

Chapter 7

TTIP and Turkey: The Geopolitical Dimension

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The launch of the Transatlantic Trade and Investment Partnership (TTIP) negotiations in the summer of 2013 has attracted considerable attention. This attention has been primarily focused on the economic dimension of TTIP, often at the expense of geopolitical considerations. This is not surprising, because TTIP aspires to create a much more deeply integrated transatlantic market composed of 28 European Union (EU) member countries and the United States. This market would cater to a population close to one billion people commanding 47% of the world's GDP and close to 27% of world trade.¹ TTIP negotiations aim to achieve much more than traditional trade liberalization by lowering or removing remaining already low level barriers to trade. They aspire to address tougher non-tariff barriers (NTBs) by harmonizing regulatory issues and move on to a WTO-plus agenda to govern reciprocal investments and open up new sectors such as agriculture, government procurements and services to international competition. The immediate objectives of TTIP have frequently been defined as boosting the sluggish EU and U.S. economies by providing for economic growth and employment through increased trade and an expansion of reciprocal foreign direct investments. Domestic political considerations have led EU and U.S. politicians, not surprisingly, to emphasize these economic objectives.

However, TTIP, especially with its sister Trans-Pacific Partnership (TPP), also offers a number of geopolitical objectives. The spirit behind these objectives has been captured succinctly by Stuart Eizenstat, former U.S. Deputy Secretary of the Treasury and U.S. Ambassador to the EU, who noted that

¹Calculated from *IMF International Financial Statistics*, April 2014, <http://elibrary-data.imf.org/> and *IMF World Economic Outlook*, April 2014, <http://www.imf.org/external/pubs/ft/weo/2014/01/weodata/index.aspx>. If the trade within the EU is also taken into consideration the figure of 27% would increase by another 15-42% percent of world trade.

There are essentially two competing models of governance in the post-Communist world. One is the transatlantic model shared by many other countries, based upon democratic governance, with free peoples, free markets, and free trade; the other is autocratic governance, state-controlled or dominated economies, and managed trade. The TTIP is an opportunity to show the world that our model of governance can produce tangible gains for our people on both sides of the Atlantic and more broadly are the best model to meet the challenges of the 21st century.²

Recently, the contest between these two forms of governance has become particularly visible with respect to events that have unfolded in Ukraine since November 2013. Street protests broke out against the then President of Ukraine, Viktor Yanukovich, for having backed down from initialing an association agreement with the EU in preference for deeper economic relations with Russia and the prospects of Ukraine entering the Russian led Eurasian customs union. The protests culminated in Yanukovich fleeing the country and a caretaker government being formed to prepare the country for national elections. However, in the meantime Russian President Vladimir Putin's reluctance to "lose" Ukraine led to a series of events that in March 2014 saw the Russian annexation of Crimea and since then efforts to undermine Ukraine's territorial integrity. Armenia, on the other hand, was unable to resist Russian pressures when it was forced to suspend negotiations with the EU and join the customs union with Russia. For the time being Georgia and Moldova have avoided a similar fate and have taken important steps towards greater integration with the EU. They signed their association agreements with the EU in June 2014.

What has unfolded in Ukraine can be seen as a geopolitical contest that erupted over different models of economic integration and forms of governance. Many recognize that if Ukraine's relations with the EU can be deepened this would matter significantly in terms of the geopolitical interests of the transatlantic community. In the words of Ambassador Paula Dobriansky, former U.S. Undersecretary of State

²Stuart E. Eizenstat, "Transatlantic Trade and Investment Partnership (TTIP) Remarks," Woodrow Wilson International Center for Scholars, (Washington, DC: March 21, 2013), <http://www.acus.org/files/transcripts/seizenstat130321wilsonremarks.pdf>.

for Democracy and Global Affairs, whichever way Ukraine goes matters significantly for the whole region surrounding Ukraine.³

Another region that is a source of geopolitical contestation is the Middle East. When the Arab Spring first erupted in December 2010, there were heightened expectations that the Arab world might finally be transformed in the direction of greater democracy, rule of law and liberal market economies. With the possible exception of Tunisia, this still has not happened. Instead—except for oil-producing Gulf countries—the Arab world is in the throes of deep economic and political instability. Egypt, as the traditional leader of the Arab world, remains in a state of turmoil where a regime reminiscent of the one preceding the Arab Spring appears to be emerging. Worst of course is the case of Iraq and Syria. The future of both countries as unified entities is in question. The influence of the EU and the United States over the future course of these countries is extremely limited, and is further blocked and contested by Russia and Iran. In the case of Syria, Russia clearly supports the existing Assad regime. Iran also backs the Syrian regime as well as the one in Baghdad that continues to advance repressive and polarizing policies that aggravate instability in Iraq. It will clearly be a long time before the Arab world reaches a modicum of stability so that the thought of easing this world into a transatlantic form of governance can even be entertained. Currently, the geopolitical contest over these two countries is far from favoring the interests of the EU and the United States.

Turkey is a country that sits in the midst of these two highly contested regions. Turkey has been a long-standing ally of the United States and a member of the transatlantic alliance. However, lately it has been having domestic political problems and questions have been raised about Turkey's commitment to transatlantic values. Questions have also been raised about Turkey's foreign policy.⁴ Nevertheless, Turkey has been a loyal member of NATO since 1952 and was a founding member of many of the Western-led economic and political organizations ranging from GATT, the IMF and World Bank to the

³Remarks made at the "Three Ambassadors to Discuss Ukraine's Turn to Russia, Impact on U.S. and E.U.," the Bipartisan Policy Center, Washington DC, January 14, 2014.

⁴*Back to Zero Problems? Recent Developments in Turkey's Foreign Policy*, (Washington DC: Bipartisan Policy Center, April 2014).

OECD and the Council of Europe. Turkey has had an association agreement with the European Economic Community since 1963 and a customs union with the EU in place since 1996. Furthermore, even if sporadically, Turkey is moving forward in negotiations regarding its membership to the EU since 2005.

Despite a foreign policy that is at times assertive and independently minded, Turkey's economic and social ties with its traditional transatlantic allies remain very strong. In 2013 44% of Turkey's foreign trade was with the EU and the United States; more than two-thirds of foreign direct investment in Turkey came from the EU and the U.S. while 66% of Turkish capital was invested there.⁵ In the course of the last decade, the Turkish economy has grown impressively and has become the seventh largest economy in Europe (including Russia), and the 17th largest in the world. In 2013, the economy of Turkey was larger than those of all its neighbors put together, excluding Iran and Russia, demonstrating its importance for the economies of the region. Furthermore, this economic performance precipitated the emergence of a vibrant middle class, which now plays a critical role in Turkey's democracy. An overwhelming majority of this middle class travels to EU countries for business, cultural and tourism reasons. Similarly, more than half of the 32.8 million foreign nationals who entered Turkey in 2013 came from the United States and EU member countries.⁶

This economic picture has led the Turkish government and businesses to energetically advocate for Turkey's inclusion in TTIP. Turkish Prime Minister Recep Tayyip Erdogan wrote a personal letter on the subject to President Obama in April 2013 and Turkish Minister of Foreign Affairs Ahmet Davutoglu raised the issue with Secretary of State John Kerry during the latter's visit to Turkey in March 2013. Subsequently, Erdogan brought up the issue of TTIP and a possible bilateral free trade agreement with Obama during his visit to Washington in May. Similarly, Davutoglu raised the matter up once more with Kerry in Washington in November and also argued, in an article, that TTIP would help to anchor Turkey in the West.⁷ In May 2014

⁵Data calculated from the Turkish Statistical Institute (TUIK) and the Turkish Central Bank.

⁶Data obtained from the General Directorate of Migration Management.

⁷Ahmet Davutoglu, "With the Middle East in Crisis, Turkey and the United States Must Deepen Alliance" *Foreign Policy*, November 15, 2014.

the new Turkish Minister of Economy Nihat Zeybekci met with his U.S. counterpart Michael Froman and then during his talk at Brookings Institution reiterated the importance that Turkey attributes to becoming part of TTIP.⁸

However, so far the question of Turkey's inclusion in TTIP remains unresolved. This chapter will argue that TTIP could indeed be a vehicle to revitalize and strengthen Turkey's ties with the transatlantic alliance. This is because beyond the economic advantages that Turkey can bring to the membership of TTIP,⁹ the added value that Turkey can bring to the geopolitical objectives of TTIP must not be overlooked.

Just as Ukraine as well as Georgia and Moldova's future course has tremendous regional implications in terms of the strategic interests of the transatlantic community, so does that of Turkey. As a country sitting in the midst of a highly unstable and contested regions, the nature of Turkey's ties with the transatlantic community, including through TTIP, will impact significantly on Turkey's neighborhood. Turkey's exclusion from this new emerging international structure composed of TPP and TTIP risks pushing the country into the arms of those who challenge the Western economic and geopolitical order. It would also be damaging to Turkey's own economic development and democratization process. Instead, finding a way to include Turkey in TTIP, or alternatively signing a parallel free trade agreement between the United States and Turkey, would create a win-win situation for all involved—Turkey, the United States, the EU and Turkey's immediate neighborhood.

This chapter is divided into four sections. The first and second sections discuss the geopolitical dimension of TTIP and TTIP's potential impact on Turkey. The third section elaborates on the role that Turkey can play with respect to these objectives. The final section examines possible ways in which Turkey could be included or associated with TTIP.

⁸See: <http://www.brookings.edu/events/2014/05/15-ttip-turkish-trade-economics-united-states>.

⁹Discussed in some detail in my piece "Turkey and TTIP: Boosting the model partnership with the United States," *Turkey Project Policy Paper* (Washington DC: Center on the United States and Europe at Brookings Institution), No. 2, September 2013.

The Geopolitics of TTIP

At least three geopolitical and strategic objectives of TTIP can be cited. Beyond the immediate goal of taking economic relations to a new and higher level of interaction between the EU and the United States, both sides aspire to create the kind of political momentum needed to liberalize and reform the global economic system. EU and U.S. officials have not shied from openly expressing their hope and goal of using TTIP to unblock the WTO Doha negotiations and induce emerging countries in the longer run to adopt these WTO-plus standards, also sometimes referred to as the “new trade rulebook” for the 21st century.¹⁰ They seek not only to dismantle remaining barriers to trade in goods and services, they want to standardize rules with respect to labor, environment, investment, competition policies and state-owned enterprises. These new standards would come to constitute a “state of the art” trade regime and set a precedent for future trade negotiations. These efforts could also encourage reluctant countries to come on board as the growing cost associated with being left out become apparent. This strategy, also sometimes characterized as the “tipping point strategy,” aims to create a large integrated and liberalized market with high regulatory standards that would compel reluctant countries to adopt these standards to be able to enter and operate in the combined TPP and TTIP markets.¹¹

Second, TTIP is also seen as a means to reinvigorating the transatlantic alliance at a time when traditional security and strategic issues have become less important to the relationship. The United States had played a critical role in the aftermath of World War II in reviving the European economy and assisting the initial steps of the European integration project. This was also accompanied by the establishment of NATO and the very close strategic cooperation achieved in countering the Soviet Union during the Cold War. The protection provided by NATO and the United States played a central role in the economic revival and growth of Western Europe. These developments

¹⁰Jeffrey J. Schott, Barbara Kotschwar, and Julia Muir, “Understanding the Trans-Pacific Partnership,” *Policy Analyses in International Economics*, 99 (January 2013): pp. 11-12.

¹¹Mireya Solis, “The Trans-Pacific Partnership: Can the United States Lead the Way in Asia-Pacific Integration?” *Pacific Focus: Inba Journal of International Studies*, 17, no. 3 (December 2012), p. 328.

were hailed as a sign of the emergence of a “security community” across the transatlantic.¹² After the end of the Cold War, the United States and EU member states continued to work very closely to ensure the enlargement of both the EU and NATO into central and Eastern Europe. After considerable tragedy, both sides were also able to cooperate very closely in stabilizing the Balkans and anchoring the region in the West.

However, U.S. involvement in the global war against terrorism, especially the intervention in Iraq and the infamous “pivot to Asia,” complicated the relationship between the EU and the United States.¹³ This was aggravated by the economic crisis and the enlargement fatigue that engulfed the EU. The EU became much more inward-looking and lost the ability to work together with the United States on geopolitical and strategic issues. The failure to respond decisively to the Color Revolutions in the post-Soviet republics and the failure to counter Russian intervention in Georgia in 2008 did result in geopolitical setbacks.

Beside the fact that TTIP is seen as a tool that can strengthen the economic performance of both parties it is increasingly also being seen as a project that would help to revive the geostrategic weight of the transatlantic alliance in world affairs. This may explain why some have spoken about TTIP as an “economic NATO.”¹⁴

Third, TTIP is also considered to be a project that could reinforce “core values” of the Western liberal economic and political order such as the rule of law, human rights, and democratic governance. This ambitious objective indeed is somewhat reminiscent of the efforts after World War II and after the Cold War to restructure the interna-

¹²Karl W. Deutch et al., *Political Community and the North Atlantic Area: International Organization in the Light of Historical Experience*, (Princeton: Princeton University Press, 1957).

¹³Nathalie Tocci and Riccardo Alcaro, “Three Scenarios for the Future of the Transatlantic Relationship,” *Transworld Working Paper*, 04, September 2012.

¹⁴Numerous prominent personalities have employed this term. For instance, the Secretary General of NATO did so at an event at Brookings Institution in Washington DC, Transcripts of “The Future of the Alliance: Revitalizing NATO for a Changing World,” featured speaker: Anders Fogh Rasmussen, March 19, 2014, http://www.brookings.edu/~media/events/2014/3/19percent20rasmussenpercent20nato/20140319_nato_transcript.pdf, accessed May 15, 2014.

tional order. It comes also at a time when arguments about the “West” being in decline against the so-called “Rest” have been in vogue.¹⁵ This is also accompanied by the more specific geopolitical struggles that are taking place in and over Ukraine, not to mention Georgia and Moldova. It is also possible to make similar remarks for Iraq and Syria, recognizing that the problems in both countries are much more serious and difficult. Hence, TTIP can also be seen as an effort to redress the balance in favor of a “weakened West” and the transatlantic community.¹⁶ Clearly, such an achievement would considerably strengthen the geopolitical advantage that the “transatlantic form of governance” would enjoy in relations to the more authoritarian forms of governance represented by states such as China, Iran and Russia.

TTIP’s Impact on Turkey

Existing impact studies evaluate only how trade will expand between the EU and the United States. The welfare gains for both sides are predicted to be very positive even if they vary depending on the nature of the agreement that might be reached. According to one such report prepared by the Centre for Economic Policy Research in London, the gains from a comprehensive liberalization of trade would be in the order of €119 billion for the United States and €95 billion for the EU per annum.¹⁷ Another report prepared by the IFO Institute in Germany, in cooperation with the Bertelsmann Foundation, predicts substantive employment gains but notes that countries with preferential trade arrangements with the United States or the EU would be losers. Australia, Canada, Mexico and Turkey are highlighted as major losers resulting from trade diversion.¹⁸

¹⁵Charles A. Kupchan, *No One’s World: The West, the Rising Rest, and the Coming Global Turn*, (Oxford: Oxford University Press, 2012).

¹⁶Daniel S. Hamilton, “America’s Mega-Regional Trade Diplomacy: Comparing TPP and TTIP,” *The International Spectator*, Vol. 49, No. 1, March 2014, p. 87.

¹⁷Joseph Francois, *Reducing Transatlantic Barriers to Trade and Investments: An Economic Assessment*, (London, UK: Center for Economic Policy Research, March 2013), p. 47.

¹⁸Gabriel Felbermayer et al., *Dimensions and Effects of a Transatlantic Free Trade Agreement Between the EU and the US*, German Federal Ministry of Economics and Technology (Munich, Germany: Ifo Institut, February 2013), p. 7. For an extended version of this study see Gabriel Felbermayer et al., *Transatlantic Trade and Partnership (TTIP): Who Benefits from a*

The fact that Turkey would experience a net loss of welfare is not surprising given the terms of its customs union with the EU. The customs union was negotiated with the expectation that it would be a transitional arrangement while Turkey moved towards eventual full membership in the EU, and that it would help to strengthen the Turkish economy in the meantime. Indeed, the customs union contributed greatly to Turkey's economic development and the competitiveness of its manufactured products. The adoption of EU regulatory standards and preferential access to the markets of EU members greatly benefited Turkish economic development. The GDP of Turkey, according to IMF data, grew from \$227.6 billion in 1995 to \$ 827.2 billion in 2013. This is a 3.6-fold growth in nominal terms, and a significantly higher growth rate compared to that of the eurozone, which registered a 1.7-fold gain.¹⁹

However, this harmonization exercise also came with the requirement that Turkey adhere to the EU's common commercial policy. This has meant that each time the EU negotiates and signs a new free trade agreement with a third party, Turkey becomes bound by the terms of such an agreement. It then has to launch its own initiatives to conclude a similar agreement with that third party so as to acquire similar market access and eliminate the risk of a possible trade diversion. However, the absence of any provisions in the custom union that allows for Turkey to sit at the table during such negotiations or wield any tangible influence on the agreements themselves has created a very difficult situation in the long run. This difficulty has also been highlighted by the World Bank's report assessing the customs union between Turkey and the EU.²⁰

In practice this has meant that Turkey has had to open up its market to export goods from these third parties without being granted reciprocal preferential access for Turkish goods. This puts Turkey at a

Free Trade Deal, GED Project Part 1: Macroeconomic Effects (Gutersloh, Germany: Bertelsmann Stiftung, June 2013). These studies should be considered as giving an approximate idea of the impact on Turkey and others.

¹⁹Calculated from data presented in *IMF World Economic Outlook*, April 2014, <http://www.imf.org/external/pubs/ft/weo/2014/01/weodata/index.aspx>, accessed in May 2014.

²⁰*Evaluation of the EU-TURKEY Customs Union*, (Washington DC: World Bank, March 28, 2014).

major disadvantage and results in possible trade diversion risks, especially when third parties refuse to negotiate and sign parallel free trade agreements with Turkey. This for example has long been the case with countries such as Algeria, Mexico and South Africa after they signed their respective agreements with the EU in the early 2000s. Turkey has repeatedly approached these three countries to initiate negotiations to sign bilateral free trade agreements—to no avail. Similarly, Turkey is experiencing difficulties in engaging countries such as Canada, India, Japan and Vietnam that are in the process of negotiating their respective free trade agreements with the EU. This is leading to an increasing resentment against the customs union as well as questioning of relations with the EU by politicians and the public.

This problem is compounded by other Turkish grievances concerning the functioning of the customs union. One burning issue is the way in which Turkish business people have to be equipped with a visa to be able to travel in the EU.²¹ This creates an extremely paradoxical situation where by the goods of Turkish companies circulate freely in the European internal market while producers face considerable hurdles when they wish to accompany those goods as part of regular business. This is in sharp contrast to European business people, who can travel to Turkey without visas and in the case of some nationalities even without passports. Similarly, there also complaints about limited transit quotas for trucks ferrying Turkish goods to EU member countries.²² These two practices not only cause a lot of frustration among Turkish business people but also lead to allegations that both practices constitute a form of non-tariff barrier for Turkey's ability to export to the EU.

Hence, it is not surprising that some Turkish officials have been very critical of the customs union and the EU's reluctance to respond to their grievances. The former Minister of Economy, Zafer Çağlayan, as well as former Minister for EU Affairs, Egemen Bağış, expressed this frustration on a number of occasions when they publicly raised

²¹Kees Groenendijk and Elspeth Guild, *Visa Policy of Member States and the EU towards Turkish Nationals After Soysal*, (Istanbul: Economic Development Foundation, Publications No. 257, 2012).

²²*An Analysis on the Impact of Road Transport Quotas: Submitted by the Government of the Republic of Turkey*, United Nations Economic and Social Council, ECE/TRANS/SC.1/2013/4, August 30, 2013.

the possibility of withdrawal from the customs union.²³ These declarations have come also against a background of growing disillusionment over Turkey's stalled EU accession process. Hence, it was not terribly surprising when Turkish Prime Minister Recep Tayyip Erdogan declared in January 2013 that he was ready to give up on EU membership and revealed that he had asked the Russian president, Vladimir Putin, if he could help with Turkey's admittance to the Shanghai Cooperation Organization (SCO).²⁴ In November 2013, during his visit to Russia, Erdogan renewed his call to join SCO and took it one step further by expressing interest to see Turkey become a member of the Eurasian customs union too:²⁵ the very union that a good part of the Ukrainian public loudly objects to joining. These feelings against the EU have also been shared by the wider public. In an opinion survey published in January 2013 by the Istanbul-based Center for Economic and Foreign Policy Studies (EDAM), only 33% of those surveyed thought Turkey should persist with membership in the next five years.²⁶ Their belief that EU membership being something good for the country was also down from 74% in 2004 to 44%, according to the Transatlantic Trends Survey of 2013.²⁷

Would the Turkish Prime Minister realistically move Turkey away from the EU and out of the customs union, and redirect Turkey's eco-

²³“Minister says Turkey to Reconsider EU Customs Union,” *Today's Zaman*, March 25, 2013, accessed July 14, 2013, <http://www.todayszaman.com/news-310708-minister-says-turkey-to-reconsider-eu-customs-union.html>, “Revise Customs Union or Cancel it Totally,” *Hurriyet Daily News*, March 28, 2013, <http://www.hurriyetdailynews.com/revise-customs-union-or-cancel-it-totally---turkey-tells-eu.aspx?pageID=238&nid=43815> and “AB'ye Gumruk Birliği Uyarısı,” *Sabah*, March 29, 2013, <http://www.sabah.com.tr/Ekonomi/2013/03/29/abye-gumruk-birligi-uyarisi>, accessed January, 2014

²⁴Tayyip Erdogan, *Sansürsüz Özel*, 24, (originally aired January 27, 2013), hosted by Yigit Bulut. Bulut has since been appointed as special advisor to the prime minister.

²⁵*News conference following a meeting of the High-Level Russian-Turkish Cooperation Council*, November 22, 2013, <http://eng.kremlin.ru/transcripts/6318>. For a commentary see “Erdogan's SCO, Eurasia Call May Represent No More Than Message to EU,” *Today's Zaman*, December 1, 2013, http://www.todayszaman.com/newsDetail_openPrintPage.action?newsId=332721, accessed May, 2014.

²⁶*İliskilerin 50. Yilinda Avrupa Birliğine Destek Azalıyor* [In the 50th year of relation support for the EU falling] January 2013, <http://edam.org.tr/document/EDAMAnketOcak2013.pdf>, accessed January 2014.

²⁷*2013 Transatlantic Trends*, p. 46, <http://trends.gmfus.org/files/2013/09/TTrends-2013-Key-Findings-Report.pdf>, accessed January 2014.

conomic and political orientation away from the West and Western institutions? Probably not. Yet it goes without saying that the grievances held against the EU specifically and the West at large, including the United States, has been growing in recent times. Divergences between Turkey and its transatlantic allies on an ever-widening list of issues ranging from the crisis in Syria, the military coup in Egypt, relations with Israel and Hamas, and most recently the Turkish decision to purchase Chinese missiles, has become very conspicuous. However, the opening of a new chapter in EU-Turkish accession negotiations followed by Erdogan and Zeybekci's visits to Brussels in January and February 2014 together with the visit of Turkish Minister of Foreign Affairs, Ahmet Davutoglu to Washington DC in November as well as a series of ministers, are welcome developments and may well suggest a convergence in Western-Turkish positions actually driven at least partly by economic and trade considerations. Much more significant may well be that Zeybekci and his EU counterpart Karl de Gucht, the European Commissioner for Trade, started to explore the possibilities upgrading the customs union between the EU and Turkey.

However, the prospects of an exclusion from TTIP is highly likely to undermine this convergence process and aggravate Turkey's transatlantic relations because such an exclusion would mean that the United States would enjoy preferential access to the Turkish market without having to open up its market to Turkish exports.

Beyond unilateral U.S. access to Turkish markets, Turkish companies would become seriously disadvantaged by U.S. competitors who would benefit from more open access to the EU. These two developments would translate into loss of income as well as employment in Turkey, as predicted by the aforementioned impact studies, further aggravating the public's dissatisfaction with the EU, not to mention the United States. According to the Pew Global Attitudes Poll, in 2011 Turkish citizens gave the United States the lowest rating out of all the countries included in the survey at a staggeringly low 10% approval level, finishing behind a notoriously anti-American country as Pakistan. This trend pretty much continued in 2012 and 2013 with minor gains in favor of the United States. Given that such a level of public dissatisfaction is likely to be exploited by politicians in Turkey in a very populist manner, it would not be unrealistic to expect that

Turkey's commitment to the transatlantic alliance would suffer adversely.

Yet, this does not necessarily need to be the case. Large business interest groups, such as the Independent Industrialists and Businessmen's Association (MUSIAD), the Turkish Union of Chambers and Commodity Exchanges (TOBB), the Turkish Industrialists' and Businessmen's Association (TUSIAD) and the Turkish Confederation of Businessmen and Industrialists (TUSKON) have repeatedly underlined the importance of Turkey's Western orientation and its relations with the EU as critical to its economic growth and performance. The survey by EDAM mentioned earlier on also revealed that when a panel of 202 experts was questioned about EU-Turkish relations almost 87% supported the view that Turkey should persist with pursuing EU membership. Clearly better informed opinion much better appreciates the importance of the EU for Turkey.

Often these are also the very circles that are keen to get Turkey involved in TTIP. They are aware that if Turkey were to become part of TTIP there would be upfront technical costs associated with implementing new regulatory standards, and political costs resulting from populist criticism directed at the requirement of adopting rules without having had a chance to shape them. At the same time, they also recognize that the cost of being left outside TTIP, accompanied with a weakening of relations with the EU, would be even higher, both economically and politically. This is clearly noted by a 2013 report prepared by the Economic Policy Research Foundation of Turkey (TEPAV) a think-tank closely associated with TOBB.²⁸

Turkey's Potential Contribution to TTIP's Economic and Geopolitical Objectives

Inclusion of Turkey in TTIP or some accompanying arrangement would visibly contribute to TTIP's economic as well as geopolitical and strategic goals. The Turkish economy has dramatically transformed in the course of the last two to three decades. Once dominated

²⁸Bozkurt Aran, "Global Partnership Quests: New Contentious Dynamics in Trade and Prospects for Turkey in an Age of TPP and TTIP," *Turkish Policy Brief Series*, Eleventh Edition, 2013.

by agriculture and an import substitution industry, the economy is now driven by services and an export-oriented manufacturing sector. One important aspect of this transformation is that foreign trade has acquired a much greater place in Turkey's GDP compared to the past. In 1975, foreign trade accounted for only 9% of Turkey's GDP. In 2012 this figure had increased to 50%. Turkish foreign trade increased from around \$6.1 billion in 1975 to about \$403 billion in 2013.²⁹ Turkey has become deeply integrated with the global economy, particularly with the EU and its immediate neighborhood. In 2013, Turkey was the 6th largest trading partner of the EU, just ahead of Japan and Brazil, but behind Norway and Switzerland.³⁰ These developments suggest that, even if at a modest level, Turkey as a trading and investment partner to the EU and the United States can contribute to economic growth and employment in the transatlantic community.

The demographic advantages that Turkey enjoys when compared to the aging and declining population in the EU point to a likely growth in such a contribution. In turn, inclusion in TTIP would surely give an additional push to the Turkish economy's growth and further strengthen the Turkish economy's potential contribution as a source of growth and employment. This would not be limited to the EU and the United States but also benefit countries in its immediate neighborhood. A Turkey in TTIP would be a Turkey with a greater economy. This would translate into Turkey becoming a greater importer of the goods and services of neighboring countries and hence a source of economic growth and employment from them too. Actually, during the last two decades the biggest gains in foreign trade were achieved with Turkey's immediate neighborhood: trade expanded from about \$4 billion in 1992 to \$92.8 billion in 2012, a 23-fold increase compared to a 9-fold and 6-fold increase, respectively, for trade with the EU and the United States during the same period.³¹

²⁹Data calculated from TUIK.

³⁰"Client and Supplier Countries of the EU28 in Merchandise Trade (value percent)," http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_122530.pdf, accessed May 2014.

³¹For a discussion of Turkey's trade with its neighborhood see Kemal Kirişçi, "Turkey and Its Post-Soviet Neighborhood", *Current History*, Vol. 112, No. 756, October 2013 and Kemal Kirişçi, "Arab Uprisings and Completing Turkey's Regional Economic Integration: Challenges and Opportunities for US-Turkish Relations" *Journal of Balkan and Near East Studies*, Vol. 15, No. 2, 2013.

Turkish business presence and investments in these neighboring countries, such as Bulgaria, Romania, Russia, Georgia and Iraq, also greatly expanded in the course of the last two decades. These investments include bakeries and restaurants set up by individuals, as well as manufacturing plants by major Turkish companies. Turkish Central Bank figures suggest that Turkish FDI stock in neighboring countries increased from just about \$900 million in 2001 to \$6.5 billion in 2012. It is widely acknowledged that the real figure is much larger than the one quoted by the Central Bank. This suggests that Turkey is already directly contributing to the economic growth of neighboring countries through investment too. Inclusion in TTIP would expand this impact. Furthermore, although there are no known studies it should also be possible to argue that Turkey's economic engagement in its neighborhood in turn also indirectly contributes to demand for both EU and U.S. goods, services and investments in this region. An already existing manifestation of this development is that a growing number of American and European companies are basing their regional operations in Turkey. Turkey's inclusion in TTIP is likely to strengthen this direct and indirect effect resulting from Turkey's economic engagement of its neighborhood to the benefits of all parties involved. Turkey's engagement with its neighborhood can also contribute to TTIP's strategic objectives in two distinctive ways. Turkish trade and investment can help to ease at least parts of the neighborhood into a Western liberal economic order. Actually, Davutoglu actively sought to develop such an order through encouraging greater regional economic integration through the signing of free trade agreements and liberalization of visas.³² Second, as mentioned earlier, Turkey straddles a region where Eizenstat's two forms of governance meet and compete with each other. This competition is most conspicuous over Ukraine, but it also involves Armenia, Georgia and Moldova. Turkey economic relations with Ukraine had been expanding until recently, and Turkey is Georgia's leading economic partner. There is also a modest amount of trade and business relations occurring between Armenia and Turkey in spite of the border between the countries being closed.³³

³²Ibid.

³³Kemal Kirişçi and Andrea Moffatt, "A Turkish-Armenian Rapprochement?" *National Interest*, May 2, 2014, <http://nationalinterest.org/commentary/turkish-armenian-rapprochement-10373?page=show>.

Turkey's engagement with this neighborhood serves at least three important functions. First, the Turkish economy is a liberal market economy and inevitably Turkish commercial actors become vehicles in disseminating rules and values associated with a liberal market economy.³⁴ These actors have a stake in operating in an environment of rule of law and as they seek such an environment they socialize their counterparts into such values. It should also be remembered that many of these Turkish commercial actors interact with especially the EU and operate with the rules and standards that govern the customs union between Turkey and the EU.

Second, Turkey, even if modestly, helps to diminish the dependence of these economies on Russia and becomes a kind of a conveyor belt connecting them into global markets. In contrast to any other major economy in this neighborhood—such as Russia and Iran—Turkey is the only one that is most closely and deeply integrated with the Western liberal economic order. Inclusion of Turkey in TTIP would not only deepen Turkey's involvement in this liberal order but also increase its role in helping to ease its neighborhood into this order.

Third, Turkey could help reduce the EU's energy dependency on Russia. The crisis in Ukraine and the annexation of Crimea has suddenly brought back the geopolitical reality of the EU's energy dependency on Russia. There is now even talk of including an energy chapter in TTIP negotiation as part of a transatlantic effort to reduce some of its dependency. Turkey itself is heavily dependent especially on Russian gas and is trying to diversify its energy sources. It has reached an agreement to construct Trans-Anatolian Gas Pipeline (TANAP) and obtain Azeri gas. Turkey also signed deals with the Kurdistan Regional Government (KRG) to import energy even if for the time being the implementation of this deal is being held up by the central government in Iraq. The discovery of natural gas deposits in Eastern Mediterranean has raised the prospects of some of this gas being sent to Turkey and on to Europe. These developments if successfully managed could clearly help diversify EU energy supplies and improve the EU's dependency on Russia. Actually, Turkey aspires to

³⁴Kemal Kirişçi, "Democracy Diffusion: the Turkish Experience" in Linden, Ronald (et al.) *Turkey and Its Neighbors: Foreign Relations in Transition*, (Boulder, Colorado: Lynne Rienner, 2011).

become both a transit and hub for energy reliable flows between alternative suppliers to Russia and Europe.³⁵ Following the Russian military intervention in Georgia in 2008 and Russian unilateral sanctions against Georgia, it is difficult to see how Georgia could have maintained its links with the West and sustained its aspirations to become part of the transatlantic community if it did not have Turkey next door. The impact of the crisis on Turkey's role with respect to Ukraine is still not very clear. Turkey like a number of EU member countries has been somewhat subdued in its response to Russia in an effort to protect its commercial and economic interests there. At the same time there is also deep seated concern about Ukraine's territorial integrity and the geopolitical consequences of its violation. Ukraine and Turkey were negotiating a free trade agreement to deepen economic integration between the two countries and visa requirements had been lifted reciprocally. However, when and if a pro-Western Ukrainian government does consolidate power in Kyiv, its economic relations with Turkey is likely to carry geopolitical significance in terms of alleviating some of its dependence on Russia. It is also possible that if Turkey had closer and more normal relations with Armenia, the Armenian government might have not felt that dependent on Russia and not been compelled to suspend its negotiations with the EU and accept to join the Eurasian customs union.

The place where Turkey's role as a conveyer belt for bringing a country into the global economy and attach it to Western liberal economic order is most visible is the Kurdistan region of Iraq. After long years of difficult relations with Kurds both inside the country and in northern Iraq the current Turkish government has not only adopted policies to try to improve the situation of Kurds in Turkey but also dramatically ameliorated and expanded relations with the Kurdistan Regional Government (KRG).³⁶ Turkey's economic engagement of this region of Iraq and close relations with KRG have not only brought the region much closer to the West, but also spared the region from the instability and violence that persists in the rest of Iraq.

³⁵Gareth Winrow, "Realization of Turkey's Energy Aspirations: Pipe Dreams or Real Projects?" *Turkey Project Policy Paper*, (Center on the United States and Europe at Brookings Institution), No. 4, April 2014.

³⁶Henry Barkey, "Turkey's New Engagement in Iraq: Embracing Iraqi Kurdistan," *United States Institute of Peace: Special Report*, No. 237, May 2010.

A similar argument could also be made with respect to TTIP's "tipping point strategy" of encouraging challengers among emerging markets to adopt the new WTO-plus standards to be embodied in TTIP and TPP to enjoy market access. TTIP would institute an integrated market covering a geographic area stretching from the Pacific coast of the United States to the western shores of the Black Sea, with TPP expanding this zone to a good part of the Pacific basin. Turkey would be one of the few major liberal market economies standing between the two ends of this integrated region yet not included in the agreements. While its exclusion risks pushing Turkey closer to emerging markets resisting WTO-plus standards, the exact opposite would be the case in the event of Turkey's inclusion. Additionally, Turkey would be able to bring the weight of those parts of its neighborhood that would have already adopted some rules and the frame of mind associated with WTO-plus standards. Surely, the "tipping point strategy" would enjoy a greater likelihood of working if a long-standing member of the Western liberal economic order was on board.

Finally, the inclusion of Turkey would also help to consolidate and strengthen democratic governance in Turkey. The EU played a critical role in the democratization of Turkey. However, in the course of the last year Turkey's democracy has been facing growing challenges. There are many who believe that there is a relationship between the deterioration of EU-Turkish relations together with the weakening of Turkey's prospects of membership being at least one important factor contributing to the recent democratic setbacks in the country. Even if at times the thesis is contested that economic growth and liberal market policies help to expand middle classes and democracy, it would be difficult to dismiss this thesis completely in the case of Turkey. The growth of a liberal market and accompanying middle class continues to be seen as a factor that helped democratization in Turkey. In the absence of an EU perspective, Turkey's inclusion in TTIP would give a boost to economic growth and to the process of strengthening the middle class. In turn this would contribute to the additional objective of promoting and strengthening the "core values" of the Western liberal economic and political order in Turkey as well as in Turkey's neighborhood. It is not surprising that during the initial stages of the Arab Spring Turkey's economic success received considerable attention and the link between this performance and Turkey's democracy

was widely recognized. This would also be in line with the long standing strategic goals of the United States and the EU of supporting a democratic and liberal Turkey as a pole of attraction and stability in its neighborhood.

How to Engage Turkey in TTIP

Now that TTIP negotiations have formally started, including Turkey at the table does not seem like an option. Initially, this course of action was suggested by Turkish officials and business people and they actively lobbied various EU governments as well as the European Commission in this vein. The Turkish side even tried to mobilize U.S. government support to get Turkey involved in TTIP, but to no avail. These lobbying efforts were ultimately rejected on the grounds that Turkey is not a member of the EU. The most that the Turkish side could receive were assurances that they would be informed regularly about relevant developments in TTIP negotiations.

There are also those in Turkey who have advocated that Turkey could be included in the final agreement on TTIP on the grounds of the customs union and the EU membership process. This is a method that is preferred especially by those in Turkey who fear that Congressional politics would not allow the ratification process of a separate trade agreement with the United States to go through. However, this too is highly unlikely to take place, and even if it did it would mean Turkey having to accept all the terms of the agreement without being party to the negotiations. Another alternative is to write into TTIP the possibility for third countries to accede to the agreement after the fact. TTIP could be left open to countries that have long standing trade agreements with the United States or the EU. Countries such as Canada, Mexico, Norway and Switzerland together with Turkey have been mentioned.

Known also as “docking,” this is a provision that the United States has advocated for in the context of TPP negotiations. For this to be an option, TTIP would need to have the required clauses within the agreement, and Turkey’s application would need to be accepted. The downside for such an arrangement for Turkey is that accession would most likely require Congressional as well as EU approval and this may

well complicate the process. Similar to the previous option here to there would be complications especially with respect to domestic politics resulting from having to adopt all the obligations of the treaty without the possibility of negotiating any of the terms. Nevertheless, by introducing transition periods for the implementation of some of the more demanding terms, this could prove to be a manageable exercise. However, it would be very important that this process not turn into an experience similar to the one with the EU. A long and drawn-out accession process would be a recipe for disaster in Turkey's relations with its transatlantic allies. In the meantime there are no immediate signs of an effort on the part of the aforementioned countries to pool their resources to develop a common position with respect to TTIP or for that matter "docking." Furthermore, for the time being the Turkish side considers its position to be considerably different than the others because of the customs union, and hence has not engaged those countries that have free trade arrangements with the EU or the United States.

Another approach would be to revisit the possibility of negotiating and signing an independent free trade agreement between Turkey and the United States. Expanding economic relations between the two countries have been advocated for some time. Madeleine Albright and Steven Hadley proposed an ambitious plan in 2011 in the form of a "Turkish-American Partnership" that would incorporate "the TPP's emphasis on market access, regulatory compatibility, business facilitation, assistance for small and medium-sized enterprises, and promotion of trade in cutting-edge technologies."³⁷ The idea appears to have never been seriously pursued because of the restrictions placed on Turkey's ability to negotiate and conclude free trade agreements independently of its customs union with the EU. Now that TTIP is being negotiated, such a restriction would no longer be applicable. However, one challenge here, if such an agreement were to mirror TTIP, is that this agreement would inevitably cover sectors not included in the customs union, such as agriculture, services, or government procurement. This would create a curious situation in which the agreement with the United States would go beyond the terms of the customs union with

³⁷Madeleine K. Albright and Stephen Hadley, *US-Turkey Relations: A New Partnership*, Independent Task Force Report no. 69 (New York, NY: Council on Foreign Relations, 2012), p. 13.

the EU, possibly creating complications to EU-Turkish relations and also raising possible legal challenges to whether the customs union agreement would allow for such an FTA between Turkey and the United States. However, this could also be an opportunity for strengthening EU-Turkish relations. Most of the areas that would be covered by TTIP beyond the customs union are actually areas that are part of the stalled EU-Turkish accession process. In other words, these are the very regulatory areas that Turkey needs to address to align more closely with the EU. Furthermore, the World Bank report mentioned earlier actually recommends that both the EU and Turkey revisit the customs union and look into ways of enhancing this relationship by addressing, *inter alia*, the above issues areas.

The Turkish side has been pushing energetically the idea of a free trade agreement with the U.S. side especially during Prime Minister Erdogan's visit to Washington DC. However, the idea did not gain enough traction with the U.S. administration and the Turkish side had to settle for what a disappointed Turkish diplomat called "yet another committee." Concerns ranging from an already loaded trade agenda, congressional politics and democratic setbacks in Turkey appear to have played a role in this decision. Instead, the Turkish side accepted the establishment of a High Level Committee, to be led by the Ministry of Economy of Turkey and the Office of the U.S. Trade Representative, with the ultimate objective of continuing to deepen the economic relations and liberalize trade as well as examine the impact that TTIP could have on Turkey.³⁸ Nevertheless, on the Turkish side there is some hope that this committee might evolve to something like the High Level Working Group between the EU and the United States, which eventually recommended the negotiation of TTIP. In this way the Committee would constitute a governmental forum where both sides could discuss and ripen the idea of a free trade agreement. This of course would need to be accompanied by a bottom-up process of mobilization coming from the business world. Clearly, the broader the basis of demand for deeper economic relations with Turkey, the greater would be the likelihood of achieving the public support needed to negotiate a free trade agreement. But the enthusiasm of

³⁸Fact Sheet: U.S.-Turkey Economic Partnership", The White House Office of the Press Secretary, May 16, 2013, accessed July 12, <http://www.whitehouse.gov/the-press-office/2013/05/16/fact-sheet-us-turkey-economic-partnership>.

Turkish and American businesses must be matched by a genuine will in government and congressional circles.

Against this limited list of options, the least that could be encouraged is greater trilateral consultations at two levels. The first level would be inter-governmental. Officials from the European Commission and possibly also interested member countries, the United States and Turkey would meet regularly to discuss the developments with respect to TTIP negotiations. This would give a chance to the Turkish side to follow developments especially with respect to regulatory issues and be able to do their homework. Additionally such a consultation mechanism would in itself become a major confidence-building exercise—an exercise direly needed in this triangular relationship. An immediate issue that could also be addressed is the inclusion of Turkey in impact studies commissioned by the EU and the United States. The initial study commissioned by the EU did not include Turkey. Since then the Commission has responded favorably to calls to have Turkey included in the overall study of TTIP's impact scheduled to be completed by the end of 2014.³⁹

A second trilateral consultation mechanism could operate in the form of second track diplomacy involving academics, former officials and business people. The purpose of this level of consultation would be to explore ideas and ways to involve Turkey in TTIP and prepare briefings and reports for the first level inter-governmental consultations. A more ambitious version of these consultations could include participation from other major members of the Western liberal economic order such as Canada, Mexico, Norway and Switzerland.

Conclusion

TTIP and TPP will profoundly impact the international economic order. The Western liberal order that was put into place at the end of World War II has faced growing challenges from emerging countries.

³⁹*Trade Sustainability Impact Assessment on TTIP between the EU and the USA* commissioned by the European Commission. The final version of the report is to be published by the end of 2014 and promises to report in detail the effects of TTIP on Turkey too, *Final Inception Report*, April 28, 2014, p. 23, <http://www.trade-sia.com/ttip/wp-content/uploads/sites/6/2014/02/TSIA-TTIP-Final-Inception-Report-.pdf>, accessed May 2014.

Beyond immediate economic growth and employment-related objectives, TPP and TTIP also aim to reinvigorate the Western liberal order by creating a new generation of regulatory standards to govern trade and investments. This is accompanied by an understanding that third countries interested in accessing these two markets will need to adopt these standards. TPP and especially TTIP is also about reinforcing “core values” of the transatlantic governance model, with its emphasis on the rule of law, human rights and democracy. Interestingly this is occurring at a time when emerging economies appear to be losing their edge and dynamism over the established economies and democracies. Hence, TTIP and TPP together may indeed succeed both economically as well as strategically in reinforcing the Western liberal economic as well as political order.

In the course of the last two to three decades, Turkey has been deeply transformed both economically and politically. Turkey’s close relations with the EU and the United States have made an important contribution to this process. In turn Turkey has continued to be an important ally of the United States in an increasingly volatile region. Turkey came to be praised for its soft power and has also been presented as a model for the transformation of the Middle East. However, in recent years Turkey has entered a period where its commitment and ties to this transatlantic community is being questioned and its economy is showing signs of strains. This is occurring at a time when the United States is negotiating TTIP and TPP, two agreements that promise to achieve greater economic integration among countries who produce almost two thirds of the world’s GDP and half its trade. It also coincides with a period when Turkey’s neighborhood is in a state of turmoil and the influence of the transatlantic community is being energetically contested. This can be seen not just in Syria and Iraq but also in the post-Soviet world and most obviously in Ukraine.

Where should Turkey be? In the course of the last couple of years its relations with the EU and the United States have not been the best. A long list of grievances has piled up, especially with respect to the operation of the customs union and the EU membership process. More recently, Turkey had tended to see developments in the Middle East from an increasingly different perspective than the United States. At times these differences have turned out to be very bitter. However, Turkey may well be at a crossroads. The Middle East has not turned

into the economically promising and political stable reform-oriented geography that many had hoped when the Arab Spring first broke out. Instead the region is in a deep state of turmoil, and the worst chaos is on Turkey's doorstep. Recent developments have also shown that Turkey is unable to shape these events the way it prefers on its own. Much worse is that the instability next door is at the brink of spilling over into Turkey. This may well be a critical moment when Turkey has to make a choice somewhat similar to the one it made at the end of World War II and the beginning of the Cold War when it made the strategic decision to reinforce its ties with the West. These two decisions served Turkey well, how could one otherwise explain that Turkey is doing so much better than those countries that chose differently. Furthermore, reinvigorating ties with the West does not mean abandoning the Middle East or its immediate neighborhood. On the contrary, all the evidence from the last decade or so is that the neighborhood prefers to see a Turkey with strong ties to the West and especially to the EU. A strong signal and commitment on the part of Turkey in support of its ties with the West surely would contribute positively to the efforts of those who would want to see Turkey in TTIP.

The EU and the United States will need to do their share too. There is growing recognition that Turkish economic development has reached the point where Turkey can make a difference to the economic growth and employment levels in the United States and the EU, not to mention its neighborhood. This is accompanied also by a recognition that strategically keeping Turkey in the West and as a member of the transatlantic alliance is in the interest of both the EU and the United States. However, what is needed is a corresponding will and policy determination to engage Turkey accordingly and not take Turkey for granted. This would require a vision somewhat similar to the one that existed in the United States in the latter parts of the 1940s and in the then European Economic Community exactly half a century ago, when an association agreement was signed with Turkey with the clear understanding that Turkey would become a member of what subsequently became the EU. Such a vision would help to open up new horizons with respect to TTIP and TTIP could become the project for the 21st century for re-anchoring Turkey in the transatlantic community.

How would have the history of the Cold War unfolded had U.S. decision-makers in the late 1940s not launched the Truman Doctrine, supported the inclusion of Turkey in NATO and left Turkey outside the transatlantic alliance? This is the kind of question to which one would not be able to provide a convincing answer. Yet, the least that can be said is that the geopolitics of Turkey's neighborhood would probably have evolved along very different lines. The issue of whether Turkey should or should not be part of TTIP is a question of a similar caliber. This is not very different from asking oneself how the crisis in Syria would have looked like had EU-Turkish relations remained on course and Turkey had joined the EU together with Croatia. This clearly is a speculative issue, but it is the opinion of this author that the situation in Syria would at least not be worse than it is today.

A similar question could also be asked about Armenia. Would Armenia have been compelled to join the Russian-led Eurasian customs union and lend its support to the results of the referendum in Crimea? Again it is the opinion of this author that most probably Armenia would be on track with its association process with the EU easing itself out of the grip of Russia. Such a question can be raised for Ukraine too. In other words, whether Turkey remains tightly anchored in the West or not has regional geopolitical and strategic consequences. The issue of Turkey's inclusion into TTIP is of similar significance. Turkey can hugely benefit from membership to TTIP, as it did from the customs union, but much more importantly the dynamics of the Turkish economy, the geographical location of Turkey, the demography of Turkey, the political system of Turkey, Turkey's continuing, against all odds, close and intense connection to the transatlantic community can benefit TTIP economically, geopolitically and strategically.

The key is to mobilize the will to find a way to include or associate Turkey with TTIP. The winners would be the EU, the United States, Turkey's neighborhood, and clearly Turkey itself, but also Eizenstat's "transatlantic model" of governance. This is when TTIP's geopolitical and strategic objectives would fully be served.