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THE EUROPEAN UNION'S TRADE STRATEGY AND ITS REFLECTIONS ON TURKEY: AN EVALUATION FROM THE PERSPECTIVE OF FREE TRADE AGREEMENTS¹

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Abstract

This study attempts to assess implications, of European Union's (EU) new trade strategy and its Free Trade Agreements (FTAs) with third countries, on Turkey-EU relations. It analyses critics raised in the context of FTAs and puts forward that the sustainability of the relations is contingent to the satisfaction of a set of criteria.

The EU shifted its trade policy from sole reliance on multilateral trade negotiations towards initiatives for bilateral and preferential agreements (PTAs) under its 'Global Europe' strategy which was adopted in 2006, to propose its trade policy agenda and priorities in accordance with its Lisbon Strategy. WTO Doha Round is currently in deadlock and it is improbable that it will be concluded in the near future. Partly for this reason, the EU tends to implement its policy objectives constantly through a set of FTAs.

Turkey has to align its trade policy to the EU's preferential regimes, pursuant to its obligations arising from the Customs Union (CU). Hence, it has concluded so far sixteen FTAs with relevant countries. On the other hand, the intensification of critics about the FTAs process and the CU brings impediments for Turkey to commit itself to its CU obligations in the next period. Two main motives can be cited as a reason: First, the EU trade strategy obviously considers the global context within which the EU rests; and the Member States' interests, which are subsequently reflected into its FTAs. Nevertheless, a harmonious action by Turkey becomes onerous as long as EU trade priorities diverge from Turkey's long term trade strategy. Second reason, aside from technical aspects of the CU, can be attributed to the 'political uncertainty' converged around the 'open-endedness' of the membership process, which in turn affects the CU, Turkey's most vital linkage to the EU, and the commitments there from.

Keywords: *EU Trade Policy, 'Global Europe' Strategy, Free Trade Agreements, Turkey-EU Customs Union, World Trade Organisation*

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AVRUPA BİRLİĞİ'NİN TİCARET STRATEJİSİ VE TÜRKİYE ÜZERİNE YANSIMALARI: SERBEST TİCARET ANLAŞMALARINI AÇISINDAN BİR DEĞERLENDİRME

Özet

Bu çalışma AB'nin yeni ticaret stratejisinin ve STA müzakerelerinin yakın gelecekte Türkiye-AB ilişkilerine etkisini değerlendirmektedir. STA'lar bağlamında yükselen eleştirileri analiz etmekte ve bu bağlamda ilişkilerin sürdürülebilirliğinin temel bazı şartlara ve kriterlere bağlı olduğunu ileri sürmektedir.

AB'nin ticaret politikasının gündemi ve önceliklerini Lizbon Stratejisi hedefleri çerçevesinde ön plana çıkararak ve 2006 yılında kabul edilen 'Küresel Avrupa' yaklaşımı bağlamında Avrupa Birliği'nin ticaret politikasının artık sadece çok taraflı ticaret müzakereleri çerçevesinde ele alınmadığı, daha ziyade ikili ve tercihli ticaret düzenlemelerinin ön plana çıkmaya başladığı görülmektedir. DTÖ bağlamında devam eden Doha Turu ise tıkanıklığa uğramış olup, yakın bir gelecekte tamamlanması mümkün görünmemektedir. Bu durumun da etkisiyle AB politika hedeflerini giderek özellikle Serbest Ticaret Anlaşmaları (STA) üzerinden gerçekleştirilmeye çalışmaktadır.

Türkiye, Gümrük Birliği yükümlülüğü gereğince AB'nin tercihli anlaşmalarına uyum sağlamak durumundadır. Bu çerçevede 16 STA tamamlanmış bulunmaktadır. Diğer taraftan, AB'nin mevcut STA sürecine ve Gümrük Birliği'ne karşı artan eleştiriler, Türkiye'nin bundan sonraki dönemde bu yükümlülüğü yerine getirirken zorlanacağına işaret etmektedir. Bu durum temelde iki ana nedene dayanmaktadır. Bunlardan ilki AB'nin öncelikleri ile ilgilidir. AB'nin ticaret stratejisi doğal olarak Birliğin kendi içinde bulunduğu şartları; Üye Ülke çıkarlarını ve küresel beklentileri ve gelişmeleri dikkate almakta ve bu durum kendi STA müzakerelerine yansımaktadır. Ancak, bu önceliklerin Türkiye'nin uzun vadeli stratejisi ile örtüşmediği ölçüde uyum güçleşmektedir. İkinci temel neden ise Gümrük Birliği sürecinin teknik boyutlarının yanı sıra Türkiye-AB ilişkilerinin içinde bulunduğu 'siyasi belirsizlik' ve 'ucu açık' kalan üyelik sürecidir. Bu durum, Türkiye'nin AB ile en kuvvetli bağı olan GB'yi ve bu çerçevedeki sorumluluklarını olumsuz etkilemektedir.

Anahtar kelimeler: AB ticaret politikası, 'Küresel Avrupa' stratejisi, Serbest Ticaret Anlaşmaları, Türkiye-AB Gümrük Birliği, Dünya Ticaret Örgütü

INTRODUCTION

The European Union (EU), as the most integrated and sophisticated regional actor in global governance constitutes the largest trading entity in the world. It is the world's leading exporter and second-leading importer of manufactured goods. The EU accounts for some 17% of world merchandise trade. It is the leader in both exporting and importing trade in services, and largest recipient and supplier of foreign direct investment (FDI), accounting for almost a half of global inward and outward stock (WTO, 2009).

A key feature of EU trade strategy is the combination of multilateral and bilateral approaches to international trade negotiations (Elsig, 2007). While on the one hand, it has been one of the strongest advocates of a multilateral approach to

trade liberalisation, the EU has paradoxically also developed an extensive network of preferential trade agreements (PTAs) on a bilateral basis.

The EU's bilateral trade strategy (i.e. concluding bilateral trade agreements such as Free Trade Agreements-FTAs with specific countries), played a secondary and a complementary route to its rhetorical commitments to multilateralism. However, in October 2006 this policy was abandoned in the *Global Europe* communication², which stressed the importance of strengthening bilateral trade relations with a set of carefully targeted emerging markets (Heydon and Woolcock, 2009). This trend towards discriminatory trade agreements appears to be increasingly relevant as new round of regionalism is widely expected to take off among WTO members, and will further induce new preferential agreements following the renewed failure to conclude the multilateral Doha Development Round (the 'Doha Round').

Turkey has so far signed sixteen of such FTAs mostly with the neighbouring countries, and is currently in the process of negotiating with almost a dozen of countries not limited to its geographical vicinity only (see, Appendix 1). Turkey's trade policy priorities largely aligned with the EU, as a result of the Customs Union (CU) which induced it to implement uniform policies, if not totally identical³. The post-CU period after 1996, witnessed a period of several FTAs concluded by Turkey with mainly Central and Eastern European countries, which ceased to exist following their eventual accession to the EU; and with the Mediterranean countries, which are in force. These agreements can be regarded as straightforward steps to follow the commercial policy obligations especially stemming from Article 16 of the Customs Union Decision 1/95 between the EC and Turkey. Despite their market opening effect and freer trade possibility enjoyed by traders, they nevertheless were not altogether having a conscious of the consequences (i.e. market access).

In other words, under its CU obligations Turkey applied similar trade policy instruments with the EU, including EU's FTAs with the same countries, in order to prevent a deflection of trade, or for the sake of keeping itself within the EU integration track. Furthermore, such agreements did not specifically harm Turkish interests as most trade policy stakeholders were at that time busy with admiring preferential access to the larger European internal market. Emulating the EU was mandatory for Turkey's long-run political prospects.

Nevertheless, the developments in the world economy, and the changing global context as a result of dynamic comparative advantages, emergence of new powers and new issues (trade-related topics) in world trade, deficiencies in the

² See, European Commission (2006). *Global Europe Competing in the World : A Contribution to the EU's Growth and Jobs Strategy*, A Communication from the European Commission, available at: http://trade.ec.europa.eu/doclib/docs/2006/october/tradoc_130376.pdf (03.01.2010).

³ For a detailed analysis of the CU, see Kabaalioglu (1999). and for a more detailed information on current state of Turkey-EU trade relations see, Özdemir (2010).

multilateral system despite its functional principles and norms, and a shift in balance among domestic interests within the EU brought about a visible *metamorphosis* in EU trade strategy in the last two decades.

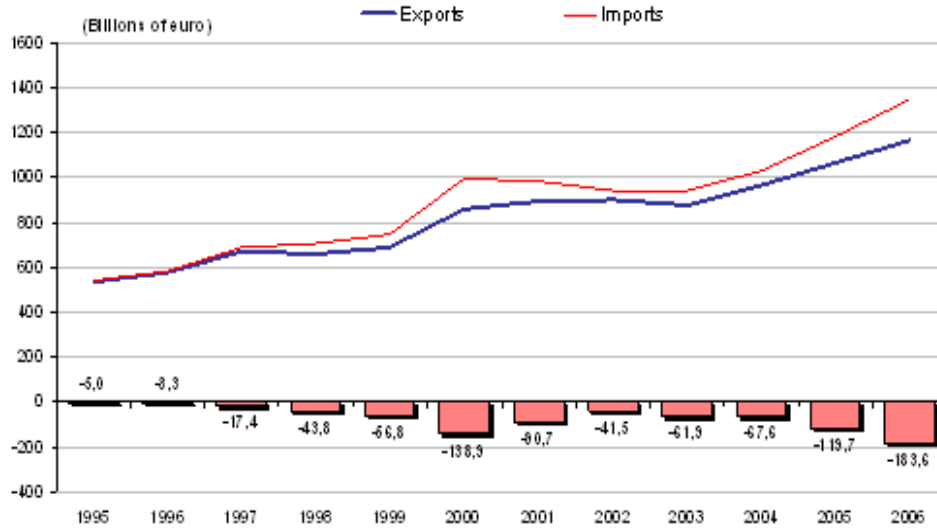
The first part of this article briefly looks at the changing parameters of EU trade strategy particularly by calling into attention particular motives and factors that caused the change, which are evident in its *Global Europe* document. The next part attempts to explain briefly how the EU's venue switching for trade negotiations evolved from multilateral to preferential trade agreements in order to accomplish its objectives. The reflection of EU trade policy shift on Turkey, which has a dependent trade policy with the EU, was inevitable. The larger is the space of manoeuvre for the EU in its trade policy orientation, the more difficult it becomes for Turkey to catch up with the obligations (usually referred to as the *moving target* effect)⁴. This seems to become more prominent in Turkey-EU relations when future action of the EU is unpredictable because of domestic and global reasons; or if Turkey's accession process is politically nonviable. This provoked worry among trade policy stakeholders in Turkey who started to challenge the CU by focusing on the EU's bilateral trade arrangements. The fourth part is devoted to the arguments raised in Turkey in this context. Final part discusses factors essential for the sustainability of EU-Turkey (trade) relations beyond the customs union under given circumstances. It proposes a set of criteria to be satisfied in order to preserve stability in bilateral relations in this context.

'GLOBAL EUROPE' STRATEGY: THE CHANGING PARAMETERS OF THE EU'S EXTERNAL TRADE POLICY

A brief look at the changing dynamics in the EU and global economy shall assist to identify crucial factors that were influential on EU trade policy transformation process. Several indicators are helpful to understand the dynamics. Initially, it can be argued that 'competitiveness' has been an essential element in the changing EU strategy. The decline in competitiveness is evident in the EU trade imbalance which has been enduring since 1995 (see, Figure 1).

The EU exports have been constantly rising as a result of liberalised trade based on MFN tariffs with many developed economies. On the other hand, EU applied tariffs and a high share of bound tariffs in manufactures under the WTO regime provided a larger market access possibility for products originating in emerging (mainly Asian) economies. In their markets the European producers in turn faced access difficulties mainly because of high tariffs and the non-tariff barriers. The case became robust when a trade-off was offered by several trading partners that further liberalisation in industrial tariffs can only be possible if the EU agreed to withdraw its largely defensive position in agriculture.

⁴ Technically it may be possible to adopt the EU commercial policy instruments, but its justification needs further effort. Thus, Turkish trade policy alignment with the EU under changed circumstances becomes less easy to legitimise for policy-makers.

Figure 1. EU trade balance (1995-2006)

Source: Eurostat

In addition, the sectoral composition of EU exportables reveals that up-market products with high-quality content, is an essential aspect for the EU for trade purposes. This had to be accompanied by a boost of trade liberalisation. The EU market share in world trade in services was the highest among its trading partners, which in turn urged the EU trade policy-makers to define reiterate market access in trade in services beyond the Uruguay Round. Therefore, an aggressive *market access strategy* was an inevitable element of EU trade strategy from mid-1990s onwards. This was reflected in the EU's 1996 Communication where two principles clearly emphasised the importance of penetration into overseas markets:

- *A more systematic, more coherent, and more active approach to negotiations and enforcement of trade deals; and*
- *A greater emphasis on the objective of third country market opening* (European Commission, 1996: 4).

The liberalisation agenda, covered, not only trade in manufactures and the services, but also so-called WTO+ issues, such as trade and investment, trade and competition, and government procurement (known as *Singapore issues* which were first raised at the international fora in WTO Singapore Ministerial in 1996). The cornerstones of this new strategy under Santer-Brittan (President of the Commission-Commissioner for Trade) term can be traced in the successor pairs of

Prodi-Lamy (1999-2004), Barroso-Mandelson (2004-2009), and is likely to continue in Barroso II-de Gucht (2010 onwards)⁵.

Another important element of the new trade strategy has been the role of *business interests*. An increasing involvement of pro-liberalisation and pro-market access business corporations was evident as a result of restrictions they faced in foreign markets. Exporters, who have failed to actively participate in the trade policy-making process for several reasons, have become responsive to the changing dynamics (Dür, 2007: 835). Others claim that business involvement is indispensable to pursue a market access strategy. Rollo (2006: 403-404) argued that *Global Europe* strategy – as a sequential to 1996 Strategy- reflects ‘an attempt to re-energise private sector support for trade liberalisation’.

A third element in a changing trade strategy in the EU has been the emergence of a *deeper trade policy agenda* from traditional into other regulatory or sectoral matters as a natural consequence of the developments in other related policy areas. Young (2007) defines these distinct but interrelated areas as *commercial* and *social* trade policy areas covering diverse issues - in addition to Singapore issues- such as technical standards, environment, and labour standards.

Obviously, changing trade patterns and global economic prospects have been fundamental motives to induce the trade policy-makers in the EU to be responsive to, and to re-define a trade policy based on the above elements. However, the EU has been a loyal follower and defender of the WTO multilateralism in implementing the priorities set out in its strategy. Indeed, under Lamy’s administration the EU has been the vigorous advocate of the initiation of a new trade round (i.e. the ‘Doha Round’) in 2001.

On the other hand, the emergence of new powers including, but not limited to China, Brazil, India, S. Korea, ASEAN and so on, and a shift into a multi-power trading system have been a pressuring factor on the EU to review its multilateralist approach. Several behind-the-border matters were successfully kept outside the Doha Round agenda due to the resistance from the developing and emerging economies. Following the failure in Cancun Ministerial in 2003, of a broadened agenda for Singapore issues; and the impotence of the negotiations in liberalising trade for further market access have been turning point for the EU to search for a multi-faceted approach.

THE SHIFT IN THE EU’S TRADE ARENA: THINK MULTILATERAL, ACT BILATERAL (!)

Global Europe, distinctively from its predecessor, the 1996 strategy, provided a clear departure from the multilateral arena. Indeed, when the *Global Europe* communication issued by the European Commission in 2006, to support

⁵ Evenett (2007a) and Evenett (2007b) explain the evolution of EU trade strategy in the last two decades in detail.

the renewed Lisbon Strategy identified several areas as being essential components of EU's future trade policy (European Commission, 2006), it proposed that:

'Free Trade Agreements (FTAs), if approached with care, can build on WTO and other international rules by going further and faster in promoting openness and integration, by tackling issues which are not ready for multilateral discussions and by preparing the ground for the next level of multilateral liberalisation. Many key issues, including investment, public procurement, competition, other regulatory issues and IPR protection, which remain outside the WTO at this time can be addressed through FTAs' (European Commission, 2006: 10).

It is ironic that, Trade Commissioner Pascal Lamy, who has been a firm defender of WTO multilateralism and, has had rejected the idea of regional agreements as alternatives to WTO system under a 'moratorium' on negotiating new FTAs, himself claimed in his trade policy assessment (European Commission, 2004) that:

"our arguments in favour of a better regulated multilateral world have been less effective. Indeed, arguably as a result, trade policy or the WTO has too often been the sole focus for efforts to strengthen international governance, which risks weakening its legitimacy both internally within the Union, and in the outside world. I don't believe the WTO can or should remain the sole island of governance in a sea of unregulated globalization." (European Commission, 2004: 5)⁶.

Under its renewed strategy the EU has concluded or initiated FTAs especially with countries in which it desires to further its objectives as set out in the *Global Europe* strategy. In practice, the EU widened its spectrum of preferential relations as instruments of implementing its strategic objectives in external relations. Meunier and Nicolaidis (2005) claims that, an active pursuit of FTAs is a further reinforcement for the EU to become a global power, and a firm reaction to the US regionalism; as well as a route to becoming a 'power through trade' by imposing a 'European model of society to the rest of the world' (a *normative power Europe*). Dür (2007), argued that the protection of exporters market access interests, as a major EU trade policy interest, is provided by mobilising societal interest groups (i.e. export-oriented business groups) to become active in preferential agreements with Mexico and Chile.

The EC TRPM Report by the WTO in March 2009 stipulated that: 'The EC has continued to build upon its extensive network of preferential trade agreements (PTAs), as part of a broader policy of promoting multilateralism. These PTAs have so far resulted in free trade in non-agricultural goods, and limited liberalization of trade in agricultural products; in some cases, these agreements also cover trade in services. A significant number of its negotiations are with, or encourage the

⁶ It is equally ironic that it was Mr. Lamy who, after having announced the suspension of Doha talks in 2006, had to revive the Round and reiterate the virtues of multilateralism and significance of successfully concluding the Doha Round.

creation of, regional groupings. Negotiations with regional bodies include the Andean Community, ASEAN, Central America, the Gulf States, MERCOSUR, the Mediterranean countries, and Economic Partnership Agreements (EPAs) with the African, Caribbean and Pacific (ACP) regions... Furthermore, the EC has launched bilateral negotiations on PTAs with India, the Republic of Korea and Ukraine' (p.viii).

The share of preferential trade accounts for almost 60 percent of total EU trade in 2008 (excluding the intra-EU trade). This amount comprises trade with countries with which the EU will establish a preferential link in the near future. Therefore, the share of trade under preferential schemes is increasing constantly as the EU 'shifts to a trade policy that envisages a greater use of' regional and bilateral agreements (Woolcock, 2007: 1).

On the other hand, a substantial body of literature argues that regional trade agreements have had little or minimal contribution to trade liberalisation. Furthermore, in most cases they were even detrimental to the interests of the parties because of the embedded complexities in their liberalisation schemes, 'the false comparative advantage' they create, and the declined incentives to go multilaterally (McQueen, 2007: 205). The EU regionalism starts to provoke a counter-argument both within and outside the EU.

THE EU'S FREE TRADE AGREEMENTS: WHAT IMPACT ON TURKEY?

The EU FTA strategy provoked several criticisms in Turkey among policy stakeholders that the EU's FTA process will have adverse effect on Turkish interests. These arguments can be refuted, as many of them are not grounded on economically qualified and politically persuasive basis. However, they need further elaboration for two reasons: First, FTA strategy of the EU has serious 'commercial repercussions' to affect Turkish interests. Second, the FTA process brings a noticeable challenge on the operation of the customs union and an impairment of relations with the EU if coupled with political stagnancy.

These arguments are related, but can be categorised for a simplified narrative.

Argument 1: Preference erosion in the EU market

Accordingly, *Turkey loses its share in EU markets as other partners of the EU secure improved access by means of FTAs.* The EU is Turkey's most stable and largest export market where a significant share is always essential for Turkish economic interests. However, the preferential status under the CU erodes for Turkish exporters.

This argument is politically understandable as Turkish business community has a legitimate expectation from the EU about the CU which they consider a notable step in Turkey's integration with the EU. However, it is not a convincing

one in the EU circles for two reasons: First, the EU upholds that it has freedom to regulate its bilateral trade relations with third countries depending on the changing circumstances or if the market conditions dictate it. In other words, the CU with Turkey is sensible but brings no reason to constrain the EU's wide discretion to implement its trade policy priorities with any country as long as it is justified for its external policy purposes; and are compatible with the international rules and obligations.

Second, the argument seems far from possessing an economic rationality from the vintage of competitiveness and free trade. Hence, if Turkey needs more market access (or to preserve its current market share), it has to become more competitive for export purposes. The CU is not a unilateral life-long guarantee to keep its preferential status in European markets.

In 2008, Turkey was the seventh largest trading partner and supplier of the EU with a share of 3.5 % and 3.0 % respectively. The largest sectors in Turkish exports into the EU market are machinery and transport equipment (SITC 7) with a share of 38.1 %; manufactured goods such as textiles and clothing classified chiefly by material (SITC 6) with 22.8 %; and other manufactured products (SITC 8) with 22.4 %. These three SITC group of products add up almost 83 % of total Turkish exportables into the EU market. The EU free trade agreements with countries which have similar concentration of exports into EU markets generate a sharp competitive edge on the corresponding Turkish industries. This is more obvious in the case of new generation of FTAs that were either initiated recently, or are in the pipeline (e.g. South Korea, India, ASEAN members, MERCOSUR so on). Freer trade brings a bigger potential for these countries' manufacturers that they can utilise in European market. Nevertheless, the challenge by these countries originates from their competitive and flexible labour markets; technology and R&D investments etc. The competition effect is not a constraining factor for only Turkish industries. The same is true for the EU's own domestic industries which are expected to suffer from reduced market shares as a result of FTAs with these economies.

The EU counterbalances its loss of domestic industries with a larger market access possibility in areas in which it has a competitive position (mainly services, FDI and government procurement). Therefore, Turkey is expected to do is to negotiate similar preferential arrangements with these countries. As stipulated before, Turkey has to 'align itself progressively with the preferential customs regime of the Community and to take the necessary measures and to negotiate agreements on a mutually advantageous basis with the countries concerned' in accordance with Article 16(1) of the CU Decision in 1995.

Nevertheless, several correlated arguments are raised even if Turkey considers initiating negotiations with these countries.

Argument 2: EU's partners refrain from concluding FTAs with Turkey

Some of the countries with which the EU had concluded or continue to negotiate FTAs are not willing to have a similar preferential arrangement with

Turkey. In practice, the two motives can be argued to explain this reluctance. First, the third country already gains a preferential access into Turkish market indirectly thanks to ‘free circulation’ of its exportables into Turkey via the EU. Therefore, there is no logical reason for a sovereign country to open its domestic market to Turkish exports in return⁷. Turkey apparently cannot reciprocate by raising tariffs to products originating from these countries claiming that the latter refrained from proposing similar concessions to Turkish products under a similar FTA. This is because Turkey has already agreed to align its customs regime and its customs duties to that of the EU. Second, the third country may not be ready to surrender its uncompetitive domestic industries if Turkish counterparts are dominant in the relevant sectors, even it agrees to initiate a bilateral agreement (i.e. safeguard mechanism or sectoral exceptions).

To counter this argument the EU has added under Turkey’s insistence a ‘Turkey clause’ in its FTAs. Accordingly, the country is expected under the EU’s guidance to initiate a separate FTA with Turkey. However, this clause is neither imperative legally nor it may become encouraging in specific cases, in practice. Therefore, it does not satisfy Turkish stakeholders’ interests unless the EU shows its muscle to dominate its partner. But this can only have an economic meaning in the case of countries whose market is constantly or potentially significant for Turkish interests. Paradoxically these are the countries in which the EU will be least responsive because the addition of Turkish stake into EU’s interests function may not yield a gain for the EU itself.

Currently, Turkey had already initiated FTAs with several countries like Korea and India which understandably could have been laggards to conclude FTAs with Turkey. But these countries did not raised objections to the starting of the negotiations. Therefore, this argument is invalidated with the exceptional cases of Mexico, South Africa, Algeria, CACM, Andean countries, and Faroe Islands whose total share in Turkish exports is no more than a negligible sum of 3 %. The share of imports from these countries in total imports of Turkey -as an indicator of their significance in Turkish domestic consumption- is less than 3 %; and are mostly composed of energy products from Algeria with already lower levels of protection.

However, the argument is more convincing if otherwise formulated as: *Reluctant behaviour by third countries causes substantial delay, and disadvantages to Turkey. This must be compensated.*

The next relevant argument is based on the assertion that even if an EU’s FTA partner decides to initiate an FTA with Turkey, this does not remove the *asymmetry problem*.

⁷ WTO rules enforces these countries to reciprocate, but under multilateral negotiations. FTAs are exceptions and the WTO mechanism cannot oblige them to conclude preferential agreements with Turkey just because the latter has a CU with the EU.

Argument 3: Asymmetry effect in trade agreements

It is claimed that Turkey cannot negotiate FTAs with third countries on 'similar terms' like the EU did. Accordingly, Turkey's FTAs usually enforces Turkey to abolish tariffs and similar measures as soon as the agreement enters into force, while allowing the partner country to dismantle its barriers to Turkish products progressively. Thus, the liberalisation is asymmetrical and induces a time gap in the removal of tariffs on Turkish exports up to several years for some product categories following the entry into force of the Agreement. As revealed in Appendix 2, the period may be up to 9 years for products in List 2 for Morocco; 9 years for Tunisia; until 2020 for products in List 4 for Egypt; and 12 years for Syria. In addition, several goods are excluded from the concession schedules of the said countries (for example, List 3 products in FTA with Morocco).

These arguments originate from the ideational view that the 'negotiations are not balanced' and Turkey has to give concession by opening its markets beforehand. Nonetheless, this assertion can be invalidated for two reasons: First, the concessions are asymmetrical, but this is not a unilateral trade liberalisation. The FTA partner is enforced to reciprocate albeit the fact that it does so at a later stage. The reason for the asymmetry is largely a result of the partner country's conundrum of competitiveness which is an ordinary and very frequently observed situation in similar trade liberalisation arrangements, if accorded between two economies whose development levels markedly differ.

Second, in practice Turkey seems to secure almost all concessions in the schedules that the EU had obtained through its own FTAs. Turkey's FTAs with the neighbouring countries (which can be referred to as the *first-generation FTAs* that were concluded with Mediterranean, Western Balkan, Caucasus countries) fall into this category where it had to provide such unilateral facilities to convince the partner to start negotiations. This bargaining tool indeed helped Turkey to conclude arrangements which would otherwise interrupt the negotiation process⁸. The EU FTAs has actually helped Turkey to strengthen its position to negotiate first-generation FTAs on similar terms. It should also be noted that, asymmetrical reduction is not vital as the share of first-generation FTA countries in Turkey's total imports does not exceed a marginal 3 %, when we exclude EFTA based on balanced concessions (see, Appendix 3).

The second generation FTAs with more competitive countries like South Korea, India, MERCOSUR, ASEAN countries etc. are grounded on balanced concessions by dismantling trade barriers concurrently (more symmetrically).

Argument 4: The 'latecomer' effect on Turkey

According to this argument, *Turkey has to follow the EU to conclude FTAs, but usually after a couple of years later. This puts Turkish exporters into a*

⁸ Some partners were too keen on these concessions. Jordan's case is illustrative as it sharply insisted that such an asymmetry have to be stipulated openly in the Preamble of the Agreement, though it is not very common in the legal drafting of similar agreements!

disadvantageous position with regards to EU exporters, who can obtain a preferential status by penetrating into third country markets several years earlier.

This is a convincing argument, as the EU does not allow or encourage Turkey 'to negotiate jointly', or ask for its partners to continue 'parallel negotiations' with Turkey. This argument is commercially sensible in markets where the EU and Turkish exporters have rivalry in some of the first-generation FTAs. An average time gap with the EU to finalise FTAs with Morocco; Tunisia; Palestine; Egypt; Jordan; and Chile was almost over eight years. But, it must be considered that these countries either represent a marginal share for Turkish export interests; or the argument itself brings no commercial significance any more since most of these FTAs have been concluded and have entered into force.

Nevertheless, the case in second-generation FTAs with commercially more prominent countries needs further attention, because the time inconsistency may incur larger cost of access for Turkish enterprises. Although Turkey's experience of negotiating FTAs increased over time -while reducing the length of average time required concluding an agreement- it is still problematic for other purposes.

However, it is important to note that Turkey's FTA process is not necessarily a consequence of the CU only. The *domino effect* triggered following proliferated regional trade arrangements in the world economy would drive Turkey anyhow to follow the EU (even if the CU was not existing) in order to offset the 'trade diversion'. As Baldwin (2006), and Baldwin and Low (2009) suggested, *the regionalism* induces nations to seek to neutralise the discrimination which their traders may face unless they become a part of the trend. Thus, political economy forces in Turkey will not be immune from regionalism when its main rivals like the EU, are heading to preferential access in third country markets which are also vital for trade pattern of Turkey. Many studies further considered that this motive was important for EU regionalism as well. It has been the US policy shift into FTAs in its trade policy, which forced the EU to reciprocate in order not to bear the cost of staying out (Woolcock, 2007: 5).

Argument 5: Tariff-revenue loss for Turkey

Another critic for FTAs impact on Turkey is related to a possible loss of tariff revenue for Turkey. It is proposed that, *imports from third countries by way of trade deflection via the EU, induce a tariff-revenue loss for Turkey as it cannot claim to collect duties because of 'free circulation' rule.*

This argument seems to fit in sectors protected by tariff peaks, or goods originating from countries with an absolute share in Turkish import market. However, in 2008, the largest-share country in Turkish total imports (that has an FTA with the EU) was Algeria with a share not exceeding 1.6 %. The potential effect of revenue loss on goods that are likely to accede to Turkish market by way of circumvention is to be noted, but the average MFN applied tariffs in Turkey is low as a result of Turkey's adoption of the EU's Common Customs Tariff (CCT).

But what if the third country products that enters into the EU for the purpose of consumption in the European market -that is not necessarily destined to Turkish market- but then trade is directed into Turkish market somehow? In this case, a distinction must be made on the ground that the right to collect the customs revenue will be for the EU authorities, and not for Turkish.

Therefore, the revenue argument in practice has no concrete efficacy.

Argument 6: FTAs upset the WTO negotiations

The preferential agreements (e.g. FTAs) became alternative avenues to shift attention from the ongoing WTO Doha Round multilateral trade negotiations. There is a growing literature claiming that regionalism in world trade has a restraining effect on the multilateral trading system. It is essential to note that industrialised countries like the EU have less need and enthusiasm for the WTO multilateralism as a means of achieving market access objectives considering the fact that Doha negotiations became too complex to manage among an increasing number of trading interests (Akman, 2008: 32-36)⁹. Therefore, the EU strategy started to embrace a new track of trade negotiations for its trade policy purposes as explained before. It seems that the Doha Round does not offer a prospect for the EU private sector interests who ultimately ask for improved commercial opportunities under alternative routes.

Therefore, for political economy and strategic purposes, the FTAs have priority in the EU. As a global actor it has a capacity to manage regional and multilateral routes concurrently. Nevertheless, for Turkey regional trade agreements may induce a 'complexity effect'.

As the WTO's Turkey TPRM Report asserts: *"Turkey's FTAs makes its trade regime complex and difficult to manage. Future trade agreements could further complicate the trading environment creating a web of incoherent rules and detract from multilateral efforts, given the limited resources available"* (WTO, 2003: 17).

Hence, it becomes difficult for Turkey within the regional spaghetti bowl, to challenge the provisions in EU's preferential trade arrangements which it deems incompatible with the WTO rules and obligations. Furthermore, Turkey may be disadvantaged in liberalising trade by means of FTAs if it totally disregards multilateral trade liberalisation under the WTO ambit.

⁹ See, also Lee and Wilkinson (2007) for a better understanding of the dynamics and stalemate in Doha Round.

Table 1. Tariff peaks before and after NAMA

| | Turkey | | | EU(27) | | China | | India | | Brazil | | Mexico | | S. Korea | |
|-----------------------------|--------|-------|-----|--------|-------|--------|-------|--------|-------|--------|-------|--------|-------|----------|-------|
| | Before | After | CCT | Before | After | Before | After | Before | After | Before | After | Before | After | Before | After |
| Chemicals | 133 | 21 | 3.7 | 7 | 3.7 | 47 | 16 | 40 | 15 | 35 | 15 | 50 | 17 | 437 | 24 |
| Clothing | 40 | 15.4 | 4.8 | 12 | 4.8 | 25 | 13 | 97 | 20 | 35 | 15 | 50 | 17 | 35 | 15 |
| Electrical machinery | 36 | 14.8 | 5.1 | 14 | 5.1 | 35 | 15 | 40 | 15 | 35 | 15 | 50 | 17 | 20 | 11 |
| Leather/shoe | 40 | 15.4 | 5.4 | 17 | 5.4 | 25 | 13 | 40 | 15 | 35 | 15 | 50 | 17 | 16 | 10 |
| Non-elec. machinery | 25 | 12.5 | 4.4 | 10 | 4.4 | 35 | 15 | 40 | 15 | 35 | 15 | 50 | 17 | 20 | 11 |
| Oil | 8 | 6.1 | 3.1 | 5 | 3.1 | 9 | 7 | 0 | 0 | 35 | 15 | 50 | 17 | 13 | 9 |
| Textiles | 92 | 19.7 | 4.8 | 12 | 4.8 | 38 | 15 | 142 | 21 | 35 | 15 | 50 | 17 | 30 | 14 |
| Vehicles | 37 | 14.9 | 5.9 | 22 | 5.9 | 45 | 16 | 40 | 15 | 35 | 15 | 50 | 17 | 20 | 11 |
| Paper | 62 | 17.8 | 4.4 | 10 | 4.4 | 20 | 11 | 40 | 15 | 35 | 15 | 50 | 17 | 13 | 9 |
| Metal | 50 | 16.7 | 4.8 | 12 | 4.8 | 50 | 17 | 55 | 17 | 35 | 15 | 50 | 17 | 35 | 15 |

Source: *UFT Economic Research Section* based on the formulas and co-efficients suggested in the latest Draft on NAMA Modalities (4th Rev.). The co-efficients are suggested to be 8 and 25 for the developed and the developing countries respectively under the formula: $t1 = [a \text{ or } (x, y \text{ or } z)] * t0 / [a \text{ or } (x, y \text{ or } z)] + t0$

One example can help to illustrate it. Table 1 reveals, if Doha Round is completed successfully under the proposed draft modalities of NAMA (non-agricultural market access) negotiations, the bound tariff rates on certain chemicals will amount to only 24 %, after a sharp decline from a peak of 437 % in S. Korea; and 17 %, but not as high as 50 % in Mexico. This is a much fair result for Turkish export interests which has a bound rate of 133 %, but applies only 3.7 % tariff due to the adopted CCT of the EU. Same is true for many sectors constituting a significant share in Turkey's exports. Trade liberalisation is essential for Turkey, as its average applied rates are lower compared to many competing emerging economies. Liberalisation process under multilateral scheme can be more facilitating for Turkey for bargaining purposes in order to obtain further market access compared to bilateral FTAs with equally powerful countries like South Korea, India, Brazil, Argentina or Malaysia to name but a few. This is because; these countries will be enforced to reduce their tariffs when faced with an increasing pressure from other significant actors under multilateral negotiations (e.g. NAMA).

Argument 7: Turkey cannot choose its trade partners independently

It is a common belief that *Turkey cannot enter into free trade agreements or similar trade arrangements with third countries with which the EU has not accorded a deal; or does not give consent to.*

It is a common fallacy to claim that Turkey *cannot* initiate such arrangements for both legal and practical reasons. Legally, this assertion is open to challenge. Politically it is contestable as long as Turkey has no confrontation with the EU. It should be noted that relations are expected to be based on a good faith, and an overt EU opposition to a Turkish bilateral deal is very unlikely. In practice, Turkey has already concluded an FTA with Georgia with which the EU has currently no proper one; and concluded its FTAs with Macedonia; and Bosnia-Herzegovina before the EU. Notwithstanding these facts, Turkey is expected to refrain from any such initiative that may divert its attention away from the proper functioning of the customs union because of the fact that Turkey is the party expected to join the EU.

In reality, Argument 7 can be more serious the more divergent become the EU's trade policy priorities from Turkey's long-term trade strategy. This leads us to the final argument that is what if Turkey's priorities are not the same with the EU, and are not reflected in EU's FTA negotiations.

Argument 8: Turkish position is disregarded by the EU in its FTAs

EU has its own priorities and normative concerns to reflect in FTAs without taking into account Turkey's special interests.

This argument is robust because the *Global Europe* strategy is keen on preserving the interests of the *European* multinationals (i.e. the 'European' interests) in third country markets. This holds good especially in areas relevant to foreign direct investment, non-tariff barriers, trade related intellectual property rights, competition rules, and the government procurement as well as other regulatory issues such as the environmental and labour standards.

The EU's FTA process reflects the linkage across the industries and a trade-off between issues among the third countries and EU Member States. Thus, a pairing of mutual concessions and a complementarity of interests are essential to provide a credibility in the negotiations. Turkey's participation in this process to reflect its priorities is limited to its (Turkish trade policy stakeholders') decisive and effective lobbying which in many cases is insufficient due to the problems of involvement costs in the EU policy-making system, bounded information, or deficiencies in the lobbying mechanisms. Turkish interest groups are generally alien to EU negotiations and not very well-informed of the likely consequences of the agreements. Furthermore, in many cases it is quite difficult for Turkish business and policy-making community, as outsiders to diffuse into the EU position even if they are consulted beforehand. The reason is relevant to the complex EU mechanism. Once the EU position is taken by consensus among 27 Member States,

it becomes harder to alter it or make it more flexible (Elgström, 2007: 961). Thus, fostering Turkey's interests in the maintained EU position is full of travail.

This process raises doubts about EU trade strategy especially when the former started to deepen its relations with the rest of the world, and trade diversion for Turkish industries becomes imminent. Consequently, unrest about the CU becomes popular among Turkish interest groups as the favourable ambience attributable to the CU melts down as a result of EU's involvement in bilateral deals with third countries which are rivals to Turkish firms. This case is intensified if trade policy terrain in the EU extends into a broader realm of trade-related issues. This point will be resurrected in the next part (especially under the *compatibility criteria*).

CRITERIA FOR A SUSTAINABLE TRADE RELATIONSHIP BETWEEN TURKEY AND THE EU AMIDST GLOBAL CHALLENGES

The above critics shall continue as future shape of EU's trade policy depends on several global developments that change the trade patterns. The patterns of international trade have been drastically influenced by various aspects of the globalisation process, including the rise of new regional and global powers such as BRICS; the relative decline of Quad countries, rise of regionalism, impasse at Doha Round negotiations, new issues such as, climate change, volatility in commodity prices, shifts in global supply chain, differences in technical standards, and changes in the international division of labour in recent years.

Turkey's trade policy is largely aligned with the EU. The implications of the changing patterns in the EU trade policy, mainly motivated by the global events will undoubtedly have repercussions on Turkey. On the other hand, Turkey cannot take part in decision-making mechanism of the EU since it is not a full member. Therefore, it is seriously argued that, *Turkey is a bystander who cannot set its own trade policy under the CU mechanism*. Despite some technical flaws, this perception reflects a Euro-sceptical view detrimental to the accession process and Turkey-EU relations in general.

Under these circumstances, a publicly admissible and politically viable step is contingent upon the satisfaction of the following criteria¹⁰:

a- Certainty criterion:

If the European Union's trade strategy is sufficiently clear, transparent and foreseeable for Turkish interests amidst global and domestic (within the EU) challenges and developments.

Turkey has the disadvantage because it has little scope and possibility to predict the next EU step. The uncertainty can only be mitigated, if not totally eliminated, if Turkey is allowed to participate in policy process of the EU and

¹⁰ Note that these criteria are not mutually exclusive, nor are necessarily sequential.

decision-making mechanism; or if it is sufficiently consulted and informed by the European Union circles.

Turkey, upon the pressures of domestic stakeholders, offered an establishment of a formal participation channel in FTA negotiations of the EU with a third country. For many EU officials this idea was not politically feasible for a non-member country¹¹. It was not surprising when it was refuted. Nonetheless, as emphasised above Turkey has to follow a powerful partner (i.e. the EU) whose decisions and actions are politically and commercially forcible on its future policy steps. An efficacious and binding consultation mechanism is missing, and Turkey's access to detailed information about the intricacies in EU's trade negotiations with third countries has several limitations. In most cases, provision of information by the EU is either qualitatively insufficient, or it becomes too costly for the Turkish policy-makers to convey the information to related domestic stakeholders. Most of these stakeholders do not agree that they were sufficiently internalised in the consultation mechanism of the CU.

Yet, a truly functioning consultation and information mechanism in the CU context shall not suffice considering the fact that it is not even clear and predictable for the EU itself as to how the newly adopted Lisbon Treaty will shift the power among domestic actors (e.g. EU institutions and several domestic actors); and how its *internal reshuffling* will affect its external action and the role it plays at the global level. The last point is concerned with the newly established High Representative for Foreign and Security Policy (HRFSP) and the European External Actions Service (EEAS) and their impact on the European Commission (mainly the DG Trade); the EU Council; and Article 133 Committee. On the basis of analysis put forward by Woolcock (2010: 2-3), it can be argued that their influence shall be rudimentary on the substance of policy, but may become robust if trade policy is considered within a broader context of external relations. This is especially the case for EU's regional arrangements with countries where political and security interests prevail. For most Euro-Med agreements and Economic Partnership Agreements with the ACP countries, political motivations are forceful to eliminate the risk of unexpected tensions in these regions. Thus, trade liberalisation schemes help lock-in the countries by offering a large access possibility into a large European market. However, it can be claimed that such agreements (i.e. association / partnership agreements) under political motivations are not commercially significant for and offensive to Turkish interests. Nonetheless, an institutional uncertainty in the EU trade policy arena is a confusing factor on policy stakeholders in the EU as well as in Turkey.

A second leg of uncertainty is correlated to *global challenges* which put the policy process into a blurred setting. In the case of the EU, its position is contingent upon an unanticipated evolution of global affairs. This brings a 'double-

¹¹ Personal interviews at several occasions during 2009 and 2010, with Mr. Hüsnü Dilemre and Mr. Uğur Öztürk, the Director-General, and the Head of FTA Unit in EU Affairs at Undersecretariat of Foreign Trade (UFT), respectively.

contingency' case for Turkey; that is dependent on its *moving target* partner, who is dependent on several unforeseen and uncontrollable events in return. Uncertainty can be reduced by a strong degree of compatibility under the assumption Turkey's long term objectives deeply overlaps with the EU amidst global challenges.

b- Compatibility criterion:

Uncertainty effect can be mitigated, if the current trade strategy of the EU broadly matches with Turkey's trade policy priorities.

Certainty is not easy to attain especially when global developments are intricate. However, the more the EU trade strategy moves in harmony with the Turkish trade priorities, the more it will be likely for Turkish trade policy agents to accept the steps taken by the EU in its FTA relations. How compatible are the two strategies can be depicted from the EU Global Europe Strategy and Turkish Export Strategy Plan (2004-2006).

First, it is evident that both the EU and Turkey prioritise greater openness in third countries and a wider possibility of *market access* for their exportables. However, this priority differentiates as two sides have their own preferred industries or sectors as well as priority markets. Though high quality goods are essential for export purposes for both, the sectors mentioned are not obviously the same. Even a similarity of commodity (or services) composition does not suffice as two sides have to negotiate separately and Turkey cannot automatically benefit from market access possibility under EU FTA negotiations. As stated earlier the EU is more interested in market access for its up-market and high tech products whose share in Turkey's exports is relatively lower. This is also similar in negotiations for the liberalisation of trade in services where two sides may have differences in their positions with regard to different service sectors.

Second, EU Global Europe strategy focuses on 'stronger rules in new trade areas of economic importance' to the EU (European Commission, 2006: 7), especially when these cannot be addressed adequately in WTO multilateral sphere (for ex. intellectual property, services, investment, public procurement and competition); or cannot be delivered in Doha agenda at all (such as labour and environmental standards). On the other hand, Turkey does not make explicit emphasis for a *deeper trade agenda* in multilateral or in bilateral trade forums. This can be largely attributable to its developing country status. To attain a positive impact on the WTO system, EU seeks for FTAs with a comprehensive scope and goes beyond existing WTO disciplines. However, these reflect the changed concerns of traditional and new actors of trade policy in the EU (Young and Peterson, 2006), but do not necessarily present priority issues for Turkish policy-community (see, Table 2).

Table 2. Compatibility of EU and Turkish trade policy priorities
(Overlapping only in **bold** and *italic* items are noticeable)

| Priority topics | EU Global Europe Strategy | Turkish Export Strategy Plan |
|--------------------------------|---|--|
| Market Access | 'Ensuring greater openness in other markets'... | 'export structure conducive towards sustainable export increase' |
| High-tech goods | Innovation and high-tech goods; investment in <i>high-quality goods</i> | <i>High-quality products</i> |
| Services | Essential for EU market strategy | Services are considered |
| Access to input markets | EU <i>access to resources and cheap global sourcing</i> in third country markets | Provide exporters with <i>inputs at internationally competitive prices</i> via domestic resources |
| WTO + issues | Deeper trade agenda to include competition, TRIPs, investment, regulatory standards and govn. proc. | No specific emphasis on a deeper agenda (except the inclusion of services and investment in part.) |
| Priority markets | Korea, India, ASEAN, Canada, MERCOSUR, ANDEAN, | Neighboring and surrounding countries essentially |
| Negotiation forum | <i>Preferential trade</i> (FTAs...) and bilateral relations have priority | <i>Preferential trade</i> (but mainly due to the 'EU effect' - Art. 16 of CU Decision) |

Third, *priority export markets* do not necessarily overlap for two sides when trade composition and comparative advantages of the two parties differ. This is a point to consider even in the case of several existing members of the EU. The new trade strategy in the EU is not confined to liberalisation of trade in manufacturing only, but extends into areas where stakeholders' interests do not automatically match with their Turkish counterparts. Thus, the EU has to allow for a balance of the domestic stakeholders benefits while favouring less diligence on the priorities of an associate country like Turkey with a CU link.

Fourth, Doha negotiations also revealed that Turkey's priorities were not the same as the EU especially in *issues beyond the customs union*. In non-agricultural market access (NAMA) negotiations, Turkish strategy was largely in alignment with the EU where both had pressed for further reductions in tariff by third parties. Adoption of EU's Common Customs Tariffs, urged Turkey to seek for EU support in this realm. However, the same cannot be argued for areas like agricultural trade negotiations and TRIPs where Turkey had to resort to its

developing country status within the WTO context and had cooperated with developing countries¹².

c- WTO criterion:

If the EU is committed to, and a firm defender of the WTO, and if multilateral negotiations have the primacy in EU trade strategy

This criterion if satisfied can assure Turkey, if not to totally eliminate all critics about the EU's FTA approach, that the future EU trade strategy is likely to be based on multilateral norms and principles which Turkey and all other parties can predict. Though statements by the EU affirm that it is committed to the WTO, and its FTA strategy is not a retreat from multilateralism, these do not provide more than a lip service. Despite its sporadic attempts to revive the stalled Doha Round, the main course of action is clearly a more active use of FTAs.

The change in the trade policy of the EU from multilateral into bilateral arena, has been distinct and dramatic in the *Global Europe* strategy as proposed above, hitherto progressed under the term of several Commissioners. Recently, in his Work Programme for 2010/2011, Karel de Gucht, the latest Commissioner for Trade followed the same routine in similar EU trade documents by phrasing a few usual sentences on the merits of multilateralism, but he went ahead with a longer section on the bilateral agenda¹³. This 'aggressive regionalism' approach puts the EU into an irrevocable path of deriving gains in trade relations by its negotiating and political muscles, than by a rule-based multilateral system. This recalls the US 'aggressive unilateralism' in 1980s and early 1990s where the latter forcibly asked its trading partners to open their markets for American products unless they are ready for the US retaliation¹⁴.

d- Compensation criterion:

If Turkey's perceived loss as a result of EU's FTAs is compensated properly to satisfy Turkey under institutional, procedural and/or financial mechanisms; or if the customs union is further extended to areas where Turkey can obtain extra benefits:

The operation of the Customs Union became a target for criticism mainly because of the impasse at Turkey-EU relations. Therefore, further steps to consider Turkish interests in the formulation of EU FTAs with third countries can alleviate such justifiable criticism in Turkey. At this point, two different but related avenues of action seem contributive. First, the *institutional mechanism* should be restructured to take into consideration of Turkey's interests accordingly in order to

¹² In agriculture, for example, Turkey sided with G33 group of developing countries in special products and special safeguard mechanisms that were regarded among controversial issues to deadlock the Doha negotiations.

¹³ See, Karel de Gucht, Speaking Points: Work Programme for 2010/2011 to European Parliament International Trade-INTA Committee, 5 May 2010 Brussels, available at: http://trade.ec.europa.eu/doclib/docs/2010/may/tradoc_146123.pdf (06.07.2010)

¹⁴ see, Bhagwati and Patrick (1991) for details.

diminish unfavourable effect of change in EU trade policy. The Global Europe strategy, cites among the economic 'criteria' for new FTAs, the *risk that the preferential access to EU markets currently enjoyed by the neighbouring and developing partners may be eroded* (European Commission, 2006: 11). Turkey, under its customs union scheme already enjoys a preferential status, and its accession process compels the EU to consider Turkey's troubles there from. The political plausibility of arguments concerning the institutional arrangements is not compelling on EU trade-policy circles. The institutional aspects a subject that needs detailed analysis in further studies.

Second, *extension of the customs union* into areas such as agriculture and trade in services shall help Turkey to gain additional trade benefits that Turkish exporters can enjoy. Presumably, this will not satisfy those interests who argue that they suffer market loss as a result of EU FTAs. However, it helps to establish a balance of interests between the advocates and opponents of the Customs Union.

Several empirical studies assert that widening of the customs union to incorporate the liberalisation of trade in services and agricultural sector can bring significant positive impact on Turkish economy given the high share of services and strategic importance of agricultural production (Ülgen and Zahariadis, 2004). The fact that Turkey is among the few countries with a positive balance in trade in services vis-à-vis the EU is a demonstration of its potential for Turkey. In agriculture, many studies indicate (see, for example Nowak-Lehmann et. al., 2007; and Eryugur and Çakmak, 2005) a noticeable increase (by 14 % in vegetables and 12.5 % in fruits) in Turkish exports into the EU market when the CU covers these areas. Thus, extension of the customs union may not negate the criticism on grounds of FTAs, but shall provide a more lenient climate for the Customs Union.

e- Hegemony/leadership criterion:

If the EU can be regarded as a 'normative hegemon' which has the ability to set effective norms and rules acceptable by its neighbours (and its spokes in FTAs) and by Turkey; and/or if its global actorness leads to explicit or implicit dominant effect in policy sphere of the partners.

Obviously the EU's leadership role in Doha Round negotiations is open to challenge. It has hitherto successfully defended freer trade in industrial goods; called for a total elimination of export subsidies in agriculture by 2013; and firmly maintained its position to have further liberalisation of trade in services. However, these did not preclude the negotiations to be suspended in 2006, nor entitled the EU as a leader in the sense that the US acquired at least until the Uruguay Round.

Its normative power and leadership role is contestable for several reasons: First, the EU itself cannot play 'the angel' as its trade policy is not totally immune from protectionism. This is manifest especially in agriculture as a result of its notorious common agricultural policy. The EU is also accused of using standards as non-tariff barriers to block the access of exports from several developing and developed countries. Furthermore, the EU is one of the top users of trade defence instruments such as anti-dumping measures. Second, the enlarged EU dilutes its

single entity in external actions as new members start to insist on their own perspectives. Woolcock (2010: 5-6) puts forward that ‘cohesion’ is necessary to ‘facilitate the definition of common interests and positions’. However, member state differences are common in matters both within the traditional agenda as declared in Doha agenda and in new trade issues. Unless accommodated in a common position, the credibility of the EU as a leader is prone to erosion. Third, the internal coherence on ‘behind-the-border’ issues is likely to disappear as trade agenda deepens. A new setting of domestic interests is likely to appear if trade policy sphere widens. This has been the case for Singapore issues in which the EU was hard pressed to unload from Doha Round agenda during the Cancun Ministerial. The difficulty was not only from the external pressure of its trade partners, but a domestic division of interests on issues like the environment; investment and competition (Woolcock, 2005: 395-396; and Akman, 2008: 35). Fourth, the EU ambition to export its own social values and regulatory model (i.e. European norms, values and domestic rules) had in many cases been confronted with the WTO jurisdiction or third party resistance under FTA negotiations.

The EU’s role as a global actor is under challenge in a multi-polar world economy where several rivals such as BRICS, Asian tigers and their Latin American counterparts emerge. These factors increase suspicion about the EU’s global actorness role while shaking, if not eliminating, its normative plausibility in trade policy field. Incorporated with other political factors, these reduce the credibility of EU’s policies in Turkey.

f- Accession negotiations criterion:

The negative climate of EU FTAs policy can be moderated if the accession negotiations continue smoothly.

The accession negotiations have faced extreme difficulty since 2005 and only 11 chapters have been opened so far. Opening of new chapters is troublesome whatever the motives for it. Furthermore, eight chapters (namely, the free movement of goods; freedom to provide services; financial services; agriculture and rural development; customs union; transport policy; external relations and fisheries policy) were suspended due to political issue over Cyprus. However, these constitute ones that are the most directly relevant to the functioning of the Customs Union! Hence, the overall picture of accession process does not stimulate a convincing and cheerful atmosphere to refute or neglect altogether critical approaches in Turkey emanating from the FTA problems. This criterion cannot be divorced from current political vision about Turkey’s EU aspiration. This leads us to the next criterion.

g- Political belief criterion:

Accordingly, the EU accession process must continue to be politically a prevailing idea in Turkish public (or at least in the policy-making circles) despite all uncertainties.

This point is beyond the technical aspects of the adoption of EU *acquis* and the accession negotiations, but involves a political ambition. Technically the negotiations may be progressing albeit slowly, but finally it will be the political momentum to decide on the destiny of the relations. The customs union was a demonstration of Turkey's commitment of its own aspiration to European integration process when it unilaterally reformed its trade and tariff policy to harmonise itself to the EU. However, this ambition visibly lost some momentum even among elites who have been adhered to EU membership process and who have become disappointed in the recent years due to the 'open-endedness' of the accession process and daunting political messages from the European capitals.

EU's conditionality is not reinforcing especially political influence and credibility in an acceding country. Therefore, even shallow and negligible critics on FTAs may become prominent hurdles for a smoother operation of the relations between Turkey and the EU.

CONCLUSION

The prevailing idea in Turkey-EU relations within the context of the Customs Union has so far been, that 'if Turkey desires to join the EU, it has to bear the consequences (*volenti non fit injura*). This idea was largely a result of understanding which conceived the CU as a 'political step' towards Turkey's accession (its *ithaca*¹⁵) to the EU, rather than a mere technical or functional device. While the accession process faced difficulties (because of the EU's insistence on forcible benchmarks in opening negotiations in specific chapters along with the political criteria), the 'open-endedness' for the membership prospect had been a discouraging factor. This gave rise to a more critical approach about technical aspect of the CU, which has been accepted a solid phase of further integration. The prolonged accession process diminished the expectations of Turkish business community and policy-makers, if not totally eliminated. Hence, added with uncertainties of global challenges on EU trade policy, the technical aspects of EU free trade agreements which would be less problematic issues become more vexing for Turkish interests.

Turkey now stands between a debated customs union that cannot be roll backed, and the full membership which is not conceivable in a foreseeable future. The perception in Turkish epistemic community, not only in the public at large, is that the customs union does, for the moment serve as neither a step toward full membership as envisaged beforehand, nor even for full trade policy integration within a unified European market. The FTA policy of the EU induces a more sceptical view in Turkey compared to the periods of more stable relationship. Therefore, the satisfaction of the above criteria (at least a few of them) is essential in order to relieve the critical issue of FTA policy on Turkey-EU relations.

¹⁵ I would like to thank Dr. Kamil Yılmaz for bringing this expression into my attention.

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Appendix 1. FTA negotiations negotiated and signed by the EU and Turkey

| Country | EUROPEAN UNION | | TURKEY | |
|--------------------|-------------------------|---------------------|-------------------------|---------------------|
| | Negotiations started in | Agreement signed in | Negotiations started in | Agreement signed in |
| Israel | 1995 | 1995 | 1994 | 1996 |
| EFTA | 1990 | 1992 | 1990 | 1991 |
| Croatia | 2000 | 2001 | 2000 | 2002 |
| Macedonia | 2000 | 2001 | 1998 | 1999 |
| Bosnia-Herzegovina | 2000 | 2008 | 2002 | 2002 |
| Serbia | 2005 | 2008 | 2007 | 2009 |
| Montenegro | 2006 | 2007 | 2007 | 2008 |

| | | | | |
|---|-----------------------|--------------------------|--|--|
| Morocco | 1995 | 1996 | 1999 | 2004 |
| Tunisia | 1995 | 1995 | 2002 | 2004 |
| Palestine | 1995 | 1997 | 1999 | 2004 |
| Syria | 1995 | 2004 | 2004 | 2004 |
| Egypt | 1995 | 2001 | 1998 | 2005 |
| Albania | 2000 | 2006 | 2003 | 2006 |
| Jordan | 1995 | 1997 | 2005 | 2009 |
| Chile | 2000 | 2002 | 2008 | 2009 |
| Georgia | - | - | | 2007 |
| Lebanon | 1995 | 2002 | 2003 | Negotiations continue |
| South Africa | 1995 | 1999 | 2004 (exploratory talks) | Negotiations continue |
| Algeria | 1995 | 2001 | Not started yet | - |
| Faroe Islands | - | 1991 | 2000 | Negotiations continue |
| ACP | 1998 | 2008 | Negotiations with Mauritius & the Seychelles | Negotiations continue Mauritius & the Seychelles |
| Mexico | 1998 | 2000 | Not started yet | - |
| MERCOSUR | 2000 | Negotiations continue | 2008 (exploratory) | Negotiations continue |
| Gulf Cooperation Council | 1990 | Negotiations continue | 2005 | Negotiations continue |
| Ukraine | 2008 | Negotiations continue | 2009 (exploratory) | Negotiations continue |
| India | 2007 | Negotiations continue | 2010 (joint working group) | - |
| South Korea | 2007 | 2009 | 2010 | Negotiations continue |
| ASEAN | 2007 | Negotiations continue | Malaysia, Vietnam, Indonesia 2010 | Negotiations continue |
| Central America (CACM) | 2007 (exploratory) | Negotiations continue | Not started yet | - |
| ANDEAN | 2007 (exploratory) | Negotiations continue | Not started yet | - |
| Canada | 2009 | Negotiations continue | 2010 (exploratory) | Negotiations continue |

Source: Based on the data from the UFT

Appendix 2. Turkey's FTA Agreements (as of May, 2010)

| | Signed in | Entry into force | Schedule for the elimination of customs duties applied on several industrial goods | Time gap between entry into force and elimination of duties for some products (years) |
|---------------------------|-----------|------------------|--|---|
| EFTA | 1991 | 1992 | 1999 | 7 |
| Israel | 1996 | 1997 | 2000 | 3 |
| Macedonia | 1999 | 2000 | 2008 | 8 |
| Croatia | 2002 | 2003 | 2007 | 4 |
| Bosnia-Herzegovina | 2002 | 2003 | 2007 | 4 |
| Palestine | 2004 | 2005 | 2005 | - |
| Tunisia | 2004 | 2005 | 2014 | 9 |
| Morocco | 2004 | 2006 | 2015 | 9 |
| Syria | 2004 | 2007 | 2019 | 12 |
| Egypt | 2005 | 2007 | 2020 | 13 |
| Albania | 2006 | 2008 | 2013 | 5 |
| Georgia | 2007 | 2008 | 2008 | - |
| Montenegro | 2008 | 2010 | 5 years after entry into force | 5 |
| Serbia | 2009 | - | 2015 | 5 (if enters into force in 2010) |
| Chile | 2009 | - | 4 years after entry into force | 4 |
| Jordan | 2009 | - | 2018 | 8 (if enters into force in 2010) |

Source: IMF (DoTS), 2008

Appendix 3. The share of exports, imports, and trade of FTA partners in Turkey's total trade

| | Turkey's imports from | Turkey's exports to | Turkey's trade with |
|------------------------------|-----------------------|---------------------|---------------------|
| EFTA | 3.1 | 2.5 | 2.9 |
| Israel | 0.7 | 1.5 | 1.0 |
| FYR Macedonia | ≥ 0.1 | 0.2 | ≥ 0.1 |
| Croatia | ≥ 0.1 | 0.3 | 0.1 |
| Bosnia-Herzegovina | ≥ 0.1 | 0.4 | 0.2 |
| Palestine | ≥ 0.1 | ≥ 0.1 | ≥ 0.1 |
| Tunisia | 0.2 | 0.6 | 0.3 |
| Morocco | 0.2 | 0.7 | 0.4 |
| Syria | 0.3 | 0.8 | 0.5 |
| Egypt | 0.5 | 1.1 | 0.7 |
| Albania | ≥ 0.1 | 0.2 | ≥ 0.1 |
| Georgia | 0.3 | 0.8 | 0.5 |
| Montenegro | ≥ 0.1 | ≥ 0.1 | ≥ 0.1 |
| Chile | 0.2 | ≥ 0.1 | 0.1 |
| Serbia | ≥ 0.1 | ≥ 0.1 | ≥ 0.1 |
| Jordan | ≥ 0.1 | 0.3 | 0.1 |
| TOTAL (approximately) | 6.0 | 9.7 | 7.0 |

Source: IMF (DoTS), 2008