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## **A NEW YEAR'S RESOLUTION ON TURKEY**

by Josh Stanton, Kara Sutton and Julie Guillaume

It's harder to keep a New Year's resolution than to make one. As 2014 began, Recep Tayyip Erdoğan, then Turkish prime minister, pledged a "European Year" that would revive his country's EU membership bid. As part of the effort, Ankara released in September a new "European Union Strategy" that aimed to accelerate political and economic reforms, and build domestic support for EU membership. The aim was to spur the accession negotiations, which had languished since they commenced in 2005.

Yet as 2014 draws to a close, Turkey's "European Year" has fallen short of expectations. The country's declared EU ambitions contrasted with many of its actions. The recent arrest of 23 journalists by police confirmed the perception of many in the EU of Ankara's deteriorating rule of law, media freedom and civil liberties. Turkish and EU officials have traded barbs over the action. EU Enlargement Commissioner Johannes Hahn condemned it as "incompatible with the freedom of media"; other EU officials have suggested halting EU-accession talks. Erdoğan responded bluntly, telling Brussels to "mind its own business" on Turkey's internal affairs. The sniping casts doubts on the ability of both sides to agree on fundamental issues and adds to the skepticism about Ankara's willingness to adopt basic EU standards.

Threats by EU officials to halt accession talks actually hold little weight and, more importantly, provide little incentive to induce reform. Turkey has no realistic prospect of joining the EU anytime soon. A new and more realistic approach is needed, one that encourages Ankara to reform while receiving material benefit. Such an effort lies in re-invigorating the EU-accession process and rejuvenating an economic relationship that is of vital mutual importance.

### **TTIP Time?**

After a decade of economic expansion that saw a 64-percent rise in real GDP, the Turkish economy is slowing. The OECD predicts 3.2 percent growth for 2015, down from an earlier

forecast of four percent. Ankara needs economic reform and new sources of growth. Enter the Transatlantic Trade and Investment Partnership (TTIP), the proposed free-trade agreement (FTA) being negotiated between the US and EU. TTIP could emerge as one of the largest FTAs ever concluded, and that has not escaped Turkey's attention.

Ankara has lobbied hard to be included in TTIP due to the significant growth it may offer. For the same reason, Turkey fears the consequences of exclusion, which the government estimates could amount to \$3 billion in lost trade. Without any reciprocity, the US would gain from TTIP unhindered access to the Turkish market via the 20-year-old EU-Turkish Customs Union (ETCU). Turkey's EU minister, Volkan Bozkir, noted this when he suggested that Turkey could suspend its membership in the customs union unless its interests are accommodated in TTIP.

US Commerce Secretary Penny Pritzker, on a recent visit to Ankara, nevertheless ruled out a Turkish role in the negotiations. She cited Turkey's need for economic reform and its trade barriers, which include a lack of transparency in government procurement, as reasons for this. But despite Pritzker's efforts to pour cold water over Turkey's TTIP ambitions, her comments point to an opportunity to address the contentious issues plaguing the ETCU.

The current, 20-year-old agreement is problematic on several fronts. It is increasingly outdated, having been implemented before the explosive growth of digital commerce and globalization. ETCU also leaves the Turkish market exposed to any deals the EU pursues, including TTIP and the recently concluded Canada-EU Trade Agreement (CETA). This is a stark weakness, as large regional FTAs increasingly replace multilateral accords. Finally, ETCU omits several potentially lucrative sectors, such as agriculture and services, which contribute significantly to the Turkish and EU economies. Turkish agriculture exports account for 10 percent of GDP; services exports account for nearly 60 percent. A new and improved customs union that covers these sectors would provide a much needed boost to EU-Turkish economic relations.

Re-negotiating ETCU, however, requires tackling festering issues. Turkey has expressed a willingness to open its agriculture and services markets under an updated agreement, but it has balked at calls to open its public-procurement market. For the EU, as for Secretary Pritzker, that's a core problem. Brussels sees that market as vulnerable to corruption, owing to a lack of transparency in the decision-making process and the issuance of contracts on a non-competitive basis. A broader customs union could provide the EU with a wedge to open public procurement to EU companies while fostering more transparent procedures. A new accord might well also require Ankara to undertake other reforms, such as improving dispute-resolution mechanisms, that EU officials have long complained hamper the bilateral relationship.

### **Having a Say**

But what's in it for Turkey? The key rationale for Ankara to re-negotiate ETCU would be to address Turkey's role within the EU trade policy decision-making process, particularly with respect to third-party FTAs. The EU, for its part, would be well served by considering how its trade agreements affect Turkey. The country, after all, would have a far greater incentive to modernize the ETCU if Brussels were willing to incorporate Ankara into its trade negotiations, particularly those for TTIP.

It is unrealistic to expect Turkey to be a full partner in the TTIP talks, but the EU could offer the country a seat on the European Council's important Trade Policy Committee. Turkey

would then be consulted on TTIP and future trade agreements, and obtain an opportunity to provide input and ensure that its interests are heard. The EU and the US could provide an additional incentive by offering Turkish products greater access to the American market via a separate agreement between Washington and Ankara. A deal could be negotiated in parallel with talks on a new ETCU or upon the establishment of one.

A modernized ETCU would in itself benefit the US since it would address many American concerns about the Turkish market. Once that were done, Washington would have a greater incentive to conclude an FTA with Ankara. Turkey's economy is already heavily integrated into the EU's—35 percent of total foreign trade is with the bloc— but the commercial relationship with Washington has room to grow. The US accounted for only 4.5 percent of Turkey's total foreign trade in 2013; further economic integration would boost both countries' economies. Additionally, binding Ankara in some way to TTIP, dubbed by some as an “economic NATO”, would promote core Western values in Turkey, whose commitment to trans-Atlantic principles is increasingly questioned. Greater trade offers a path to strengthening the ties between the country and Europe and the US.

## **No Cold Turkey**

Turkey is a vital geostrategic partner for Brussels and Washington. If cast aside, Ankara will continue to pursue policies that challenge Western interests. Its willingness to explore an FTA with the Russia-led Eurasian Customs Union is emblematic of this drift. If embraced, however, Ankara could find a renewed impetus for meaningful reform. As TTIP negotiations undergo a “fresh start”, the time is right to reach out to Turkey. That could be the EU's and the US's New Year's resolution for 2015.

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