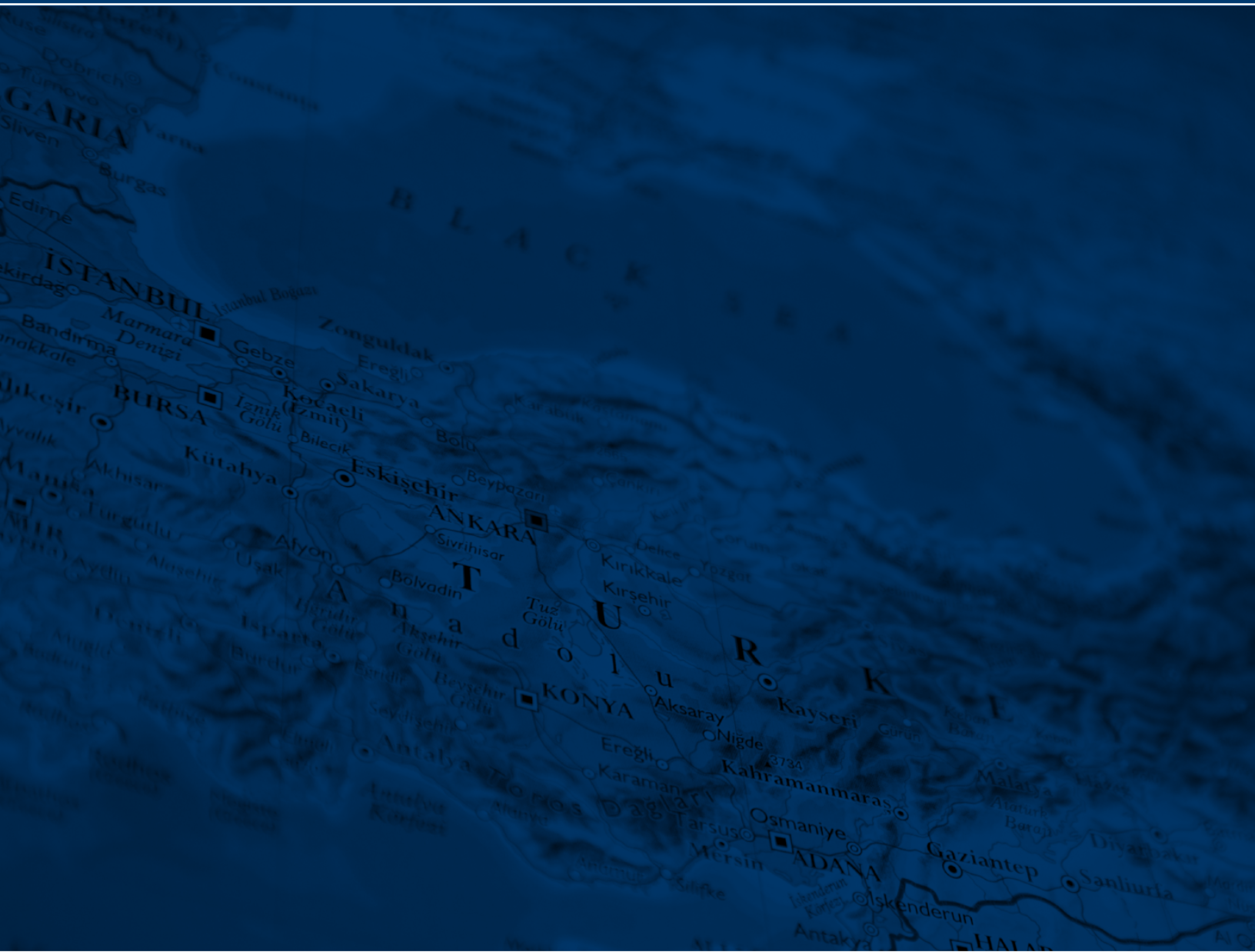
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