



Customs Union Negotiations: Start of Something New for Turkey and the European Union?

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With the increasing uncertainty about the future of the European Union (EU) and the democratic backslide of Turkey, the Turkish accession to the EU as a full member does not seem to be imminent. Nevertheless in the short-term, both Turkey and the EU are in need of further economic cooperation to remedy their troubled economies. From the Turkish perspective, updating the Customs Union (CU) in effect since 1996 seems to be the best course of action since it would guarantee Turkey's economic survival. In this respect at the end of 2016, the European Commission acquired a mandate to renegotiate with Turkey to modernize the CU. This paper argues from an economic point of view that the short-term benefits for Turkey of the modernization of the CU are not even with the long-term benefits of the institutional reforms required by the EU accession process. For this reason, a new agreement should not pave the way for a new kind of relationship between Turkey and Europe, thus ending the Turkish candidacy to the EU. For the time being, a more encompassing CU could be the cure Turkey is yearning for, however, Turkey still needs the EU's push for institutional reforms to achieve sustainable growth in the long term.

Turkish policymakers closely observed the negotiations between the EU and the United States (US) for the Transatlantic Trade and Investment Partnership (TTIP) and were very keen to take part. Then Prime Minister Recep Tayyip Erdoğan even wrote a personal letter to President Obama, advocating the inclusion of Turkey in the TTIP.¹ The reason for the Turkish insistence was not only about the potential benefits of being included in the treaty, but it was also about the potential harm of being left out of it. If the TTIP were to enter into effect without the inclusion of Turkey, Turkey would have to open up its market to export goods from the US but would continue to face duties in the US market for its own goods. This would cause the loss of many jobs in Turkey and a significant drop in real wages. The CU requires Turkey to comply with the common trade policy of the EU without according Turkey the means to influence that policy. In consequence, every time the EU concludes a free trade agreement (FTA) with a new country, Turkey is obliged to "launch its own initiatives to conclude a similar agreement with that third party so

¹ Kirişçi, p.5.



as to have equal rights with the EU in terms of market access and eliminate the risk of possible trade diversion.”² However, this was not a problem for Turkey until the EU started concluding FTAs with major economies in the recent years and Turkey failed to launch negotiations with them in parallel. After reaching a deal with the EU, countries like South Africa and Mexico ignored Turkey’s calls and benefited until today from a free access to the Turkish market without providing the same opening to Turkish goods. In addition, Turkey cannot conclude its own bilateral FTAs without the consent of the EU.³ Initially, Turkish policymakers had accepted this inequality since they saw it as a temporary drawback that would be eliminated with the full accession of Turkey to the EU.⁴ It has been more than 20 years since the entry into force of the CU and Turkish accession is still not on the horizon. This dependency had become unsustainable and therefore the transformation of the CU into a simpler free trade area became popular amongst policy circles in Ankara.⁵ However, many studies proved that a rollback in the CU would be detrimental to the Turkish economy. Comparing this outcome to the advantages of deepening the existing CU, Turkey asked to launch negotiations for an updated CU.

The main goal of the Turkish delegation will be the expansion of the CU to further include agriculture, services, and public procurement. This could potentially double the trade volume between Turkey and the EU in the next decade, increasing the Turkish gross domestic product (GDP) of about 1.9%.⁶ For the remaining objectives, Turkey has two possible strategies it can follow during the negotiations. It can pursue more sovereignty by trying to distance itself from the norms and regulations of the EU, or it can seek further European integration and can make progress with accession talks. To resolve the lack of harmony in the formulation of common commercial policy, Turkey can propose the establishment of “parallel track negotiations”⁷ occurring simultaneously with the FTA negotiations the EU holds with a third party. This solution would stress sovereignty by giving Turkey the possibility to conclude its own bilateral treaties with third parties. However, the recognition of Turkish goods as goods produced in the EU remains another option, stressing Turkish integration into Europe. In any case, if Turkey can achieve the same level of economic integration with third countries that have a trade deal with the EU, the Turkish GDP would grow an

² Kirişçi, p.13.

³ Turkey can conclude bilateral FTAs for the goods not covered by the CU. However the difficulties in doing so prevented Turkey from pushing for such agreements.

⁴ Ülgen, 2012.

⁵ *ibid.*

⁶ Yalçın, p.7.

⁷ Raiser, p.85.



extraordinary 2.5%.⁸ Another contrast between the two strategies would be the example of the liberalization of transport permits. Turkey and the EU can liberalize the entirety of their road transport, or they can limit it to the transportation of the goods covered by the CU. On the other hand, opening the Transport Policy Chapter of the accession talks would result in the same outcome. As the only EU candidate without a visa-free regime, Turkey would put this subject on the table. Turkey can argue for the establishment of a specific visa category for business professionals, or insist on the fulfillment of the visa liberalization program that came under spotlight once again with the EU-Turkey Joint Action Plan better known as the refugee deal. In short, the new CU agreement can be designed to be perfectly aligned with the accession process. Nevertheless, the Turkish government will more likely seek to ensure Turkish sovereignty given the uncertainties regarding the future of Europe and the present tensions between Turkey and Europe.

As a matter of fact, Turkey is not the only country to renegotiate with the EU about the CU. In the context of Brexit, British Prime Minister Theresa May affirmed that the United Kingdom (UK) should be able to strike its own trade deals, but also emphasized that she had no preconceived position on whether “that means [the UK] must reach a completely new customs agreement, become an associate member of the CU in some way, or remain a signatory to some elements of it.”⁹ Essentially, the future of the EU - UK relationship is as ambiguous as the EU - Turkey relationship. Many in Turkey and across the EU have advocated for an extensive Turkish involvement in this debate about the future of the Union in order to evaluate potential forms of membership such as “privileged partnership” or “virtual membership”.¹⁰ These different forms of relationship were initially proposed by European Turko-skeptics to prevent a future full accession of Turkey to the EU. They were denigrated by the Turkish policy circles who asserted that the EU had essentially promised Turkey full accession by initiating the negotiations process in the first place. Today the prospects of accession look dimmer and the same circles argue that Brexit might provide Turkey with a precious opportunity to take matters into its own hands and propose the kind of relationship it would want with the EU; one that reaps the benefits of economic cooperation while preventing the EU from meddling in its internal affairs. The CU update negotiations are the perfect place to start.

⁸ Yalçın, p. 7.

⁹ Government of the United Kingdom. Prime Minister's Office. *The Government's Negotiating Objectives for Exiting the EU: PM Speech*. 17 Jan. 2017. Web. <<https://www.gov.uk/government/speeches/the-governments-negotiating-objectives-for-exiting-the-eu-pm-speech>>.

¹⁰ For more information about different proposals of membership models for the EU, see Tocci.



From a political point of view, Turkey and the UK might be in a similar position and joining forces might give them the upper hand in the CU negotiations.¹¹ Yet from an economic perspective, they are as different as chalk and cheese. Thanks to the guidance of the World Bank, the International Monetary Fund (IMF), and the EU, the Turkish economy experienced extraordinary growth rates in the beginning of the 2000s, mostly as a result of its commitment to deepen structural reforms and to improve economic institutions. Turkey's pro-European ambitions gave the EU an important role in improving the institutional structure of Turkey and this engendered an unprecedented growth.¹² However most of these reforms were entirely reversed after 2007 when the ruling party established its domination on the state apparatus. Essentially, the rise and fall of the Turkish economy since the arrival to power of the Justice and Development Party (AKP) is not the result of a simple boom-and-bust cycle or a stop-go policy. The main reason for the decline in Turkish growth after 2007 is the complete about-turn whereby all the improvements on the economic and political infrastructure were reversed.¹³ On top of this, a widespread lack of respect for the rule of law, further escalation of terrorism and other acts of violence and a failure to ensure the rights and freedoms of all citizens have culminated into the economic deadlock Turkey finds itself in today.¹⁴ The Turkish miracle in the beginning of the 21st century proved that "even starting with weak institutions and political imbalances, rapid and high-quality growth appears feasible if the political opening for deep structural reforms and improvements in economic institutions can be found."¹⁵ The UK does not need the EU's guidance to improve its institutional structure, but Turkey is in dire need of it. An updated CU will provide Turkey with a short-term remedy for its troubled economy, yet what Turkey really needs is deep structural reforms to achieve sustainable growth and to return to the growth rates of the 2000s. In today's circumstances, the only actor capable of putting pressure on Turkey for such reforms is the EU within the context of accession negotiations. This indeed requires an aspiration for full membership from the Turkish side, and good faith from the European side, and unfortunately the two seem to be waning today. Turkey reconsiders its desire to be part of an economic and political organization that is currently in plain contemplation of its own future. European countries, on the other hand, seem to downplay the strategic and economic benefits of incorporating Turkey into the EU and its single market to be able to cope with populist tendencies. The rise of Euro-skepticism in France, Germany and other European countries, and the authoritarian

¹¹ Ülgen, 2015.

¹² Acemoğlu, p.1.

¹³ For a detailed analysis see Acemoğlu.

¹⁴ Derviş, p.26.

¹⁵ Acemoğlu, p.25.



implications of the constitutional referendum in Turkey further aggravate the situation. However enlargement might once again be put on the EU agenda after this period of introspection, and a potential no vote in the upcoming referendum might fundamentally alter the political preferences in Turkey, pushing for democratic reforms. Regardless of the scenario, following the British example and trying to offer an alternative relationship between Turkey and the EU would mean the termination of the accession talks. This would let loose the only anchor Turkey has for deep institutional reform. Difficult as it may be for the Turkish government to admit, if it wishes to fulfill its vision of becoming one of the top ten economies of the world for the centenary of the Turkish Republic in 2023, the only option it has is to return to its reformist roots and to commit to a deep structural reorganization with Europe's help. If a new model of partnership that jeopardizes the accession talks arises from the CU negotiations, Turkey and Europe would be united by a materialistic bond that erodes the fundamental values and basic principles of the European project.

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