



Analysis

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Summary: The world is going through strikingly fast and comprehensive transformation. The harmonization of the bilateral or multilateral regulations and standards all over the world will make market penetrations much easier, or harder. This is also a critical turn for the overall Turkish economic and political atmosphere, which will likely create intriguing influences and spillover effects for the Middle East and North Africa region, at least.

A New Boost to Transatlantic Ties: The Transatlantic Trade and Investment Partnership and the EU-Turkey Customs Union

by Eray Akdağ

During Turkish Prime Minister Recep Tayyip Erdoğan's recent visit to the United States, the White House declared that "the United States and Turkey decided today to establish a bilateral High Level Committee led by the Ministry of Economy of Turkey and the Office of the U.S. Trade Representative, associated with the Framework for Strategic Economic and Commercial Cooperation, with the ultimate objective of continuing to deepen our economic relations and liberalize trade."¹ This is obviously an important step, however, it is equally certain that it's not enough. Quickly, establishing a formal mechanism that would work parallel to Transatlantic Trade and Investment Partnership (T-TIP) negotiations is critical. It can also be alleged that, as stated by Kaleağasi and Ornarlı earlier:² Transatlantic Trade and Investment Partnership "is of crucial significance for Turkey" and "Turkey can play a significant role in that structure."

In the Beginning

The European Union and Turkey have been enjoying the benefits of the Customs Union (CU) for almost two decades now. In addition to revitalizing their economies, this union was foreseen as an important and concrete step toward Turkey's full membership in the EU. However, the once expected outcome of membership seems to be in the still distant future. Even though the CU has been highly beneficial for both parties, being a member of the CU, but not of the EU generates undesirable outcomes for Turkey. Every commodity and service that legally enters in to the CU is treated "nationally." Therefore, whenever EU signs a free trade agreement (FTA) with a third party, Turkey experiences a new risk of trade diversion: Third party-originated commodities and services can travel to Turkey without tax, but Turkey cannot benefit the same favorable method until it also signs a similar agreement with the third party. This asymmetry is hard to refrain from until the EU membership is acquired, and the famous "wishful Turkey Clauses" in the FTAs haven't been very effective. As a result, Turkey has been

1 <http://www.whitehouse.gov/the-press-office/2013/05/16/fact-sheet-us-turkey-partnership>

2 <http://thehill.com/blogs/congress-blog/foreign-policy/287675-why-turkey-belongs-to-transatlantic-economy#ixzz2NQ5dtQOW>



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using and will deploy all its diplomatic resources to escape any major risks that could be caused by the EU's South Korea, Canada, Mexico, and Japan FTAs. This situation changes the balances and brings non-economic matters to the discussion table, which can create shifts in the international relations arena.

The Game Changes

Many in Europe believed that the "austerity first" approach would fix problems resulting from the recent global financial crisis. But recent assessments seem to conclude that this approach has backfired and exacerbated Europe's economic downturn. The talk on the need to promote economic growth as the cure for Europe and the world's debt problems continues, yet expecting the status quo to change rapidly would be unrealistic. There is need to create a new and more effective tool, a new and wider base on which international trade and economy can thrive. The collapse of World Trade Organization's (WTO) Doha Rounds is an undisputed fact, and a leap forward in upcoming talks in Bali seems equally impossible.³ The latest rapprochement on the importance of G20 is attractive, but the "shifting geometries" approach between the biggest economies seems to be much more viable in the short run. This structure has been quickly leading to a world of regional integrations, namely the FTAs. However, the rules of the old world seem to be reaching its limits and there is a great need to adapt the new rules.

This brings us to an atmosphere in which the new "tradeconomic" borders of the world are being redrawn. Since the democratic governments are comprised of politicians who are extremely sensitive to public opinion, creating enough jobs and reasonable income levels will be of utmost importance in the short run. Almost with an end-game strategy (as Keynes rightfully put it: "In the long run, we're all dead!") econopolitic giants of the world will be focusing on the next two to ten years in their immediate blueprints. This simply is why the T-TIP and Trans-Pacific Partnership (TPP) can be the most critical instruments at hand. T-TIP aims to redefine and ease the rules for half of the global GDP and one-third of the global trade, which is calculated

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by static effects only.⁴ The ease in bureaucracy, standards, and tax regimes will obviously create significant dynamic effects as well and the results will elevate these numbers even further. Similarly, TPP aims at half of the global GDP in an area that is home to 40 percent of the world's population.⁵

And Turkey?

As a member of the European Council since 1949, partner of the EU Association Agreement for half a century, member of the CU for 17 years, and EU candidate for almost 14 years, Turkey is now a vital part of the EU economy and politics. A founding member of the United Nations, the Organization of Islamic Cooperation, the Organization of Co-operation and Development (OECD), and Organization for Security and Co-operation in Europe (OSCE) and member of NATO since 1952, Turkey has also been actively involved in global diplomacy and defense. Apart from this backgrounds, Turkey has been catching up faster and faster with the global economic leaders, especially during the last two decades. A member of World Trade Organization (WTO) since 1995 and an active member of the G20 structure and B20 Coalition, Turkey was just recently promoted to being a financier of the IMF, rather than a borrower. Even still, Turkey, as a transatlantic strategic partner of the United States, still has much to offer to the world economically and diplomatically. With already established close ties not only to Europe but also to the

3 "Lamy says change in mind-set needed for Bali to succeed," Director-General Pascal Lamy's statement, http://www.wto.org/english/news_e/news13_e/tnc_infstat_11apr13_e.htm

4 Kemal Kirisci, "Don't forget free trade with Turkey," <http://www.tusiad.us/1927/dont-forget-free-trade-with-turkey/#more-1144>

5 Congressional Research Service, Trans-Pacific Partnership (TPP) Countries: Comparative Trade and Economic Analysis, <http://www.fas.org/sgp/crs/row/R42344.pdf>



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Middle East and Africa regions, Turkey is improving its connections with the Pacific region as well. Turkey is more than just a fast-emerging economy, and is assuming more and more important roles at the decision-making tables.

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It is safe to say that in the recent history of critical global developments, Turkey hasn't been a key player. However, it is at least fair to say that it has the potential of medium to high influence on some of the most important parts of the world, and this potential seems to grow day by day. Once defined as a "loose cannon" by some EU observers, Turkey should not be left out. As the Presidency Conclusions of the Council of the European Union stated, "it must be ensured that Turkey is fully anchored in the European structures through the strongest possible bond." While the potential gains are usually defined by zero-sum games in the world of economics, there is still plenty of room for win-win games. The T-TIP process might be a good example. The world is not simply a chess board with only two sides. The Cooperative Multi Player Game Theory suggests that there are always new avenues to explore.

On the Verge of a Critical Term

T-TIP, TPP, and Euro-Mediterranean partnership (EuroMed) are highly important developments, but they are not the only developments around the world. ASEAN region improvements have almost as much importance for the future, and Africa, Latin America, and the Middle East are trying to find new ways to improve. A recent European Commission memo clearly puts forward a seemingly inevitable assertion: "Over the next two years, 90 percent of world demand will be generated outside the EU. That is why it is a key priority for the EU to open up more market opportunities for European business by negotiating new Free Trade Agreements with key countries. If we were to complete all our current free trade talks tomorrow, we would add 2.2 percent to the EU's GDP, or €275 billion. This is equivalent to adding a country as big as Austria or Denmark to the EU economy." Future econopolitics seems

to be relying more and more on unconventional economic areas and ties.

Winds of change are blowing not only for the international trade and economic borders, but for countries as well. Democratic cycles define the economic, political, and therefore diplomatic approaches of every single country. Reinforcing the correct mindset and strongly motivating politicians, bureaucrats, and ordinary people in Turkey is as important as doing the same in the United States, the EU, and other related parts of the world. As the famous quote of renowned U.S. Congressman Tip O'Neil says, "All politics are local."

Turkey is rapidly closing in on a critical season of deep debates, which has the power to change the country and nation forever. The country is putting all its efforts into rectifying internal and regional problems including the Kurdish Peace Process, the creation of a new and modern civil constitution, and transposing the parliamentary system into a kind of presidential system. Looking at the still boiling Middle East region, Turkey is transforming its relations with Israel, Iraq, Iran, Egypt, and Syria, while deepening relations with African nations and even Far East giants like Japan, South Korea, and China. On top of all this, Turkey will face important elections on three levels (local, national, presidential) and a possible constitutional referendum in the next two years. Additionally, this presidential election will be held by public vote for the first time ever, unlike earlier elections by the parliament. This public vote will give the new president much more authority, even without any constitutional amendment, and give this position increased executive powers, which are provided under the current constitution, but have almost never been used before.

To Sum It Up

Surprisingly, the global crisis made it clear that Turkey is one of the healthiest economies in the world, with a robust banking system and readjusting growth and employment structures. As a member of the EuroMed partnership, Turkey is working to conclude free trade agreements with all other Mediterranean partners. These 16 neighbors in North Africa and the Middle East already represent



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8.6 percent of total EU external trade and also promote economic integration and democratic reform.

At this stage, the world is going through strikingly fast and comprehensive transformation. This is not only the approximately 3 percent customs tax, which is to be cut down during T-TIP negotiations. It is also the harmonization of the bilateral or multilateral regulations and standards all over the world, which will make market penetrations much easier, or harder. This is also a critical turn for the overall Turkish economic and political atmosphere, which will likely create intriguing influences and spillover effects for the Middle East and North Africa region, at least. As a strategic ally of the United States and a formal partner of the EU, Turkey is going through a storm, just like rest of the world. We are all sailing toward better weather, however, with a multi-aligned compass, finding the correct route can be tricky at times. As Winston Churchill once said, “If you’re going through hell, keep going.”

About the Author

Eray Akdağ is the permanent Ankara representative of Turkish Industry & Business Association (TUSIAD) and has been the organization’s main liaison to the Turkish Parliament since 2003. As a government relations executive, his main responsibilities include improvement of TUSIAD’s influential participation to national and international policymaking processes. He also teaches at Ankara University and guest lectures at Middle East Technical University.

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