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**The Possible Effects of Transatlantic
Agreement (TTIP) on The Foreign Trade of
Turkey**

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Abstract

International competitiveness refers not only to a process in which businesses may directly or indirectly interfere, but also to a process that is shaped by state policies. The agreements that are made between countries and the impact of trade between these countries affect the foreign trade positively or negatively. The businesses operating in these countries provide advantages compared to the other businesses across the world markets as a result of the trade agreements signed between the countries. It is expected that the Transatlantic Trade and Investment Partnership (TTIP), which is planned to be one of these agreements and that still carried out its negotiations by European Union (EU) and United States of America (USA), caused significant changes in the international commercial data between the countries in the coming years. Surely, this situation is closely related to the countries that trade with the USA and EU. By this agreement, custom duties between two countries will be zeroed, non-tariff barriers will be removed and arrangements to be made in many sectors will be mutually recognized. The commercial rules of the markets of the USA and EU, which have a big importance in the foreign trade of Turkey, will be modified by this agreement and this situation will affect the foreign trade of Turkey as well. In this study the content, scope and domain of TTIP will be discussed and the possible reflection of this agreement in the foreign trade of Turkey will be treated.

Keywords: Customs Union, Free Trade Agreements, Transatlantic Agreement (Transatlantic Trade and Investment Partnership/TTIP).

Introduction

The conditions of global competition in the world are shaped by trade agreements between countries. Countries, who fail to be a part of these trade agreements, cannot sell their products to countries involved in these agreements. As a result the competition capacities of these countries are reduced accordingly. Therefore, the political authorities are working hard to participate in such international agreements. Surely, political developments in the world and wars in countries may affect the benefits from these international trade agreements. To exemplify, a country that has already signed a mildly profitable agreement with its neighbors may not be included in a much more profitable agreement, due to its trade commitments to its neighboring countries.

The Transatlantic Trade and Investment Partnership Agreement (TTIP) which is planned to be signed between the European Union (EU) and the United States of America (USA), is expected to negatively affect the countries whom are directly or indirectly a trade partner for either the EU or the USA, due to the huge volume of trade between these parties. With this partnership agreement, this huge volume of trade between the EU and the USA will see a rise. Whereas, countries that will be outside of the scope of this agreement should take precautions to decrease the detrimental effects.

Turkey which carried out almost half of the total foreign trade with the EU and USA (about 40% by 2013) will incur high costs by being left out of the TTIP. With this deal, Turkey's competition advantage in these states' trades will diminish.

In the first chapter of this study, general information on Free Trade Agreements (FTAs) will be given and their effects on international trade will be discussed. In the second chapter, the scope and functioning of the Customs Union agreement between Turkey and the EU will be supplied. The third chapter is dedicated for the scope of TTIP and its foreseen effects on world economy, while effects of this agreement on Turkish economy and foreign trade will be discussed in the fourth chapter.

Free Trade Agreements (FTAs)

Free Trade Agreements (FTAs) is defined as an agreement which removes customs duties and non-tariff barriers and as a result enables the creation of a free trade area between the parties, but does not foresee a common tariff obligation to third countries. The most important difference between FTAs and the Customs Union is not imposing a common tariff for third countries. Moreover, while the principle of free movement applies in the Customs Unions, rules of origin are applied FTAs (<http://goo.gl/7dKQ0f>).

Insufficiency of World Trade Organization (WTO) regulations to meet today's requirements and inability of the world's multilateral trade order to supply for new market expansions have led countries to bilateral and regional trade agreements. As a result, FTAs recently became widespread

between developed countries and north-south or south-south trade and economic relations. With the expansion of the FTAs network, many countries choose to procure goods from their FTAs partners, whereas, the countries remaining outside of this network are deprived of the opportunities provided by this preferred trade partnership. This situation creates a domino effect, and brings all countries to involve in the creation of these networks (<http://goo.gl/hEPs5a>).

The list of countries with whom Turkey has an FTAs in effect or in which negotiations are completed or are in process are given in the Table 1. Undoubtedly, Turkey's ability to develop its foreign trade and strengthen its competitive position in international markets is directly related to improving and expanding its FTAs.

The aim of an FTAs are to develop the parties' economic relations, raise the living standards, ensure full employment, ensure a steady increase in the volume of real income and demand, use the available resources in an environmentally friendly manner, target the sustainable development of earth's resources and see the abolition of all kinds of barriers as well as discrimination that restrict international trade (Pinar and Sevilmiş 2013: 4).

Today, WTO outlines the rules and framework of international trade, on the basis of General Agreement on Tariffs and Trade (GATT) which was signed in 1947. WTO allows member countries to recognize preferential trade partners over other countries, but they should fulfill certain obligations imposed by WTO rules. The relevant rules are held in Article 24 of the GATT Agreement. With Article 24, members are allowed to form Customs Unions and free trade areas through voluntary agreements, in order to provide closer integration of the countries and liberalize trade (Pinar and Sevilmiş 2013: 4).

Table 1. Free Trade Agreements (FTAs) of Turkey

FTAs in Force		Negotiation Process Completed FTAs	Negotiation Process Ongoing FTAs		Yank Free Trade Agreement initiative to start negotiations on FTAs	
<ul style="list-style-type: none"> • Albania • Bosnia • Herzegovina • EFTA • Morocco • Palestine • South Korea • Georgia • Montenegro 	<ul style="list-style-type: none"> • Fyrom • Mauritius • Egypt • Syria • Serbia • Tunisia • Jordan • Israel • Chile 	<ul style="list-style-type: none"> • Lebanon • Malaysia • Faroe Islands • Ghana • Kosovo • Moldova 	<ul style="list-style-type: none"> • Peru • Ukrain • Colombia • Equator • Mexico • Japan • Singapore 	<ul style="list-style-type: none"> • Kongo Demokratic Republic • Camerun • Seychelles • Gulf Cooperation Council • Libya • Mercosur 	<ul style="list-style-type: none"> • USA • Canada • Thailand • India • Indonesia • Vietnam • Central America Community 	<ul style="list-style-type: none"> • Africa • Caribbean Pacific Countries • Algeria Republic of South Africa

Source: <http://www.ekonomi.gov.tr> & Preparation by the authors.

Effects of Free Trade Agreements (FTAs)

The most important impact of FTAs is that they increase exports. As a result, the increase of exports creates new business opportunities. Furthermore, the growth of exports provides additional support to economy by encouraging investments in manufacturing and other sectors. The importance of FTAs to increase the foreign trade volume of the country is great (Çiftçi 2001: 49). The effects of FTAs and the benefits they provide can be summarized as follows:

- Businesses can more easily enter to their target markets.
- Businesses are entitled to equal footing with their competitors.
- With the removal of non-tariff barriers, diversification in export products is increasing.
- Boom in country's economy with increasing foreign trade volumes.
- Manufacturing companies are able to find cheaper raw materials with ease.
- Increased foreign investment to the country after FTAs.

When FTAs are evaluated for Turkey's economy, it can be seen that they are of great importance in international trade. On the other hand, being in the Customs Union agreement with the EU, while not being a member of it, brings some disadvantages to Turkey.

The European Customs Area is an area formed by the EU-27 and Turkey. Due to the rules of Customs Union, FTAs that are concluded by the EU with third countries are also in effect in Turkey. On the other hand, Turkey does not take part in the decision-making of these FTAs and this stands as a contradiction. Since, FTAs between a third country and the EU foresees abolition of customs that apply to that third country; goods of this third party enters to Turkey through the EU under the rules of the Customs Union between the EU and Turkey, thus causing a trade distortion between Turkey and the third country (Kabalioglu 2010: 1).

Countries that have signed a FTAs with the EU and have not yet with Turkey, put their goods in free circulation within the EU countries and through the EU, their products reach Turkey and this situation causes unfair competition. These countries reluctance to sign a FTAs with Turkey and the absence of a mechanism which forces them to take steps in that manner pose a problem for Turkey (Eren 2013: 44).

Customs Union Between EU and Turkey

The Customs Union is defined as a kind of economic integration in which demolition of customs duties between the parties and implementation of common customs tariffs to the third parties are in place. The fact that there would be no hindrance to the free movement of goods within the borders of

Customs Union is essential. Therefore, in order to prevent the occurrence of any discrimination between the parties within the scope of the Customs Union, the necessity of development of common commercial policy with common competition rules is specified. To the extent this necessity is provided, members of the Customs Union will be able to manufacture and trade under free competition and equal conditions (Hatipler 2012: 3).

Customs Union agreement between EU and Turkey entered into force in 1996. Turkey is one of the three countries entering into Customs Union relations with the EU before becoming an EU member. The EU Commission had asked the World Bank to prepare a report in an unbiased manner to assess the effect of the Customs Union until now. In this evaluation report, which was published in April 2014, the point reached from the beginning of the Customs Union (1 January 1996) until now is evaluated (Ateş 2014: 1-2). According to this report, the Customs Union agreement has created some positive effects regarding some issues, but due to the postponement in regulations for some issues, some anticipated benefits have not achieved. Some of the aspects of Customs Union can be summarized as follows:

- Integration of trade between the EU and Turkey has rapidly increased.
- Due to modernization of the customs authorities in Turkey, customs reforms and facilitation of more effective foreign trade have been possible.
- Due to the association of Turkey's industrial products' customs tariffs with the EU, the Customs Union offers more benefits than of the FTAs.
- The dispute resolution mechanism under the Customs Union has not become operational. To address the issues that prevent a well-functioning trade between parties, the "Dispute Resolution Mechanism" must be put into practice.

Turkey, under the Customs Union obligations is to adapt the EU's preferential agreements. In that manner, there are FTAs that are completed or in which negotiations are ongoing. On the other hand, the growing criticism to the EU's existing FTAs processes and to the Customs Union, suggests that Turkey will face difficulties in fulfilling these obligations in future periods. This is based on two main reasons. The first of these relates to the EU's priorities. The terms of the EU's trade strategy are naturally taking into consideration the interests and expectations of the EU itself and of its member states and thus these are reflected in the EU's FTAs negotiations. In case this priority does not align well with Turkey's long-term strategy, the adaption of Turkey is at risk. Alongside the technical aspects of the Customs Union, the second main reason is policy uncertainty towards the "open-ended" accession process of Turkey-EU relations. These facts adversely affect the viability of the Customs Union which is the most powerful bond between Turkey and the EU, and Turkey's other responsibilities in this regard (Akman 2010: 18).

After the Customs Union, Turkey's tax level, which is based on the EU's common foreign tariffs, has dropped to the average level of 4.8%. Turkey's

implementation to lower taxes on imports has led to falling tax revenues from this item. However, the increase in tax revenues as a result of the expansion of the tax base (such as value added tax applied to imports) welcomes the reduction in customs duties on imports and even surpasses that decrease. On the other hand, under the FTAs between the EU and third parties, Turkey is unable to obtain entrance to those markets; as a result this situation leads to a reduction of Turkey's negotiating power over third party countries. Nowadays, TTIP which is being negotiated between the USA and the EU, has the potential to be a turning point for Turkey. In case Turkey gets to sign a similar agreement which foresees the public procurement, services sector and employment policies, Turkey will be able to further deepen the Customs Union with the EU (Ateş 2014: 1-2).

Transatlantic Trade and Investment Partnership (TTIP) Between EU and USA

Initiated between EU and USA in 2013, the TTIP is expected to abolish customs duties in various sectors, to make joint sectoral regulations and to eliminate non-tariff barriers. When the EU and the USA trade volumes are considered, the economy remaining outside the scope of this agreement is anticipated to be affected negatively.

Regarding the facts that the EU and the USA account for approximately half of the global GDP (46.7%), around one-third of world trade (30.4%) and the value of mutual investments through this agreement is considered to reach at \$3.7 trillion; the importance of the size of the trade and investment relation between these two sides in the global economy can be seen (Akman 2014: 2).

The general structure of the TTIP agreement negotiations between the EU and USA is described through Table 2 (Pelkmans et al. 2014: 21):

Table 2. *Negotiation Structure of the TTIP*

Market access	Regulatory issues, NTBs	Rules, globally relevant
Tariffs	SPS-plus	IPRs
Services	TBT-plus	Environment and labour
Investment	(Cross-cutting disciplines on) regulatory coherence and transparency	Other globally relevant challenges and opportunities, strengthen rules-based multilateralism
Public procurement	Sectoral commitments	Rules, principles or modes of cooperation in: <ul style="list-style-type: none"> • customs & facilitation • competition policy; stateowned • enterprises • local barriers to trade • raw materials & energy • SMEs • transparency
	Framework for future cooperation	

Source: www.europarl.europa.eu & Pelkmans et al. 2014: 21.

After the TTIP, there are a lot of expected impacts on trade flows, sectors and jobs etc. For example, the expected impacts on trade flows are; the income gains generated by the TTIP are the result of increased trade and increased efficiency. EU exports to the USA would go up by 28%, equivalent to an additional €187 billion worth of exports of EU goods and services. The EU imports from the USA will also increase by €159 billion (http://trade.ec.europa.eu/doclib/docs/2013/september/tradoc_151787.pdf).

The TTIP is a free trade and investment treaty currently being negotiated in secret between the EU and the USA. The main goal of TTIP is to remove regulatory "barriers" which restrict the potential profits to be made by transnational corporations on both sides of the Atlantic. These barriers are in reality some of the most prized social standards and environmental regulations. TTIP is correctly understood not as a negotiation between two competing trading partners, but as an assault on the EU and USA societies by transnational corporations seeking to remove regulatory barriers to their activities on both sides of the Atlantic (Hilary 2014: 9).

Due to the expected huge impact of TTIP on the world economy, attention of the rest of the world has led towards this direction. Today, there is almost no country for which at least one member of the EU or the USA is a foreign trade priority. For example, these two economies share in Turkey's total exports was approximately 42.5% as of the year 2012. More than four-fifths of Foreign Direct Investment (FDI) in Turkey is from EU and the USA (Akman 2013: 2-3).

Effects of Transatlantic Trade and Investment Partnership (TTIP) on Turkey's Foreign Trade

If TTIP negotiations are resulted and agreements reached, the economies of all countries outside the scope of this agreement are expected to be adversely affected. When the geopolitical position of Turkey and its bilateral relations with these countries are considered, Turkey is seen to be one of the most affected countries of this agreement. Turkey must take place in this TTIP agreement between the EU and the USA, regarding Turkey's position as on one side being in a Customs Union agreement with the EU and densely conducting accession negotiations, on the other, being a political and military ally to the USA for long.

Turkey has undertaken the responsibility of assuming the EU's preferential trade system against third countries, in accordance with Customs Union, under the Common Commercial Policy. Therefore, Turkey, is working to sign similar agreements on a mutual benefit basis with the countries with which the EU has signed FTAs.

Turkey can only sign FTAs with the countries with which the EU is carrying out free trade negotiations. However, countries, that can sell their products in Turkey through the Turkey's Customs Union with the EU, seem to abstain from signing an agreement with Turkey. The reason solely depends on

their ability to sell their products in Turkey through Customs Union, without signing FTAs with Turkey. Surely, this does bring about unfair competition and negatively affects Turkey's foreign trade. Statistics tell that out of 28 countries which signed FTAs with the EU, only 18 agreed to sign an FTAs with Turkey.

Turkey cannot achieve the benefits and concessions it should receive, because of the duality of being a member to the Customs Union and not being a member of the EU. On top of this fact, Turkey's foreign trade is anticipated to incur huge losses with a possible TTIP agreement to be signed between the EU and the USA. Therefore, the EU and the USA FTAs' effect on Turkey should be discussed at length.

In some reports and statements, the cost of leaving out Turkey in a transatlantic partnership is suspected to amount to \$5-20 billion losses for Turkey. Advantages and disadvantages of possible TTIP agreement between the EU and the USA can be summarized as follows (Akman 2014: 14):

- While TTIP gives USA products a free access to the Turkish market through the EU, Turkey's exports to the USA will be subject to customs duty and other regulations. This situation will negatively affect Turkey's current trade balance with the USA.
- TTIP process could be a contributor to the adaptation of Turkey to the new world trading system and the dynamic global economy in fields of services, investment and public procurement.
- It is important for Turkey to take place in this TTIP process, instead of staying out of it, which is expected to influence the direction of global trade and the rules of the game.
- Lack of trade agreement between the USA and Turkey, ongoing protectionism against Turkish exports in USA market and the fact that TTIP will remove such barriers for EU goods will certainly lead to unfair competition.

The TTIP agreement will lead these major economies to be the global standard setter. In this case, Turkey as like other countries has to determine its manufacturing process, industry and trade policy compliant with these rules. Furthermore, Turkey will have to make its internal regulations consistent with these major economies.

Conclusions

In Turkey's foreign trade, especially in exports, EU and USA has very important places. Turkey, being a member of the EU Customs Union but not of the EU, cannot benefit from the EU's FTAs with other countries. Moreover, Turkey has no FTAs with the USA either. Regarding these facts altogether, planned TTIP agreement between the USA and the EU is expected to adversely affect Turkey's international trade with both countries.

The trade volume between the EU and the USA will increase after the TTIP agreement. Countries exporting to these two countries will face a more intense competition. With no doubt, Turkey will be one of the top countries that will be negatively affected regarding its geographical and historical proximity to the EU and its political and military relations with the USA.

The transformation process that Turkey has gone through in the industrial sector by being a part of the Customs Union would gain more improvements in adaptation to the global economy dynamics by the help of a signed FTAs with the USA or by taking part in this TTIP agreement. The inclusion of Turkey from this TTIP agreement would lead its integration into the transatlantic economy, allow economic and trade relations with the USA to become more functional and to improve as a "model partnership" and at the same time benefit the Customs Union between Turkey and the EU. This partnership is of vital importance to solidify Turkey's position in the world economy and to base Turkey's relations with developing and less developed countries on strong and sustainable pillars. The TTIP process is reckoned to be a turning point in which Turkey will rise among the countries that "determine the rules", instead of sticking with being a country that is "compliant to the forced rules" (Akman 2014: 27-28).

Due to the reasons of Turkey being Customs Union member and USA and the EU having the largest share in Turkey's foreign trade, Turkey has to be a negotiating party in the TTIP agreement. To achieve this objective, effective negotiations on a political level should be carried out in order to convince the parties. Taking into consideration the importance of foreign trade and especially exports, getting place in the TTIP agreement will mean a positive effect to Turkey's trade; otherwise adverse effects will surely occur.

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