

“The Impact of TTIP on the EU-Turkey Customs Union”

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The Transatlantic Trade & Investment Partnership (TTIP): Prospects and Challenges for EU-US Economic Cooperation

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What are the economic consequences of TTIP for in- and outsiders?

- Turkey is one of the countries closely observing TTIP developments
- primary concern: TTIP's potential impact on the Turkish economy given its long term economic relation with the EU under CU
- **EU is Turkey's number one trading partner and accounts for 80% of FDI in Turkey.**
- CU- unique example of far-reaching trade integration, under which Turkey is obligated to adopt large parts of the acquis, without participating in the EU-decision making and consultation mechanisms.
- ***Is Turkey an insider/ outsider?***

Different Models of Association of EU

▶ Main models in chronological order:

- 1. Association based on a Customs Union (CU)...*** Greece, TR...60s...trade in goods
- 2. Association based on a potential Customs Union.....*** Malta, Cyprus ..70s
- 3. The European Economic Area (EEA):*** The Internal Market Association
- 4. Associations based on a Free Trade Area (FTA)....*** Europe Agreements (EAs) and Stabilization and Association Agreements (SAAs)
- 5. Associations aimed at establishing a Deep and Comprehensive Free Trade Area (DCFTA)....***
Association Agreements with Moldova, Georgia, Ukraine (2014)

TR concern also reflects the problem of an old-fashioned trade agreement with new generation FTAs

The EU-Turkey CU goes beyond trade

1. involves harmonization of EU's internal market legislation in areas such as competition policy, anti-dumping, intellectual and industrial property rights, state aid, etc.
 2. Adopting EU's Common Customs Tariff and Commercial Policy towards third countries
 3. Aligning progressively with the preferential customs regime of the Community
 4. Concluding preferential trade agreements with the countries with which the EU has agreements
- ▶ ***The CU acted as the external anchor for the transformation of the Turkish industry, modernisation of economic legislation & integration with the global economy***

asymmetry in the relations under the CU

- *The Commission's DG Trade treats TR as a third country & TR has no say in EU's trade agreements*
- *TR cannot participate in GSP and Trade Policy Committees & has no voice in the formation of Common Commercial Policy.*
- *There is also asymmetry concerning trade with the third countries with respect to Common Customs Tariff* > Turkey under no circumstance can apply a customs tariff lower than the CCT for any product.
- *Why Turkey accepted this asymmetry?* **A.** eventual membership > underlying logic is easily understandable because the European Community itself was established as a CU in the 1957 Treaty of Rome; **B.** after 1989 decision concerning Turkish application for membership, CU became the only viable option

***TR's accession was not realized &
EU's trade policy changed drastically in the 2000s***

- ▶ Turkey faces a moving target problem > EU initiates and concludes FTA negotiations before Turkey.
- ▶ TR conclude a series of bilateral FTAs in line with the EU > problems became evident (signed 23, 27 in process)
- ▶ «TR clause» in FTAs, BUT EU neither does run parallel track negotiations nor force third countries to conclude negotiation with Turkey, & the third countries are generally reluctant to make reciprocal concessions to Turkey & sometimes simply refuse to conduct parallel free trade negotiations

Asymmetry in FTAs of the EU creates

- ▶ unequal market access opportunities for the EU and Turkish exporters because of the fact that the EU exporters gain preferential access to FTA partners' markets,
- ▶ *asymmetric preferential market access* between Turkey and EU's FTA partners due to the fact that EU's FTA partners' goods can freely circulate into Turkey through EU borders in the framework of the CU, but *the partner country only accepts tariff-free imports from the EU member countries, not from TR*
- ▶ unfair competition as a result of the EU producers' preferential access to cheaper raw materials.

TTIP- asymmetry became critical for Turkey

- Trade diversion effect in short run, Long run implications will be more serious
- Inherently discriminatory nature of TTIP, not only with tariffs, but also in regulatory coop.
- In the case of TTIP with a system of mutual recognition of quality standards, TR through the CU could obtain improved access to the US market.
- However, TTIP with 'a regulatory harmonization, without recognising Turkish quality certificates, Turkey's losses would be far greater .

US gains access to the Turkish market without reciprocating

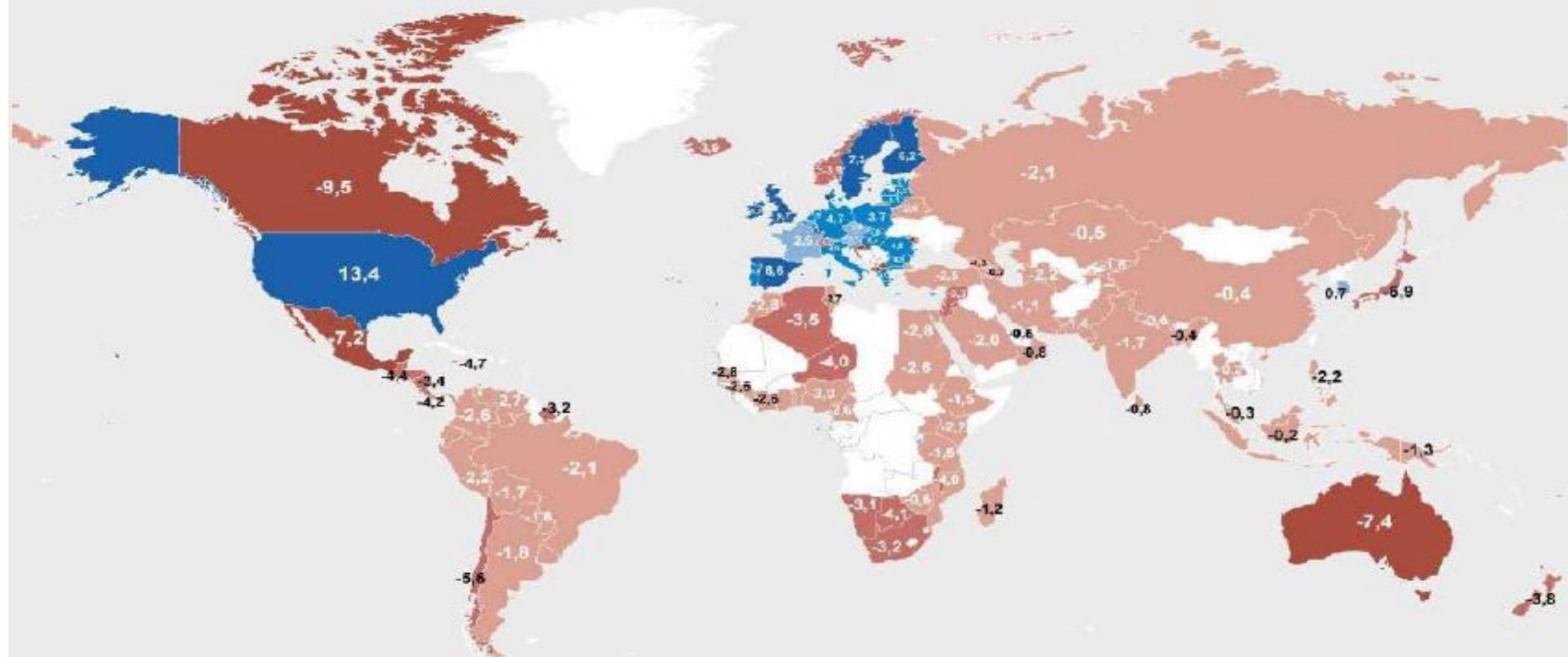
- US can continue duty on imports from Turkey , but Turkey would not impose a customs duty on imports from the US> costing Turkey considerable tax revenue.
- Industry will face unfair competition>unemployment increase & increase trade deficit
- ***“For the same reason, once a TTIP deal is struck, there is no incentive for the US to enter into an FTA with TUR unless Turkey’s concessions are **TTIP+**” (U. Dadush).***

➤ **Income Effect**

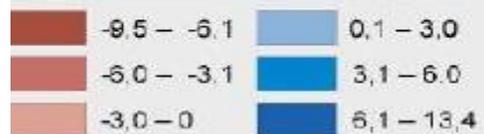
Higher incomes in US & EU > higher D for raw materials, consumption goods, intermediary inputs, services from third countries, including TR

Global impact - IFO study (2013) results!

Welfare effects of a comprehensive free trade agreement



Welfare Changes in %



Welfare impact of TTIP for Turkey

The gain for Turkey becomes positive with spill overs, but it is very low compared to EU or US gain, and less than world average, even less than non-TTIP average in ifo study.

- Aligning (*indirect spill-overs*) will be incorporated in the normal process of EU/Turkey alignment.**
- Direct spill-overs will be rare in TTIP and are MFN-based, hence, automatic for all third countries.**

WELFARE EFFECTS OF TTIP

	Ifo		CEPR		Aichele et al.	
Spillovers:	NO	YES	NO	YES	NO	YES
EU average	3.9	7.8	2.3	3.0	2.1	2.7
US	4.9	7.1	1.0	1.1	2.7	3.4
Germany	3.5	7.1	1.4	2.3	2.6	3.1
Turkey	-1.6	0.1	-0.8	1.8	0.1	1.2
Non-TTIP average	-0.9	0.8			-0.1	1.2
World average	1.6	3.9			1.3	2.2

Studies

- **ifo²: Felbermayr et al. (2015)**: Update of ifo study (more recent data, more countries)
- **CEPR²: Egger, Francois, et al. (2015)**: Update of CEPR study using Ifo approach to non-tariff barriers
- **Aichele, Felbermayr, Heiland (2014)**: value added chains and sectoral structure for 134 countries and 34 sectors

The impact of TTIP on any country will depend on the existing level of economic integration between the partners and third country.

The share of US in Turkey's total trade is very little, while EU is its primary trade partner.

	USA	EU
2011	4.11	40.84
2012	4.26	37.69
2013	3.63	38.48
2014	3.12	39.34
2015	3.18	40.64

Turkey-EU / Turkey-USA Annual Trade (\$ billion)

	<i>Turkey's Exports to USA</i>	<i>Turkey's Imports from USA</i>	<i>Balance</i>	<i>Turkey's Exports to the EU</i>	<i>Turkey's Imports from the EU</i>	<i>Balance</i>
<i>2011</i>	4.584	16.034	-11.450	62.347	91.128	-28.780
<i>2012</i>	5.604	14.130	-8.526	59.197	87.447	-28.249
<i>2013</i>	5.640	12.596	-6.955	62.925	92.355	-29.430
<i>2014</i>	6.341	12.727	-6.385	68.518	88.783	-20.264
<i>2015</i>	6.397	11.127	-4.730	64.008	78.668	-14.659

Turkish exports in US market

US total import (\$ bn)	Sectors	Turkey's share in US imports-2012	
701	Chemicals	0.1%	Turkey has very limited shares in leading US import industries
356	Electronics	0.0%	
315	Automotive	0.3%	
185	Machinery	0.2%	
98	Aero&Defense	0.6%	Turkey has sizeable shares in medium-sized US import ind.
98	Apparel	0.6%	
57	Steel	1.8%	
19	Textile	1.7%	
2	Carpet	9.2%	Turkey is in leading position in some small-sized US import ind.
2	Tobacco	9.8%	
0.3	Hazelnut	83.4%	

Turkey had two options:

- *to reach a separate FTA with the US***
- *be included in the TTIP by persuading the EU***
- *What would have happened if neither of those options had worked out?* The answer came Economy Minister Z. Çağlayan
“We can leave the customs union.” (2013)**

Washington declined to bargain

- ▶ a template - trade agreements with Korea, separate FTAs with Turkey , US (March 2012), and EU (July 2011) provide framework that can be used for U.S.-Turkish negotiations
- ▶ Disappointment by the remarks of US Secretary of Commerce, Penny Pritzker

“Turkey and the US are great allies and nothing is going to change that, but engaging further with the TTIP at this time before the necessary economic reforms are taken doesn’t make sense either for Turkey or the US”.

a revision of the CU (problem of an old-fashioned trade agreement with the new generation FTAs)

revision was already essential, but prospect of TTIP enhanced it>

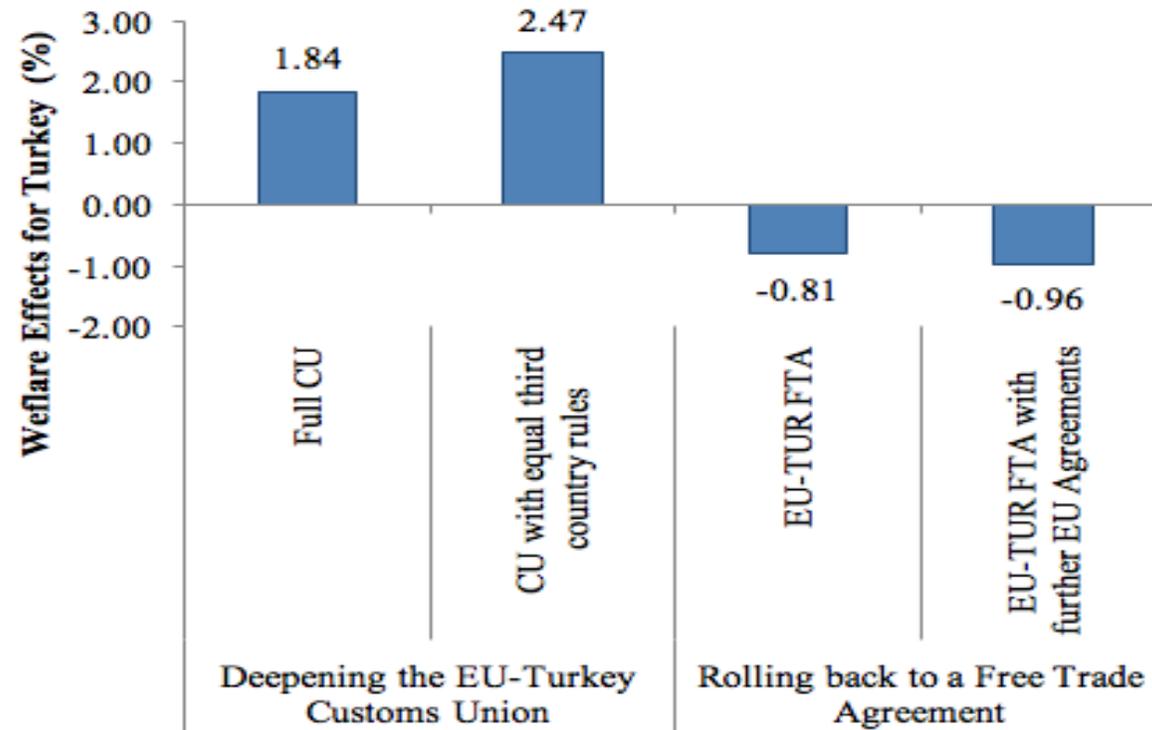
WB evaluation

May 2015, Turkey and the EU announced their decision to revise the framework and to expand the scope of the CU.

How to revise the CU?

FTA or upgraded CU

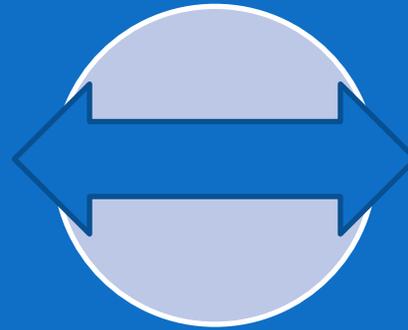
- ▶ Felbermayr et al. (2016):



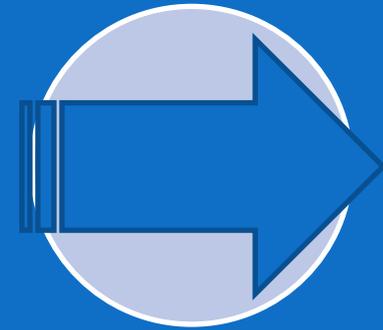
Customs Union: How to revise it?



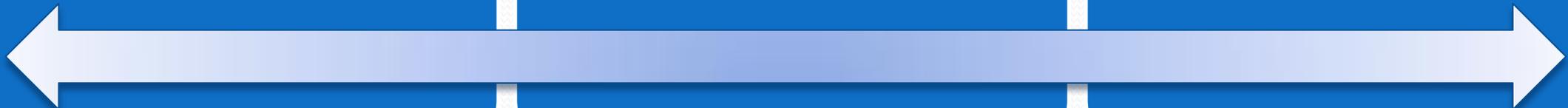
DCFTA: to replace the CU with FTA that covers all goods trade, including industrial, agricultural, and fishery products, plus services, and public procurement



Standstill CU: with minor revisions



Enhanced Commercial Framework (ECF): CU with the scope unchanged (industrial products only), & coal and steel agreement & FTA covering the following: agriculture and fishery products, services and establishment, NTBs, and public procurement.



Outcome

- **Functional Cooperation: Engagement without accession**
 - concept of a “privileged partnership” or the concept of an “associate membership”
 - CU modernize > TR a stronger voice in the EU’s Common Commercial Policy > granted an informal seat on the EU side of the trade negotiation table