



# STRATEGIC OUTLOOK

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## *TTIP and Its Possible Impacts On Turkey*

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### Introduction



Today, the EU and US are the anchors of the global economy. They represent about half of the global GDP and trade. They also try to establish the largest free trade zone in history via TTIP. It is obvious that TTIP will change the economic structures of both the EU and US, but furthermore the TTIP will impact third parties as well. Against this background, this paper examines the possible impacts of TTIP on Turkey, a country which has been enjoying the Customs Union with the EU although it is not a member. The paper also offers a couple of policy options in front of Turkey on the possible impacts of TTIP.

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### Analysis

#### PART I: FREE TRADE AGREEMENTS

Since the 1950s, we observe a trend of liberalization of world trade. This trend was given strong momentum by the establishment of the General Agreement on Tariffs and Trade (GATT) in 1947 which was replaced by the World Trade Organization (WTO) in 1995. <sup>1</sup> Tariffs and nontariff barriers to trade have significantly decreased both in developed and developing countries although they are still relatively higher in the latter. <sup>2</sup>

After the 1980s, especially with the collapse of the Union of Soviet Socialist Republic (USSR), many countries around the world have reduced their customs duties considerably, and liberalized their

<sup>1</sup> Wassal, K.W., 2012, The Impact of Trade Liberalization on Trade Balance in Arab Countries, Journal of Economic and Social Research, Vol: 14/2, page: 2

<sup>2</sup> Wassal, K.W., Ibid, page: 2



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Adequatio intellectus et rei

trade regimes.<sup>3</sup> As stated by Mustafa Kutlay, Member of Faculty at TOBB University, this development is mainly due to the recent surge of globalization in the sense that the world trade has increased from 38.8% of world Gross Domestic Product (GDP) in 1980 to 52.1% in 2007.<sup>4</sup> Kutlay argues that the increasing importance of trade has pushed the states, especially developed ones, to search for alternative ways to compete more effectively at the international economic fora. One of the most important patterns, in this regard, appears as the tendency towards regionalism. He also adds that over the last two decades, the world has experienced the strengthening and deepening of regional trade agreements as almost every country in the world has joined some kind of preferential trade agreements.

Regional trade agreements (RTA) are virtual agreements between states which aim to increase economic integration and reduce barriers to trade.<sup>5</sup> They have been a major and recurring feature of the global economy during the last half century. Today almost all states are part of at least one RTA. As of 7 April 2015, some 612 notifications of RTAs have been received by the GATT/ WTO; of these, 406 are in force; and these WTO figures correspond to 449 physical RTAs, of which 262 are currently in force.<sup>6</sup>

The regional trading arrangements are often described by the five levels of integration set out by Bela Balassa: preferential trading arrangement, free trade area, customs union, common market and economic union.<sup>7</sup> In this paper, only free trade agreements as the base of TTIP are examined.

Actually, Free Trade Agreements (FTAs) are legally binding agreements between two or more countries to reduce or eliminate barriers to trade, and facilitate the cross-border movement of goods and services between the territories of the parties.<sup>8</sup> When they take force, they automatically create free trade areas which are the regions encompassing a trade bloc whose member countries have signed a free trade agreement. The main aims of FTAs are as follows: open new markets for goods and services; increase protection and opportunities for investment; make trade cheaper by cutting customs duties and red tape; speed up trade by making customs clearance easier and setting compatible technical and sanitary standards; create greater certainty through clear rules on intellectual property

<sup>3</sup> Kutlay, M., Ibid (a), The Chancing Policy of the EU Towards FTAs and Its Effects on Turkish Foreign Trade: A Political Economy Perspective, USAK Yearbook, Vol: 2, page: 118

<sup>4</sup> Kutlay, M., Ibid (a), page: 118

<sup>5</sup> Fray, B. 2013, Regional Trade Agreements, <http://www.romeconomics.com/regional-trade-agreements-explained/> (date of last access: 07.10.2015)

<sup>6</sup> World Trade Organization, Regional Trade Agreements, [https://www.wto.org/english/tratop\\_e/region\\_e/region\\_e.htm](https://www.wto.org/english/tratop_e/region_e/region_e.htm) (date of last access: 07.10.2015)

<sup>7</sup> Seen here Pomfret, R., 2005, Regional Trade Agreements, School of Economic University of Adelaide University, page: 5

<sup>8</sup> IE Singapore, About FTAs, [http://www.fta.gov.sg/sg\\_fta.asp](http://www.fta.gov.sg/sg_fta.asp) (date of last access: 07.10.2015)



rights, competition and public procurement; and support sustainable development by fostering cooperation, transparency and dialogue on social and environmental issues.<sup>9</sup>

According to Jeffrey Schott, the FTAs have both advantages and disadvantages.<sup>10</sup> He argues that the FTAs advocate cite four main advantages of pursuing regional pacts in tandem with multilateral reforms: advancing trade liberalization, establishing useful precedents for WTO talks, locking in domestic reforms, and bolstering alliances among trading partners. On the negative side, he argues that the critics of FTAs generally cite four sets of problems created by the negotiation and implementation of regional trade agreements: trade and investment diversion, overlapping and conflicting trading rules and regulations, attention and resource diversion from WTO talks, and bad precedents for other trade accords.

## PART II: TRANSATLANTIC TRADE AND INVESTMENT PARTNERSHIP

### 1. General Framework

The bilateral trade agreement negotiated between the EU and US is called the Transatlantic Trade and Investment Partnership or TTIP in short. Because it is a free trade agreement, which is explained in the first part, it actually aims to eliminate all duties on bilateral trade between the EU and US, with the shared objective of achieving a substantial elimination of tariffs and a phasing out of all.<sup>11</sup> Furthermore, it aims to increase trade and investment between the EU and US by releasing the untapped potential of a truly transatlantic market place, generating new economic opportunities for employment and growth through increased market access and greater regulatory compatibility and setting the path for global standards.<sup>12</sup> According to Hans Straberg, Europe Co-Chair for Transatlantic Business Dialogue, TTIP is more than a traditional free trade agreement because while a traditional free trade agreement regulates customs and tariffs the EU and the US want to establish a regulatory harmonization as well.<sup>13</sup>

The formal negotiations of TTIP were launched in July 2013 and expected to be fully completed in 2017. An estimated number of nine high level negotiations have taken place to conclude TTIP so far.

<sup>9</sup> European Commission, 2014 (a), Free Trade Is a Source of Economic Growth, [http://www.europa.eu/pol/index\\_en.htm](http://www.europa.eu/pol/index_en.htm) (date of last access: 07.10.2015), page: 7

<sup>10</sup> Schott, J.J., Free Trade Agreements: Boon or Bane of the World Trading System?, Institute for International Economics, page: 11

<sup>11</sup> European Commission, 2014 (b), Recommendation for a Council Decision: TTIP, Strasbourg, page: 8

<sup>12</sup> EU Commission, Ibid (b), page: 7

<sup>13</sup> Video by American Chamber of Commerce in Sweden, TTIP – Removing Trade Barriers, [http://www.youtube.com/watch?v=1XTvhW\\_4SzU](http://www.youtube.com/watch?v=1XTvhW_4SzU) (date of last access: 07.10.2015)



In the negotiations, the EU is represented by the Trade Commissioner while the US is represented by the Trade Representative. Together they carry out the negotiations under the EU-US High Level Working Group on Jobs and Growth, which set a framework for subsequent rounds of negotiations between the parties.

**Table 1: Process of the Negotiations**

Round	Date
1 <sup>st</sup>	07 – 12 July 2013
2 <sup>nd</sup>	11 – 15 November 2013
3 <sup>rd</sup>	16 – 21 December 2013
4 <sup>th</sup>	10 – 14 March 2014
5 <sup>th</sup>	19 – 23 May 2014
6 <sup>th</sup>	14 – 18 July 2014
7 <sup>th</sup>	29 September – 3 October 2014
8 <sup>th</sup>	2 – 6 February 2015
9 <sup>th</sup>	13 – 17 July 2015

On the other hand, the study by the CEPR claims that a comprehensive agreement could boost the EU economy by nearly €120 billion and the US economy by around €95 billion.<sup>14</sup> By removing barriers to trade, TTIP will create millions of new jobs for workers on both sides of the Atlantic. The study also claims that prices will fall because import tariffs on US goods will be abolished and unnecessary rules that impose costs on buying and selling between the EU and US will be removed. Therefore, as can be seen from the Table 7, the exports of the EU and US will increase as well as real incomes in two different scenarios.

<sup>14</sup> European Commission, 2013, Transatlantic Trade and Investment Partnership: Economic Analysis Explained, page: 6



**Table 7: The Estimated Macroeconomic Impacts of TTIP**

	<b>Ambitious scenario (full liberalization)</b>	<b>Modest scenario (relatively liberalization)</b>
<b>Real income increase (%)</b>		
US	0.28	0.13
EU	0.72	0.32
<b>Increase in export (%)</b>		
US	6.06	2.68
EU	2.07	0.91

(Source: Akman, page: 9)

## 2. Background

The idea of such a trade agreement between the EU and the US is not a new one. In fact, governments, business groups and academics have been discussing it for a long time. Actually, the first attempts were made in the 1990s, and later in 2006 by the German Chancellor Angela Merkel in reaction to the collapse of the Doha world trade talks.<sup>15</sup> In recent years, the EU and the US have begun to feel that it was an idea whose time had come because although the two economic areas are highly integrated, there is still significant potential for further economic co-operation.<sup>16</sup>

A group of experts from the Turkish Central Bank stress that despite the developments in international trade, there are still many trade barriers between countries as a result of WTO Doha Round's deadlocked multilateral trade negotiations; therefore, countries have attempted to establish

<sup>15</sup> Doha Development Round is the current trade negotiation round of the WTO which commenced in November 2001. It aims to lower trade barriers around the world, and thus facilitate increased global trade. The talks have sought to promote economic growth and improve living standards across the globe through trade liberalization and reforms. However, in 2008, the talks were stalled over a divide on major issues, such as agriculture, industrial tariffs and nontariff barriers, services and the trade remedies.

<sup>16</sup> Kinnman, S. and Hagberg, T., 2012, Potential Effects from an EU-US FTA: Sweden in Focus, National Board of Trade, page: 2



bilateral FTAs in order to create trade opportunities in advance of partner countries by eliminating tariffs and nontariff barriers which affect trade costs among partner countries.<sup>17</sup>

According to Cui Hongjian, Senior Research Fellow at China Institute of International Studies, notes that after the outbreak of the financial and debt crises, both the EU and US faced enormous challenges from their economic recessions and rising unemployment situations, so they were both compelled to find new ways to stimulate growth.<sup>18</sup> He also notes that at the same time, the EU and US have been losing patience with multilateral mechanisms, as the WTO Doha Round talks have lost momentum. As a result, the two parties have greatly accelerated their efforts to coordinate economic and trade actions.

### PART III: BILATERAL ECONOMIC RELATIONS

#### 1. Between Turkey and US

The economic relationship between Turkey and the US starts with the Truman Doctrine and Marshall Plan, but current relations are guided by the Framework for Strategic Economic and Commercial Cooperation, established in 2009 by the US President Obama and the former Turkish President Abdullah Gül. This framework aims to increase the economic cooperation between the parties. However, following the announcement of TTIP between the EU and US, in May 2013 President Obama and the former Turkish P.M. Recep Tayyip Erdogan established a parallel dialogue, the High Level Committee, as a forum for deepening Turkey-US trade relations. In this meeting, the Turkish PM Erdogan raised the idea of negotiating a FTA with the US, too.

Although the bilateral economic relations between Turkey and the US have been increasing, it is still weak. For example, the Table 2 shows that the mutual total trade between Turkey and the US in 2012 was close to \$20 billion, which is very low on a the global scale. Also, the US has a share about 4% in Turkey's export while Turkey has a share about 0.81% in the US's export. Furthermore, as can be seen from the Table 2, until 2005 Turkey had a surplus in its trade with the US, but since 2005, the balance of trade has been in favor of the US. In 2012, Turkey's export to the US remained at \$5.6 billion while its import to the US reached \$14.1 billion.

<sup>17</sup> Mavuş, M., Oduncu, A., and Güneş, D., 2013, The Possible Effects of TTIP on Turkish Economy, Munich Personal RePEc Archive, page: 1

<sup>18</sup> Hongjian, C., TTIP: Origins, Objectives and Impact, [http://www.ciis.org.cn/english/2013-11/07/content\\_6440336.htm](http://www.ciis.org.cn/english/2013-11/07/content_6440336.htm) (date of last access: 07.10.2015)



**Table 2: Trade between Turkey and the US in goods and services, 2002-2012 (million \$)**

Year	Export of Turkey	Import of Turkey	Balance in favor of Turkey
2002	3.356	3.099	257
2003	3.751	3.495	256
2004	4.860	4.745	115
2005	4.910	3.375	-465
2006	5.060	6.260	-1.200
2007	4.170	8.166	-3.996
2008	4.299	11.975	-7.676
2009	3.240	8.575	-5.335
2010	3.762	12.318	-8.556
2011	4.584	16.034	-11.450
2012	5.605	14.130	-8.525

(Source: Akman, page: 13)

The materials that Turkey exported to the US in 2011 were iron and steel, transport equipment, textile fibers and related products, nonmetallic mineral manufactures, power generating machinery and equipment, other transport equipment, articles of apparel and clothing accessories, miscellaneous manufactured articles, vegetables and fruits, manufactures of metals products, and others. On the other hand, the materials that Turkey imported from the US in 2011 were metalliferous ores and metal scarp, other transport equipment, textile fibers, chemicals and related products, coal and crude oil products, coal and briquettes, organic chemical products, cereal products, professional equipment, and machinery specialized for particular industries.<sup>19</sup>

<sup>19</sup> Terzi, N., 2013, Potential Impact of US-EU Free Trade Agreement on Turkish Economy, the Macrotheme Review, page: 5-6



In terms of foreign direct investments, between 2002 and 2012, Turkey's total investment in the US and the US's total investment in Turkey were \$1.1 billion and \$8.5 billion respectively.<sup>20</sup>

## 2. Between Turkey and EU

The Customs Union signed in 1995 is the keystone of bilateral economic relations between Turkey and the EU. It covers all industrial goods, but does not include agricultural products and related services. In addition to providing for a common external tariff for the products covered, the Customs Union foresees that Turkey is to implement the *acquis communautaire* in several essential internal market areas, notably with regard to industrial standards.<sup>21</sup>

After the establishment of the Customs Union, Turkey-EU economic relations have entered into a new track from the economic and legal viewpoints because regarding the economic aspect, Turkey has become more integrated with the world economy by means of European markets.<sup>22</sup> Also, since the enforcement of the Customs Union, the bilateral economic relations between Turkey and the EU have been increased continuously. Today, the EU is Turkey's number one import and export partner while Turkey ranks seventh in the EU's import and fifth in export markets.

The trade volume of Turkey grew from \$67 billion to \$389 billion between the years of 1996 and 2012.<sup>23</sup> However, the information in the Table 3 shows that the trade between Turkey and the EU has been developing in favor of the EU because the Turkey's import from the EU is bigger than its export to the EU. Also, the deficit of Turkey in the light of the EU has been increasing, too.

**Table 3: Trade between Turkey and the EU in goods and services, 2011-2013, billion €**

Year	Import of Turkey	Export of Turkey	Balance in favor of Turkey
2011	81.6	62.4	-19.2
2012	84.9	63.2	-21.7
2013	87.6	64.6	-23

(Source: European Commission, Turkey)

<sup>20</sup> Terzi, N., Ibid, page: 6

<sup>21</sup> AB Bakanlığı, Katılım Müzakerelerinde Mevcut Durum, www.ab.gov, (date of last access: 07.10.2015)

<sup>22</sup> Kutlay, Ibid (a), page: 125

<sup>23</sup> Turkish Weekly: Transatlantic Trade Agreement and Turkey, <http://www.turkishweekly.net/op-ed/3151/transatlantic-trade-agreement-and-turkey.html> (date of last access: 07.10.2015)



The exported materials/goods from Turkey to the EU in 2012 were machinery and transport equipment, miscellaneous manufactured articles, manufactured goods classified chiefly by material, food and live animals, chemical and related products, crude materials, commodities and transactions, mineral fuels and related materials, beverages and tobacco, and animal and vegetable oils. On the other hand, the materials that Turkey imported from the EU in 2012 were machinery and transport equipment, chemical and related products, manufactured goods classified chiefly by material, mineral fuels and related materials, miscellaneous manufactured articles, crude materials, food and live animals, commodities and transactions, beverages and tobacco, and animal and vegetable oils.<sup>24</sup>

In terms of foreign investments, in 2012 the outward stock of Turkey was €73.1 billion while the inward stock was €11.9 billion.<sup>25</sup>

### 3. Between EU and US

The US is one of the strong supporters of the European Integration. Especially, at the beginning, the economic dimension of the integration process was strengthened by the US's economic aids including the Truman Doctrine and Marshall Plan. In the Cold War era, the US strengthened the mutual economic relationship with Europe. Today, they together dominate the world economy. The combined population of the EU members and US approaches 800 million people who generate a combined GDP that is roughly equivalent to about half the entire world GDP; and combined EU and US world merchandise trade accounts for about 47% of all world trade.<sup>26</sup>

Today, total US investment in the EU is three times higher than in all of Asia while total EU investment in the US is around eight times the amount of EU investment in India and China together.<sup>27</sup> They contribute to growth and jobs on both sides of the Atlantic, too. About 15 million workers are employed by EU or US companies established in each other's markets.

Also, despite the last financial crisis in the world, the trade between the EU and the US has been increasing. The Table 5 shows that the trade deficit of the US in the light of the EU in 2011 was €79 billion; and this deficit rose up to about €100 billion in 2012 and 2013. It is estimated that in the following years, the mutual trade will increase more in favor of the EU.

<sup>24</sup> Terzi, Ibid, page: 7-8

<sup>25</sup> European Commission: Turkey, <http://ec.europa.eu/trade/policy/countries-and-regions/countries/turkey/> (date of last access: 07.10.2015)

<sup>26</sup> Delegation of the EU to the US, The Transatlantic Trade and Investment Partnership: Benefits and Challenges of an Agreement Fit for the 21th Century, page: 3

<sup>27</sup> European Commission: United States, <http://ec.europa.eu/trade/policy/countries-and-regions/countries/united-states/> (date of last access: 07.10.2015)



**Table 5: Trade between the EU and US in goods and services, 2011-2013, billions €**

Year	Import of EU	Export of EU	Balance
2011	333.1	412,2	79.1
2012	355.4	456.2	100.8
2013	342.2	447.1	104.9

(Source: European Commission, US)

In 2013, the top export categories of the EU to the US were machinery, vehicles, pharmaceutical products, optic and medical equipment, and organic chemicals; while the top import categories from the EU to the US were aircraft, machinery, mineral fuel, optic and medical instruments, and pharmaceutical products.<sup>28</sup>

In terms of foreign direct investments, the inward stocks of the EU in 2012 were €1536.4 billion while the outward stocks were €1655.0 billion.<sup>29</sup>

## PART IV: POSSIBLE IMPACTS OF TTIP ON TURKEY

### 1. Transformation of the Turkish Economy since the 1980s

Until the 1980s, Turkey's economy was identified with a type of capital accumulation oriented towards domestic market, named import-substitution industrialization. The instruments of economic policy, such as protectionism, state involvement, regulated markets, etc. bolstered this orientation.<sup>30</sup> However, the year 1980 marks in many ways a crucial turning point in Turkey's political economy because the shift from a state-dominated, heavily interventionist economic model towards neoliberalism and market-orientation, as part of a broader global trend, effectively dates back to the implementation of a major structural adjustment programme under the auspices of the WB and IMF in January 1980.<sup>31</sup>

<sup>28</sup> Office of the US Trade Representative: European Union, <http://www.ustr.gov/countries-regions/europe-middle-east/europe/european-union> (date of last access: 07.10.2015)

<sup>29</sup> European Commission: United States, <http://ec.europa.eu/trade/policy/countries-and-regions/countries/united-states/> (date of last access: 07.10.2015)

<sup>30</sup> Şener, M.Y., The Relationship Between Neoliberalism and Authoritarian States: The Case of Turkey, page: 7

<sup>31</sup> Öniş, Z., 2010, The Political Economy of Islamic Resurgence in Turkey: The Rise of the Welfare Party in Perspective, Third World Quarterly, 18:4, page: 740



Turkey closed a deal with IMF and implemented stability decisions taken on 24 January 1980, abandoned import substitution industrialization strategy and transitioned to an economic model focused on rapid increase in exports, promoting the cheap-to-produce and foreign exchange earning goods, based on world prices, opened for foreign competition and targeted a reduction in the weight of public sector in the economy.<sup>32</sup> These and some other measures in Turkey have long been called the *24 January Decisions* which foresaw a stabilization-cum-liberalization program with at least ten concrete policy objectives:<sup>33</sup>

- Deregulation of interest rates and diversification of financial instruments;
- Encouragement of an export-led growth via export promotion measures;
- Gradual liberalization of import tariffs and liberalizations;
- Institutional rationalization and efficiency measures in crucial sectors;
- Improvement of the administration and budget management of the state economic enterprises;
- Rationalization of public investment programs;
- Strict monetary policies in order to curb high inflation;
- The encouragement of privatization programs in order to give more rooms to private sector;
- The implementation of a flexible exchange rate policy;
- The rationalization of external, debt services and information systems

By those decisions, whose main aim was to set up a free market economy in Turkey, to keep up with neoliberal trend in the world, Turkey adopted *export oriented industrialization model* instead of *import substitution industrialization policy* and opened its market totally to foreign market. Soon after, the Turkish economy has been integrated into the global capitalism but before its ability to develop firms and industries that could compete with its Western rivals.<sup>34</sup> Also the financial reform process in Turkey continued after 1980 as an extension of a liberalization program guided by the principles of structural harmonization and market economy open to the world.

<sup>32</sup> Saygın, H. and Çimen, M., 2013, *Turkish Economic Policies and External Dependency*, Cambridge Scholars Publishing, page: 14

<sup>33</sup> Kutlay, M., *Ibid* (b), page: 98-99

<sup>34</sup> Örmeci, O., 2010, *The Rise of Neo-Liberalism and the Story of TÜSIAD*, <http://en.caspianweekly.org/main-subjects/others/international-economy.html> (date of last access: 07.10.2015)



Ziya Öniş argues that the Turkish experiment, which was one of the early cases of neoliberal restructuring associated with the rise of the Washington Consensus, was identified as a success story during its early stages in the mid-1980s.<sup>35</sup> However, according to Mihai Macovei, as the liberalization process of the 1980s in Turkey was not sufficiently supported by sound macroeconomic policies and regulatory and institutional reforms, the economy suffered repeated crises in the 1990s.<sup>36</sup> He argues that the four episodes, in 1991, 1994, 1998 and 1999 – the last resulting partially from a severe earthquake – reflected a number of major weaknesses in the Turkish economy. Furthermore, lack of fiscal discipline, with sustained primary deficits since the 1970s and heavy reliance on monetary financing, had led to entrenched high inflation. Thus, in turn, the high inflation had boosted the risk premium and pushed up real interest rates, reinforcing the public debt burden and dampening Turkey's growth performance vis-à-vis other emerging economies.

Unlike the weakness of the Turkish economy in the 1990s, by the ruling AK Party Government since 2002, the Turkish economy has been transforming itself into another phase. Once dominated by agriculture and an import substitution industry, the economy is now driven by services and an export-oriented manufacturing sector.<sup>37</sup> Today, its large market size and rising trend of GDP and income per capita associated with strong economic and financial indicators make Turkey a rising star and an attractive country for trade and investment.<sup>38</sup> Especially, a sound macroeconomic strategy in combination with prudent fiscal policies and major structural reforms since 2002 have integrated the Turkish economy into the globalized world, while transforming the country into one of the major recipients of FDI in its region.<sup>39</sup> The main objectives of those structural reforms have been applied by increasing the role of the private sector in the Turkish economy, enhancing the efficiency and resiliency of the financial sector, and placing the social security system on a more solid foundation.<sup>40</sup>

Those reforms mentioned above have strengthened the macroeconomic fundamentals of Turkey. As can be seen from the Table 8, the economy grew with an average annual real GDP growth rate of 5% over the past decade; and the GDP level increased to about \$800 billion in 2012, up from \$483 billion in 2005. Moreover, the fundamental reforms carried out after 2001 have allowed Turkey's financial sector to remain relatively strong in spite of the global economic crisis. Turkey's efforts in the last

<sup>35</sup> Öniş, Z., 2006, *Varieties and Crises of Neo-liberal Globalization: Argentina, Turkey and the IMF*, Routledge, page: 239

<sup>36</sup> Macovei, M., 2009, *Growth and Economic Crises in Turkey: Leaving Behind A Turbulent Past?*, *European Economy Economic Papers*, No: 386, page: 5

<sup>37</sup> Kirişçi, K., 2013, *Turkey and the Transatlantic Trade and Investment Partnership*, Brookings Institute, page: 10

<sup>38</sup> Ernst & Young Global Limited, *Turkey Attractiveness Survey*, [www.ey.com](http://www.ey.com), (date of last access: 07.10.2015)

<sup>39</sup> *Invest in Turkey: Economic Outlook*, <http://www.invest.gov.tr/> (date of last access: 07.10.2015)

<sup>40</sup> *Invest in Turkey*, *Ibid*, (date of last access: 07.10.2015)



decade are seen by the international organizations, too. For example, Turkey is expected to be the fastest growing economy of the OECD members during 2012-2017, with an annual average growth rate of 5.2%.

**Table 8: Transformation of the Turkish Economy (in current billion \$)**

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 \$)	45	67	169	483	789
GSP (per capita)	1.139	1.367	2.896	7.130	10.666
GDP (ranking)	20 <sup>th</sup>	25 <sup>th</sup>	24 <sup>th</sup>	17 <sup>th</sup>	17 <sup>th</sup>
Foreign Total Trade (% of GDP)	9	29	34	39	50

(Source: Kirişçi, page: 10)

Together with stable economic growth, Turkey has also reined in its public finances; the EU-defined general government nominal debt stock fell to 36.3% from 67.7% between 2003 and 2013. Hence, Turkey has been meeting the 60% EU Maastricht criteria for public debt stock since 2004.<sup>41</sup> Similarly, during 2003-2013, the budget deficit decreased from more than 10% to less than 3%, which is one of the EU Maastricht criteria for the budget balance.<sup>42</sup>

## 2. Possible Impacts of TTIP on Turkey

Although the main parties to the TTIP are the EU and US, there will be impacts of TTIP for nonmembers, too because the shifts in the EU's trade policy have immediate repercussions and impacts on the economies of her partners. Turkey, as a country that established customs union with the EU, will be among the most affected ones in this regard because there is a strong risk for Turkey: exclusion from TTIP. This risky situation of Turkey stands at center of this paper. According to the all

<sup>41</sup> Invest in Turkey, Ibid, (date of last access: 07.10.2015)

<sup>42</sup> Invest in Turkey, Ibid, (date of last access: 07.10.2015)



studies done on the issue shows that if Turkey is out of TTIP there will take place many negative impacts on Turkey because: <sup>43</sup>

- Turkey has no right to comment about continuing FTA negotiations of the EU with third countries;
- Turkey has no right to make FTAs with third countries independent from the EU;
- The countries already made FTAs with the EU are reluctant to establish FTA with Turkey;
- The trade between the EU and Turkey becomes more disadvantageous for Turkey as the EU makes this kind of agreements with third countries since Turkey lose its comparative advantage in more competitive EU markets;

From this point of view, as Turkey has a Customs Union with the EU, as soon as the TTIP comes into force, goods from the US would enter the Turkish market without any tariff, but Turkey would not enter the American market without any tariff. Since there is not a FTA between Turkey and the US, and since it is unlikely that the US intends to do so in the near future, this is undoubtedly a serious blow for Turkey in terms of its foreign trade balance. <sup>44</sup>

According to the empirical analysis of Mübariz Hasanov and Fatih Macit, <sup>45</sup> if Turkey is excluded from TTIP, all of the macro-economic impacts of TTIP will be negative in every realm. In such a case, the GDP per capita in Turkey will suffer a 1.90% drop, and will lower the employment by about 0.40%. Because of the decrease on employment, the total labor incomes will suffer a 1.93% drop, which indicates that approximately 100.000 people will be unemployed. In the same vein, the profits of firms will suffer a 1.9% drop.

According to the same analysis, the exclusion of Turkey from TTIP will completely change the foreign trade balance of Turkey. In this context, while the import will increase by 1.43%, the export will suffer a 12.46% drop, both of which will increase the foreign trade deficit by 22.56%. Also, as the incomes decrease, the domestic net investments will suffer a 2.70% drop, so taxes on production will suffer a 2.87% drop, too.

<sup>43</sup> Mavuş, M., Oduncu, A., and Güneş, D., Ibid, page: 2-3

<sup>44</sup> Herdem Law Firm: What will TTIP Bring for Turkey?, <http://herdem.av.tr/ttip-bring-turkey-legal-trade-related-issues/> (date of last access: 07.10.2015)

<sup>45</sup> Hasanov, M. and Macit. F., 2015, TTIP Anlaşması'nın Türkiye Ekonomisine Olası Etkilerinin Analizi, Hazar Strateji Enstitüsü Enerji ve Ekonomi Araştırmaları Merkezi, page: 21



**Table 9: Macroeconomic Impacts of TTIP on Turkey**

Macroeconomic Value	Impact of TTIP (%)
GDP	-1.8983
Employment	-0.399
Labor Incomes	-1.926
Profits of Firms	-1.873
Import	1.433
Export	-12.463
Foreign Trade Deficit	22.558
Net Taxes on Production	-2.863
Net Investment	-2.694

(Source: Hasanov and Macit, page: 21)

Moreover, a comprehensive free trade agreement between the EU and US will require a monumental effort for the harmonization of the bilateral legal structures. This means that TTIP will lead new and more stringent regulations to be imposed on several different business sectors. The pitfall of such a legal process for Turkey is the need for a painstaking process of harmonization of the local laws, regulations and technical standards with the ones that will be imposed by TTIP.<sup>46</sup>

In this context, as an integral part of the global economy, Turkey will be undoubtedly affected by the changes instigated by the two partnership quests.<sup>47</sup> Thus, Turkey is one partner to be considered because it has a vital strategic partnership with Washington and has been part of the European Single Market through its Customs Union agreement since 1995.<sup>48</sup>

<sup>46</sup> Herdem, Ibid, (date of last access: 07.10.2015)

<sup>47</sup> Aran, B., 2013, Global Partnership Quests: New Contentious Dynamics in Trade and Prospects for Turkey in an Age of TPP and TTIP, International Policy and Leadership Institute, page: 7

<sup>48</sup> Yeşilyurt, S. and Paul, A., 2013, Between A Rock And A Hard Place: What is Turkey's Place in the Transatlantic Market?, European Policy Centre, page: 1



## PART IV: OPTIONS OF TURKEY

According to Yeşilyurt and Paul,<sup>49</sup> there are five options of Turkey to get rid of the negative impacts of TTIP. They, firstly, offer that the optimal solution is to advance the accession negotiations and become an EU member, but with Turkey's eventual membership at best a decade or more away, the first option is not very realistic in the foreseeable future.

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

They, thirdly, offer that Turkey can renegotiate its current bilateral Investment Treaty with the US to replace it with an FTA, but the key obstacle here is convincing the US Congress and Senate, which would almost certainly be a very long and hard struggle with no guarantee of success.

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

They, finally, offer that the parties can allow Turkey to obtain observer or consultative status at Council meetings at which the TTIP is discussed, so Turkey can have opportunity to put forward its point of view. However, this option has not been accepted by the Council so far.

## CONCLUSION

TTIP aims to eliminate all duties on bilateral trade between the EU and US to achieve a substantial elimination of tariffs and a phasing out of all. However, while TTIP is presently negotiated between the EU and US, economic concerns have raised for Turkey because under existing terms, party countries to the FTA which are at the same time EU-member have direct access to the Turkish market, without having to open their own markets for Turkish goods.

<sup>49</sup> Yeşilyurt, S. and Paul, A., Ibid, page: 2



According to the findings, there seem six broad impacts on Turkey if it is excluded from TTIP. Those are as follow: a serious blow for Turkey in terms of its foreign trade balance; GDP will suffer; employment will decrease; labor incomes and profits of firms will suffer; monumental effort for the harmonization of the bilateral legal structures will take place; and weakness in the bilateral relationships of Turkey with the EU and US will occur.

At that point, to protect its own profit, Turkey as having a Customs Union, but not a member of the EU has to secure its bilateral political and economic relations with both the EU and US, its strategic partners. According to the options presented by Yeşilyurt and Paul, there are visibly five options of Turkey go get rid of the possible negative impacts of TTIP: being a member of the EU; updating the Customs Union with the EU; having FTA with the US; having FTAs with the third parties; and opening the way for future participation to the agreement through observer or consultative status. As a reality, among the five options, the most applicable one for Turkey is to negotiate an FTA with the US so that Turkey can be a part of TTIP indirectly.

