Dynamics of European Union's Trade Strategy:

Drawing Conclusios for Relations with Turkey *

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INTRODUCTION

Turkey is among the European Union's (EU) prominent trading partners. It is a key commercial partner of the EU, ranking seventh in the EU's top import markets, with a share over 4 percent; and fifth in its export markets, with a share over 3 percent, in 2011. The value of trade between the EU and Turkey exceeded a peak of euro 100 billion (in 2011, it amounted to euro 110 billion). For Turkey, the EU-27 is the main trading partner despite a decline in the recent few years in its share out of total Turkish foreign trade and investments. In 2010, the EU represented Turkey's leading export and import destinations for goods, with a share of 46.3 percent and 39 percent, respectively. Almost 70% of FDI inflows into Turkey originated from EU countries during 2005-2010. For over a decade and a half, both sides have been linked by a Customs Union (the CU) providing a basis for a mutual economic and trade integration. Following the initial establishment of the CU, Turkey has largely adopted Community's legislation regarding trade policy instruments, trade regime with third countries (almost all with some exceptions) within the ambit of the EU's common commercial policy, and other areas relevant to the functioning of the CU. In this context, completion of the Customs Union was an essential stage for the finalisation of the *transition period* stipulated in Ankara Agreement (the Association Agreement). In 1996, Turkey became the first country to complete a 'Customs Union' without being a member (even though its official candidature had not been recognised by then).

During the initial phase of the Ankara Agreement, the expectation was that the relations based on a CU would lead towards Turkey's eventual integration to the EU (then the EEC), once Turkey demonstrates that it will be able to undertake obligations that full membership requires[1]. Therefore, initially the CU has not been perceived as an end in itself, but a facilitating stage towards full membership. Although the latter has been the vision of Turkey's relations with the EU, 'the timing and circumstances' are not clearly stipulated in Article 28 of the Association Agreement[2]. On the other hand, it took almost a troubled decade following the CU to start the 'accession negotiations' which still continue in an 'open-ended process the outcome of which cannot be guaranteed beforehand' as articulated very sharply in the

[1] The wording in *Article 28* of the Association Agreement stipulates that 'As soon as the operation of this Agreement has advanced far enough to justify envisaging full acceptance by Turkey of the obligations arising out of the Treaty establishing the Community, the Contracting Parties shall examine the possibility of the accession of Turkey to the Community'.

[2] H. Kabaalioğlu, "Turkey-EU Customs Union: Problems and Prospects", *Dokuz Eylül Üniversitesi Sosyal Bilimler Enstitüsü Dergisi*, 12, no.2, (2010), 55.

Negotiating Framework document of the EU on 3 October 2005[3]. Meanwhile, several chapters, including those that directly concern the CU, have not been opened and consequently not closed for different technical, political and similar reasons, and the current pace of the negotiations is not promising. As observed, the present nature of Turkish-EU relations does not provide the same optimistic signs that the stakeholders had in the early years of the CU. In the last couple of years, not only Turkey's membership process has lost its ambience, but the CU as an interim stage had become subject to criticism that it caused unilateral economic and legal imperatives on Turkey which many business and political circles in Turkey regarded to be burdensome[4]. During its accession process and the implementation of the CU, Turkey received little of the financial (and moral) support that the EU normally grants to its prospective members. Not surprisingly, Brussels' behavior has engendered a deep frustration among the Turkish political and bureaucratic elites, by not living up to its promise of strengthening the relationship. The concerns were on the other hand mutual. In a debate on the Report by the European Parliament concerning trade and economic relations with Turkey in 2010, Karel de Gucht, the Trade Commissioner of the EU raised that the EU faces some resistance and unwillingness from Turkey to implement fully the customs union[5].

Notwithstanding, the operation of the CU overall was generally assessed to be positive for both sides, especially for Turkey in driving manufacturing sector to improve its competitiveness. Several studies reveal that Turkey's CU practice helped to motivate reforms to keep Turkish economy in line with the EU, with a rising productivity, reduced x-inefficiency and new business strategies. CU by providing a preferential status, also allowed Turkish industry to exploit its comparative advantage in lower-to-medium technology areas in the EU market. Despite several negative implictions for specific sectors, its overall impact is assumed to be positive[6].

Having said this, Turkey and the EU live in a global setting wherein economic and political interactions take place in a dynamic atmosphere**.** Therefore, the CU should not be considered as a mere economic relationship leading to trade liberalisation between two entities in a static

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[3] For the 'Negotiating Framework' which set out the main parameters (the governing principles, substance, and the procedures of the negotiations) of Turkey's accession negotiations: http://ec.europa.eu/enlargement/pdf/turkey/st20002_05_tr_framedoc_en.pdf. See especially its para. 2.

[4] Even TÜSİAD, (Turkish Industrialists and Businessmen Association) an ardent supporter of the establishment of the CU, questioned its negative effects that were induceded by the EUs handling of trade issues with third countries without taking Turkish interests into consideration, in a recent debate. See, *TÜSIAD, Gümrük Birliği Çerçevesinde AB'nin Üçüncü Ülkelerle Yaptığı Serbest Ticaret Anlaşmalarının Avrupa ve Türk İş Dünyasına Etkileri*, Publication no: TÜSİAD-T/2008-06-467, (June 2008).

[5] For minutes of the debate held on September 20, 2010 in the EP Committee on International Trade, http://www.europarl.europa.eu/sides/getDoc.do?type=CRE&reference=20100920&secondRef=ITEM-019&language=EN&ring=A7-2010-0238 (28 January 2011).

[6] Kamil Yılmaz, *Taking Stock: The Customs Union between Turkey and the EU Fifteen Years Later,* Tüsiad-Koç University Economic Research Forum Working Paper, no. 1023, (July 2010), available at: http://www.ku.edu.tr/ku/images/EAF/erf_wp_1023.pdf (30 January 2011).

environment. It can therefore be argued that the CU process is not in isolation, but evolves in a vigorous surrounding within which the actors perceptions, stakes, and expectations transform as a result of changing circumstances.

Several factors have been forceful to change the complex process of European integration, which ultimately compelled the EU to review its strategies. Turkey was not immune from such global transformation, either. Therefore, the interaction between Turkey and the EU has always been open to several domestic and external factors which required a careful revision of the relationship. Built on a dynamic structure by its abstract nature, the CU is expected to reflect these changes automatically within its own edifice. However, both Turkish and the European policy-makers neglected this aspect and let the CU drift, without a proper maintenance.

At this stage, a brief reminder of the recent developments helps to grasp the setting within which the European and Turkish policy choices evolved. These choices have naturally influenced the general convictions about the CU.

In the European side, the grand debate over a possible European Constitution has been central for the future shape of the European integration process. However, the process had a pshycologically daunting effect in the minds of the people in Europe (as well as political elites) after several refusals in national referanda. The debate ended up with disappointment, which was followed by the 'Treaty of Lisbon' (known as the 'Reform Treaty') in late 2009. Among other things, Turkey's membership has been one of a focal discussion point. Its place in the EU (even in Europe) has been critically questioned, finally leading to a reflection in Turkish public that 'Europe does not want us'. Paradoxically, in late 2004, as a milestone in Turkey's relationship with the EU, the Commission recommended that 'the negotiations be opened with Turkey without delay'. The Council after a long debate on the issue, decided upon the Commission's view to inititate the formal negotiations for accession on 3 October 2005. Thereafter, the Commission prepared the screening reports for each of the 35 policy chapters. However, it did not take too much time for both sides to lose their momentum following developments in the political and economic spheres. More importantly, chapters relevant to the functioning of the CU were suspended in 2006 due to Turkey's restrictions with regard to the Cyprus issue (a political-sphere factor). The EU's unwillingness to implement properly the financial assistance promised for the post-CU era was another factor (in economic-sphere) to inflict a damage, despite impetus provided by the CU-induced experience that helped Turkey to align its policy pertinent to commercial matters to the EU's trade policy.

Apart from bilateral aspects, the European integration process itself witnessed several developments mainly concerning the economy. The EU has evolved with a motivation to become a 'global actor' in the world. However, Europe faced major structural challenges – globalisation, decline in industrial competitiveness, climate change and an ageing population. The economic downturn has made these issues even more pressing. The *Lisbon Strategy* addresses these challenges – aiming to stimulate growth and create more and better jobs, while making the economy greener and more innovative. In this milieu, the European Council, defined the objective of the strategy for the EU *to become the most dynamic and competitive knowledge-based economy in the world by 2010 capable of sustainable economic growth with more and better jobs and greater social cohesion and respect for the environment*. The original strategy which developed in time, into a complex system of multiple goals and actions, and unclear division of responsibilities at the European and national levels, cogently necessitated a further review[7]. The strategy is argued to have an overall positive impact on the EU, but probably the main help of the strategy was that it highlighted the weaknesses in the EU economy and its problem of global competitiveness as well as the need for reform. On the trade side, this spurred a new strategy leading to *Global Europe: Competing in the World*[8], in 2006. The new trade strategy of the EU principally represented the external leg of its Lisbon initiative. Considering its objectives, instruments, and the implementation, as well as the EU's global role and magnitude in world trade, it had a direct impact on its neighbours' trade policies depending on the level of trade volume, the dimension of integration, and prospects for future relations. In this regard, Turkey's position is unique since it is a country in the accession process which already harmonised its policies– at least to some degree with the EU; is a CU partner; and has political aspirations for a deeper economic and political integration.

In the meantime, the developments in the world economy have been remarkable. The high rates of economic growth in several developing economies[9] induced many European policy-makers to think that the economic gravity shifts from West to East[10]. In addition, the volatility in energy and food prices; a constant increase in the EU's trade deficit; rising domestic pressure on environmental matters, and changing expectations of domestic policy actors due to global circumstances contributed to an overall need for a policy revision in the EU. The *stalemate in Doha Round* of multilateral trade negotiations was another critical development that became a turning point for many countries, mainly the EU to search for alternatives routes (venues) for implementing its trade policy. As pointed out there was clearly 'a need for an integrated, coherent foreign policy in order to meet Europe's global and regional challenges'[11]. Therefore, initiatives such as free trade agreements (FTAs) gained momentum as a new choice for the EU in regulating relations with non-EU countries, while trade issue has been an important policy tool (*soft politics*) in the construction of its overall foreign policy.

An unprecedented event was the *world economic and financial crisis* that broke the Western economies severely. In late 2009, Europe emerged from its deepest economic recession in its

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[7] See, Lisbon Strategy Evaluation document of European Commission (2010), available at: http://ec.europa.eu/archives/growthandjobs_2009/pdf/lisbon_strategy_evaluation_en.pdf (30 January 2011).

[8] For *Global Europe* document, see http://trade.ec.europa.eu/doclib/docs/2006/october/tradoc_130376.pdf (30 January 2011).

[9] For a comparison in trends of growth in developing and high-income countries see, The World Bank, Development Economics Prospects group-2008.

[10] The projections built on historical trends of economic boom in several developing countries reflect especially the changing position and effects of BRIC (Brasil, Russia, India and China) countries, and their next followers on the world economy. World Bank's *Global Economic Prospects and the Developing Countries* report in 1997, and Goldman Sachs analysis reveal that by 2040 the BRIC countries alone are going to represent a significant share of the world's GDP overtaking the G6, if they continue to sustain their economic growth as such. It is argued by Uri Dadush and Bennett Stancil in *The World Order in 2050,* Carnegie Endowment for International Peace Policy Outlook, (April 2010): 2, that *'in the coming years, the most successful developing countries, especially but not only those in Asia, will converge even more rapidly toward their advanced counterparts'*.

[11] Andre Sapir, 'Europe and the Global Economy', in A. Sapir, ed., *Fragmented Europe: Europe and the Global Economy,* (Bruegel, 2007), 18.

history. Though effects varied by country, the massive impact on several EU member states (Greece, Spain, Portugal, and Ireland in particular) indicated an immediate need for restoring confidence. The EU has taken a series of bold measures to regain stability and sustainability in the financial markets. On the other hand, trade implications of the global economic crisis were severe, resulting a sharp decrease in the volume of world trade[12]. Meanwhile the European Commission has launched its *Europe 2020 Strategy*[13] to go out of the crisis and prepare EU economy for the next decade. The Commission's document reemphasised the novel priorities of the EU's trade policy as reflected largely in its Global Europe action previously.

In Turkish side, the developments in relations with the EU and global challenges prompted a strategic change in Turkey's conduct of its own policy, too. In mid-2000s Turkish trade policy seems to become more proactive in nature, if not totally independent from the EU perspective. Turkish policy-makers preferred an assertive foreign economic policy approach within its broader understanding of strategic relations with the rest of the world, partly induced by regional political developments in its geographical neighbourhood, and partly as a direct consequence of its increasing self-confidence, in order to encounter its own way of handling international relations.

The 'assertiveness' became a visible characteristic of the new Turkish trade strategy as in the EU, especially following the suspension of the negotiations in CU-related chapters by the EU in 2006, and the rising global trend of bilateralism as can be characterised by the proliferation of regional trade arrangements (RTAs). The latter had a 'domino effect'[14] for many countries, not only for Turkey to offset the trade diversion effects of RTA schemes. This is not to claim that Turkey intends to deny the requirements of the EU accession negotiation, and the obligations arising from the CU. But it can be claimed that the changing dynamics and underlying motives have had constraining effects on Turkey in fulfilling its CU requirements. How Turkey reacts to these motives helps to understand the change in its external trade policy. Nonetheless, Turkey's trade policy shall not be sustainable only by means of a rhetoric of assertiveness in the form of opening new markets, without actually considering the dynamic needs for a comprehensive trade strategy, and without fully grasping the motives that cause changes in trade strategy of its main trading partner, the EU. A proactive trade policy should not only be confined to a superficial 'market access diplomacy', but must incorporate the realities in the world, European and the Turkish economies. As Onis (2011: 63) lucidly argues 'over-assertiveness and over-confidence in international affairs can have significant pay-offs in the short term but can also be detrimental to national interest and lead to isolation in the long term'.

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[12] For the impact of global economic and financial crisis on world trade, and dimensions of trade protection in the post-crisis period see, Baldwin and Evenett, eds. *The collapse of global trade, murky protectionism, and the crisis: Recommendations for the G20,* (London: Vox EU Publication, 2009).

[13] For external aspects of *Europe 2020 Strategy*, see European Commission's *Trade, Growth and World Affairs: Trade Policy as a Core Component of the EU's 2020 Strategy,* available at: http://trade.ec.europa.eu/doclib/docs/2010/november/tradoc_146955.pdf (30 January 2011).

[14] Richard Baldwin, Simon Evenett and Patrick Low, 'Beyond Tariffs: Multilateralizing Non-tariff RTA Commitments', in Baldwin and Low, eds., *Multilateralizing Regionalism: Challenges for the Global Trading System,* (Cambridge: Cambridge University Press, 2010), 98-99.

In this perspective, several rampant issues must be highlighted for a proper explanation of long-term ramifications in Turkey-EU relations. A myriad of these *motives* shaping the EU trade policy need further elaboration in order to comprehensively grasp the arguments raised in connection with the CU.

The next section starts by assessing the changing parameters of the EU trade strategy which ultimately will have indirect repercussions on Turkish trade strategy, by introducing motives that affect the setting within which the EU's trade strategy is redefined. The third part deals with factors that may cause divergency in trade policies of the EU and Turkey, by focusing on the features of Turkish trade policy.

CHANGING DYNAMICS OF TRADE STRATEGY IN THE EU: 'GLOBAL EUROPE' AND COMPETITIVENESS

Several challenging developments in the global political economy provide a background to EUs trade policy change. The first is about the liberalisation of economies. The world economy witnessed the process of deregulation in the financial markets that helped to shape the world production and trade patterns. The liberalisation of world trade under GATT/WTO negotiations stripped away many tariffs and introduced trade facilitating measures. This was manifest when countries including the EU were more offensive for improved *market access.* Although older forms of defensive trade protectionism was not totally outdated, it became clear that its legitimacy was open to challenge as countries became more export-oriented.

The second development was increasing rivalry from emerging economies notably from Asia[15]. This can be attributable to emerging nature of 'global production networking' i.e. firms establishing foreign subsidiaries to outsource certain functions, and to subcontract the production of numerous components in different countries, mainly in emerging economies in Asia[16]. Hence, vertical integration in global production process intensified, putting the annual growth of world trade over the growth of world output. Competitive pressures from emerging economies caused trade deficits in many European countries and in the US. China's integration into global economy by means of deregulation and opening itself to Western investment (as well as its participation to the WTO) further increased the challenges to labour intensive and lower-to-medium technology industries in the Western countries. The changing centre of gravity in the world economy following a progressive rise of investments, helped the EU to place many emerging countries in top of the priority list in its external economic relations.

A decline in transport costs, improving information technologies and communication, and innovations facilitated the operations in financial markets, and for business corporations. This also harnessed for civil society to share information for their common social concerns about issues as diverse as the climate change, public health, food security, consumer safety which soon became sensitive issues to 'broaden' the realm of trade policy.

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[15] Razeen Sally, *New Frontiers in Free Trade: Globalization's Future and Asia's Rising Role*, (Cato Institute, 2008).
[16] Yusuf Shadid et.al. eds., *Global Production, Networking and Technological Change in East Asia*, (Washington DC: The World Bank Publication, 2004), 2-3.

Changing nature of comparative advantages made price competitiveness a significant factor to determine the success and stability in the market. Combined with the shift in world demand towards upmarket and high-tech products, such developments enforced European business undertakings to invest in innovation, design and R&D. Global production process also resulted an import dependency to inputs (and intermediates) whose share rose over 50 percent in the EU. The EU, soon had to secure its *access to resources* (i.e. energy, metals, primary raw materials, and components) in global markets, and to minimise its dependency on external energy sources.

A further development was the growing concern over the role of international regimes to govern the world economy amidst global challenges. Thus, rising financial instability following a series of successive crises (i.e. Mexico, Russia, Far East Asia and the recent global economic and financial crisis in the Western economies) led to the questioning of the principles and existing institutional structure of international monetary and financial architecture. The debate currently continues under world economic summits, G-20 meetings etc. IMF's responses are found to be inadequate and therefore enhanced governance mechanisms are sought for in order to reduce the financial vulnerability. A similar development occured in the realm of trade as globally-induced pressures urged for an expansion of the scope of governance under the WTO. The latter is now expected not only to deal with trade instruments (tariffs, trade measures etc.) but also a wide range of trade-related domestic regulatory issues. The EU has been one of the ardent supporters for a more inclusive and broadened WTO regime. However, an ever broadening scope of the WTO regime faced difficulties. Unsuccessful attempts under multilateral system seem to encourage the EU, in its Global Europe strategy, for a switch towards alternative 'venues' to govern emerging trade-related issues.

These developments affected the trade patterns and relative competitive position of the EU, especially in the case of certain member states and several European actors (i.e. multinational corporations and firms) depending on the degree and nature of their involvement in the global economy.

Two shifts in EU trade policy

Based on these dynamic events, over the past decade and a half, the trade policy of the EU has changed considerably which can be characterised by two major shifts.

The first shift refers to the *typology of actorness*. It can be proposed that the types of actors as well as their interests, perceptions, expectations, and the degree of their involvement in EU trade policy process have perpetually transformed in time. The traditional scope of the commercial policy became subject to a critical examination by both old and new types of actors[17]. The critics were especially motivated by the redifinition of interests in the wake of transformation in world trade and production patterns.

The second shift, largely triggered by the first, was about the *conduct of trade relations*. By this, two basic elements can be referred to, namely the 'venue change' by the EU in order to satisfy its broader objectives, and a 'behavioural repositioning' from a defensive to an offensive outlook in the implementation of agreed goals and priorities. The venue change is

[17] Alasdair Young and John Peterson. 'The EU and the New Trade Politics', *Journal of European Public Policy*, 13, no.6, (2006): 795-814.

relevant to an experimental process whereby the EU seeks to maximise its interests by means other than multilateralim (i.e. the WTO) as the latter was perceived to be insufficient to govern while 'policy expansion' and 'regulatory influence' become intervening factors in policy process. It should be noted that these shifts are not independent to each other but are actually intertwined issues in European agenda. Therefore, they need an analysis en masse.

Traditionally, the conceptualisation of trade policy has largely been confined to exchange of goods in manufacturing and to some extent agricultural sectors, with utmost attention devoted to the implementation of trade policy instruments 'at the border'. Regulation of subsidies was one of the exceptional domestic policy issues ever taken into international trade negotiations within the ambit of GATT/WTO. Until mid-1990s, the trade policy domain has largely neglected areas such as trade in services and other trade-related business practices. Thus, both in the EU and elsewhere trade has been a policy realm where its formation process has been a playing area for traditional stakeholders like traders and domestic producers who faced the imminent effects of tariffs, quotas and similar border measures that regulate trade. Usually business communities and trade unions with few other interest groups have constituted *older type of policy actors* interacting with policy-makers under defined policy processes, in order to shape the policy outcomes to accomodate their interests. In time, the European business is diversified. Those sectors with competitive power started to ask for a more proactive policy approach embodying further market access abroad. The approach is asked to deal not only with conventional border measures, but also domestic regulatory issues such as non-tariff barriers, discriminatory standards, restrictive public procurement policies, violated intellectual property rights, and impeding investment and competition rules in third country markets. Therefore, these actors constantly started to propose an expanded commercial policy scope under changed economic circumstances and in line with the structure of competitiveness they live in.

However, not all policy actors supported the ideas of liberalisation and globalisation. Among these are European domestic producers and labour unions that lost their competitive power in senile industries, and new social actors who believe that free trade is not necessarily serving to European interests. Besides protectionist figures among older trade policy actors, the impact of globalisation was raised critically by *new type of actors*, including the ordinary citizens who were insecure about the unpredictable implications of the changing structure of world trade and economy under global markets. Thematic shift of trade policy narrative included a wide array of distress notably concerning specific trade-related topics among actors ranging from environmental NGOs on the protection of animal species *(Shrimp-Turtle case),* to consumer organisations on *beef hormone,* to public health on *genetically modified goods*[18].

Paradoxically, the concerns of outward-oriented traditional actors asking for stronger mechanisms for extensive market access, and of inward-oriented actors who look for mechanisms to shield them from disruptive effects of globalisation were of commonly mercantilist in nature. Despite contradictory claims over the liberalisation of trade, they nevertheless have a common vision for a more expanded and active policy approach. These concerns were transferred into trade strategy under mechanims to boost 'policy expansion' and a 'regulatory influence' on others. In this regard, trade strategy reflects what Jacoby and Meunier (2010) claimed in explaining the efforts by the EU to manage globalisation, i.e.

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[18] See, Matthew Baldwin, 'EU trade politics-heaven or hell?', *Journal of European Public Policy* 13, no.6 (2006): 926-942.

efforts by the EU to *harness* or *manage* the global challenges so that the 'globalisation happens on European terms, with other countries conforming to Europe's ways and standards'[19].

An expanding EU trade agenda

To achieve its overall objectives of smart, inclusive and sustainable growth as put forward in Europe 2020 strategy, the EU reframed its trade strategy in its Communication 'Trade, Growth and World Affairs'[20]. The document stipulated that 'keeping a competitive edge in innovative, high-valued added products' are important for a smart growth and long term jobs, and that the EU's 'trade policy must capture this by broadening the scope' to take some issues on board (p.6).

This approach reveals that domestic regulation of economic activities in foreign markets have become vital for the competitiveness and the sustainability of many European firms and multinationals. Largely induced by its own experience of integration, the EU started to question the legitimacy of its partners regulations in fields such as invetment regimes, public procurement practices, competition rules, technical standards, intellectual property legislation, other business practices which were mainly sovereign issues of the latter. For the EU, these areas required a harmonisation of laws and practices in order to liberalise trade and not to frustrate business activities, just like it was recognised in its own history[21]. Ultimately the transformation in global economic activities both in form and about territorial domain induced a change in European public discourse on globalisation, hence giving rise to claims for restructuring the multilateral governance in these new 'trade-related' issues.

One area of concern was *trade in services*. Currently, the services sector is accounting for some three-quarters of the gross domestic product (GDP) for the EU, and over three-quarters of EU jobs are in the services sector. The EU-27 is the world's largest trader in services while its share in global export is 26.6 percent in 2009, bringing a positive trade balance of about 109 billion dollars. The EU-15 increased its services trade balance four times over the last decade. 18 EU member states ranked among the top 40 exporters of services in 2009, ranking the EU as the first trader in majority of services categories[22]. In services trade, the diversity of regulatory framework in different countries are the main impediments to trade[23]. General Agreement on Trade in Services (GATS) has been a central tool to push-through market liberalisation and to provide larger access possibility for European services industry. In order to reduce the compliance costs to national firms providing services abroad, the EU entered into a complex structure of negotiations in services not only in the WTO, but also in an increasing number of bilateral agreements (i.e. FTAs).

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[19] W. Jacoby and S. Meunier, 'Europe and the Management of Globalization', *Journal of European Public Policy,* 17, no.3 (2010), 304-5.
[20] The strategy reflects the aims proposed in the Global Europe Strategy of 2006 in a 'path-dependent' way, despite the existence of subtle changes in its substance.
[21] Peter Holmes, 'Trade and Domestic Policies: The European Mix'*, Journal of European Public Policy,* 13, no.6, (2006), 816.
[22] Dan Hamilton, *Europe 2020: Competition or Complecent,* (Brookings Institution Press, 2011).
[23] Werner Raza, 'European Union Trade Politics: Pursuit of a Neo-Mercantilism in Different Fora?', in W. Blass and J. Becker, eds., *Strategic Arena Switching in International Trade Negotiations*, (Aldershot: Ashgate, 2007), 81.

Other prominent issue was invetments abroad. Europe is the largest provider of *foreign direct investments* (FDI) in the world. The EU has a net outflow of FDI in almot all major economies, and this boosted its GDP by 20 billion euro in the last decade[24] . In order to improve investment conditions in manufacturing and services sectors in third countries, the EU seeks for additional disciplines especially regarding the improvement of transparency of national investment regimes, extension of the non-discrimination principle, and putting all disciplines subject to WTO dispute settlement. The inclusion of foreign direct investment issue under commercial policy realm in Lisbon Treaty (Art. 207) was therefore essential to strenghten the EUs efforts to govern global investment regime in European terms.

The next issue that provides an expansion of trade agenda in the EU is *trade and competition*, whereby the EU asks for a global governance under its trade strategy via the WTO and bilateral negotiations, especially to secure that European firms do not suffer in third country markets from unreasonable subsidisation of local undertakings or their anti-competitive practices[25]. Under complex global production schemes, the EU supports to bring new commitments to adhere to a set of principles such as transparency, non-discrimination, fairness, enforcement of laws as well as strenghtening in its partners of their competition laws and regulations. Finally, the EU intended to expand the boundaries of its trade policy into *government procurement*, the biggest trade sector that remained largely sheltered from multilateral disciplines. Accordingly, the new strategy gives an utmost importance to this area by stating that the EU will press opening of procurement market abroad, and look for a more symmetrical access in both developed and in large emerging economies.

Lead them behave like us: forcing partners to regulate their domestic markets

An expanded agenda required instrumentally to have regulatory mechanisms in conduct of relations with the trading partners. This approach as proposed by Jacoby and Meunier is 'to ensure that external challenges brought about by globalisation have as little negative, disruptive effect upon European citizens as possible'[26]. This was essentially to facilitate the enforcement of the EU rights in third countries with a focus on stronger rules of economic importance for the European actors. Practically, the trading partners of the EU are expected to harmonise their laws and procedures, if not to adopt common disciplines with the EU's domestic rules. This mechanism complements the expansion of the trade policy scope of the EU into areas beyond its traditional boundaries[27]. The scope goes to cover areas either regulated insufficiently at the multilateral level (WTO+ issues), or not regulated within the WTO mandate at all (WTO-X)[28]. Following the difficult and stalled negotiations in Doha Round, the EU brought in its trade agreements provisions concerning regulatory issues ranging from sanitary and phytosaniary measures, technical barriers to trade, state aids, intellectual property issues (WTO+); as well as environmental standards, climate change, human rights, social and labour standards, movement of capital, illegal immigration, energy, data protection so on (WTO-X). The increase in the scope can lagely be attributable to the expectations of trade policy *actors* who position themselves under the dynamic structure of

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[24] Hamilton (2011), 11.
[25] Global Europe, 8.
[26] Jacoby and Meunier, 304-5.
[27] D. De Bievre, 'The EU regulatory trade agenda and the quest for WTO enforcement', *Journal of European Public Policy*, 13, no.6, (2006), 106.
[28] For more detail see, Henrik Horn, Petros Mavroidis, and Andre Sapir, *Beyond the WTO? An Anatomy of EU and US Preferential Trade Agreements*, (CEPR and Bruegel, 2009), 3-5.

global economic and political events. On the other hand, it is simultaneously argued that an extensive coverage of trade agreements makes them less effective and their legal enforceability weaker especially for WTO-X issues[29]. However, the EU's effort to incorporate them in its external commercial relations must give signals for its partners, including Turkey about the prospects of the trade policy in the EU.

The extension of the debate to propose a broader policy coverage and a regulatory flavour, had not only a subsequent impact in terms of domestic trade policy formation within the EU itself, but a notable change in the 'conduct' of its trade strategy vis-a-vis its external partners.

Changing behavioural patterns in EU trade policy

As emphasised above the new trade strategy of the EU reflects a more assertive *behavioural positioning* as can be traced in the *Global Europe* and in *Trade, Growth, and World Affairs*. Inspired by the Lisbon competitiveness agenda, a forceful trade strategy with 'policy activism' can be argued to take place. In terms of policy activism, several major practical elements are utilised to support the competitiveness of the European industry and business in foreign markets.

First, opening markets abroad (i.e. to reduce tariffs, and to deal with non-tariff barriers, including restrictive measures, regulations and procedures by foreign countries) is the most essential objective. Centred around a comprehensive *market access strategy*, the EU specifically targets markets, mainly emerging economies such as China; Far-East Asian countries; India; Brazil and other Latin American states so on to achieve further liberalisation. The strategy reveals that for each significant partner a specific bilateral arrangement (usually in the form of deeper and comprehensive FTA) is proposed. The EU provides the partner with the possibility to have an priviledged access to its larger internal market, if the latter provides the EU's export of goods and services with a broader market access and an acceptable level of domestic regulatory environment.

The second element is about securing sustainable and undistorted supply of raw materials (i.e. *access to resources*) such as energy and metals necesary for the production process. The main motive is the fact that Europe is dependent on imported intermediates for a sustainable production process. The EU's production and export performance has long relied on the global sourcing of inputs incorporated in the manufacturing process. Almost two-thirds of inputs were sourced from abroad between 1995-2005, with a figure of up to 70 percent in several member states. EU depenedency on foreign sources of energy rose to almost 54 percent in 2008, and is expected to be as high as 70 percent over the next 25 years. The increasing pressure stemming from the need to efficiently use energy and other resources, coupled with their environmental impact forced the EU to incorporate in its external relations an issue-linkage between 'trade and inputs'. Therefore, building stability and predictability is vital in governing relations with the main suppliers, including the Middle East and North Africa (MENA), post-Soviet, and several African countries. Trade agreements unsurprisingly include provisions to help diversify energy supplies, energy security and transit, liberalisation of trade in energy products and elimination of export bans.

Third, the changing patterns of trade brings a motive for an EU assertiveness. The EU cannot compete with cheap labour countries, but needs to position itself in *up-market products* by

[29] Horn et. al., 22.

developing skills of the workforce through retraining; and by investing more in research, design and innovation (especially in sectors such as textiles and clothing; footwear; automotive; cosmetics; electronics).

It can be noted that the EU's position in up-markets is stronger with a market share over 30 percent compared to the US and Japan with less than 15 percent each and China with 4 percent only. However the EU's position has been threatened by the rise of China and other emerging economies who are well prepared for rapid adoption of foreign technologies, R&D investments, and improving education and infrastructure since mid 1990s[30]. It is also a fact that investment in research and high-technology has been lower in Europe compared to figures in its rivals such as the US and Japan. Therefore, the EU must keep on investing in innovation to prevent the risk of being squeezed between high-performing innovation economies, such as Japan and the US, and rising powers of developing countries. The strategy also urges strenghtening of the enforcement of *intellectual property rights* in future bilateral agreements in order to safeguard its future research and knowledge-based investments.

Practicing trade policy by means of a venue change: Counting on the FTAs

The existing GATT/WTO governance was not responsive to reflect changing priorities of stakeholders[31]. The EU searched for an enhanced governance by bringing such additional topics in an expansionary way into the post-WTO agenda initially in 1996 under the so-called 'Singapore issues'. This initiative was according to the EU's propositions was nothing but 'to address the obstacles that different national rules pose to international economic exchange'[32].

The EU's determination managed to upload the 'Singapore issues' into the deck of the Doha Development Agenda initially. However, a fierce opposition from several developing countries, and the EU's impotence to persuade others about the benefits of expanding the scope for global rules under the WTO umbrealla finally caused these issues to drop from the agenda in Cancun meeting in 2003[33]. Some scholars even went on to claim that the EU's insistence on these new [Singapore] issues led to the failure of the WTO meeting; and caused the marginalisation of the WTO, and consequently accelerated bilateral and regional trade agreements[34]. Nevertheless, it was not the end of the dispute as globalisation once spurred a debate over the 'contested boundaries' of the WTO regime.

Concerns of policy actors were reflected under a new venue characterised by the EUs rising bilateral schemes. Practically, the failure in its move to bring these cases into the WTO regime has rendered the EU to search for additional forums, ultimately causing a *venue change* especially for the regulation of 'behind-the-border' issues in its external relations. This brought a shift in trade policy that conceives greater use of *free trade agreements*. The prime reason is linked to the difficulties in the existing WTO system which is considered not to provide an embracing and adequate institutional structure to govern trade-related domestic policies. When the exiting WTO provisions did not provide such a basis, the 'natural fit'

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[30] See, www.cebre.cz/dokums_raw/cebre_trade_liberalisation_2.ppt (30 January 2012).
[31] For a detailed analysis, see R. Baldwin, 'Failure of the Doha Ministerial Conference at Cancun: Reasons and Remedies', *The World Economy*, 29, no.6, (2006): 677-696.
[32] Young and Peterson (2006: 798). See, also De Bievre (2006) .
[33] Simon Evenett, 'Five Hypothesis Concerning the Fate of the Singapore Issues in the Doha Round', *Oxford Review of Economic Policy*, 23, no.3. (2007): 392-414.
[34] Nitya Nanda, *Expanding Frontiers of Global Trade Rules*, (London: Routledge, 2008), 8-9.

between the EU and GATT/WTO was broken[35]. Ultimately, the failure in Doha Round to reach the modalities for further trade liberalisation induced the EU to turn its face towards FTAs. Developing countries with enhanced capacity to pursue assertive policies, and their ability to establish blocking coalitions against traditional hegemons like the EU and the US[36] prompted a reaction in the EU to critically investigate the role of the WTO as the 'natural venue' to accomplish its 'deeper aims'. In fact, the emerging international balance of power required much delicate systemic changes in the WTO, but the cost of free-riding in the absence of hegemonic powers prevented parties to invest more on the older system for its rebuilding. What followed was a series of FTAs portraying a new mechanism of the EU's trade strategy for both regulatory topics and further liberalisation of trade [37]. Indeed, in Global Europe it was emphasised that:

> *'free trade agreements (FTAs), if approached with care, can build on WTO and other international rules by going further and faster in promoting openness and integration, by tackling issues which are not ready for multilateral discussion… Many key issues, including investment, public procurement, competition, other regulatory issues and IPR enforcement, which remain outside the WTO at this time can be addressed through FTAs'.*[38]

Overall, the EU trade strategy seems to put a strong emphasis on market access based on a reciprocal mercantilist thinking. Accordingly, trading partners are expected to open their markets for European goods (mainly for high value added, high-tech products) and services; public procurement and investments; to protect European firms' interests in their domestic markets (i.e. intellectual property rights); and to regulate their domestic issues in a way not to create an unfair advantage for their national firms. In return, that they can achieve a reciprocal and preferential access into the EU market.

CHALLENGES FOR THE CUSTOMS UNION: NEW DYNAMICS AND PRIORITIES AMIDST DIVERGENCIES

The EU provides a hub which its trading partners have to consider in formulating their own trade strategies. As a leading trading entity the role of the EU is imperative if the partners have large stakes in the EU market and have an ambition to deepen their relations with the EU. However, keeping relations stable with the EU is a challenging issue as its trade strategy evolves under global challenges. This renders the 'common' policy difficult to reach and conduct politically even for the existing member states as they view global challenges quite differently due to their differing interests and ambitions [39]. In the case of Turkey, this is even more striking. The compatibility of trade strategies of the EU and Turkey is important as two sides are in the CU, and Turkey has a desire to join the EU. However despite similar concerns

[35] M. Baldwin, 932.
[36] See, Amrita Narlikar, *International Trade and Developing Countries: Bargaining Coalitions in the GATT & WTO*, (RIP Studies in Global Political Economy, Routledge, 2003).
[37] For a detailed analysis of the EU's FTA policy see, Stephen Woolcock, European Union Policy Towards Free Trade Agreements, *ECIPE Working Paper*, No.3, (2007); and Peter Lloyd and Donald MacLaren, 'The EU's New Trade Strategy and Regionalism in the World Economy', *Aussenwirtschaft,* no. 61, (2006): 423-36.
[38] Global Europe, 10.
[39] Sapir, 7.

Turkey's trade and production patterns and policy priorities hereupon have large divergencies that do not necessarily fit to those of the EU.

Turkish trade policy as can be traced back in *Turkish Export Strategic Plan* (2004-2006)[40] reflects wider objectives. The Export Strategic Plan in 2004 had a general aim of 'building up of an export structure conducive towards sustainable exports increase', while its strategic objectives were to 'ensure promotion and marketing of *high quality* Turkish products in foreign markets'; to 'ensure that information relevant to exports are utilised' (i.e. a comprehensive market access database like that of the EU;); to '*provide the exporters with inputs* at internationally competitive prices'; to 'improve exporters' *market access* opportunities'; and to 'develop structures and functions for better coordination among public and private sectors'[41]. The Plan was updated for 2007-2009 period.

Subsequently, *The Strategic Plan* (2009-2013) prepared by the Turkish Undersecretariat of Foreign Trade (UFT)[42] (now renamed as the 'Ministry of Economy') possessed similar objectives. This Plan emphasised that for a sustainable export increase Turkey needed to restructure itself to specialise in products with *higher value-added* and *based on R&D and innovation*[43]. Hence, the elements embedded in the strategy highlighted the importance of the transformation from lower to higher technology products. Despite improvements in Turkish exports and diversification of export markets in post-CU period, the new strategy had to bear in mind that export structure must change overall. Accordingly, industrial products dominated Turkish exports, while low and medium-low technology products accounted for the majority. However, such sectors are most vulnerable to rising global competition considering the fact that several new rivals enter into markets with reduced prices and competitive production patterns.

In this context, The Ministry of Economy adopted the *2023 Strategy* in 2009[44] (later improved as *The Export Strategy of Turkey for 2023* with an ultimate purpose to reach 500 billion dollars of exports volume by 2023, to become one of world's 10 largest economies, and taking 1.5 % share from the world's trade as well as to reach 80% export/import ratio by the target date of 2023[45]). The *Export Strategy of Turkey for 2023* also followed the same path to

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[40] For Export Strategic Plan 2004-2006, and the 2nd revised version of the Plan see, http://ihracat.dtm.gov.tr/dtm/index.php?module=content&page=list&page_id=430 (8 March 2011).

[41] Export Strategic Plan, 14-28.

[42] For the Strategic Plan 2009-2013 see, http://www.dstm.gov.tr/dtmadmin/upload/EAD/belge.pdf (9 March 2011).

[43] Strategic Plan (2009-2013), *Strategic Objective 3*, p.8. In this vein, Zafer Çağlayan, then minister for foreign trade (now, the 'Minister of Economy') noted that 'Turkish manufacturing previously had to prefer an expansion mainly in low and medium-tech industries. These sectors are characterised by a rapid relocation of production, limited or decreasing value-added content, and decreasing production and export prices. On the other hand, medium and high-tech sectors dominate world trade, including industries like automotive, machinery and electrical machinery… For this reason Turkey is in need of an export-oriented production strategy to follow this trend' (speech by Z. Çağlayan, in March 2010).

[44] See, DTM, *Dış Ticaretin Görünümü-2023 Stratejisi*, Ankara:DTM, May 2010).

[45] For 'The Export Strategy of Turkey for 2023' see, http://www.economy.gov.tr/upload/strategy/strategy2023.pdf (1 February 2012).

emphasise the role of a ‘flexible export structure based on advanced technology and R&D’. In the same vein, Turkey’s Long Term Development Strategy (2001-2023), prepared by the Ministry of Development also envisaged the development of an ‘export-oriented, technology-intensive production structure, with a strong emphasis on *high-value added products and services*’.

Apparently, Turkey’s export and development strategies shared similar concerns which were also embedded in EU trade strategy. For instance, Turkish strategy proposes the implementation of a proactive *export-oriented approach* based on keen foreign market access; *access to resources* in order to reduce Turkey’s import dependency in the production of manufacturing; and increase in the share of value-added goods, and ‘up-market products’; and a focus on *higher technology sectors*.

However, a mere similarity in objectives in trade strategies does not mean a full *harmony* between Turkish and the EU’s commercial policies. Several issues lead to differences in their respective approaches and conduct of their trade policy relations with the rest of the world. These issues are guided by a set of factors that relate mainly to mismatch in the production and trade patterns, target markets, regulation of domestic policies, expectations of actors involved, venues for trade negotiations, and an overall ‘understanding of trade strategy’. It should be noted that despite the existence of the CU and accession talks, the divergency is not reconcilable, because the present functioning of the CU and conduct of relations between the two sides do not automatically facilitate it. Therefore, the CU needs a maintenance to reflect the changing dynamics of the world economy and rising prioritie of the partners as embedded in their long term objectives.

Overlap and mismatch in export markets

As regards a proactive export strategy, Turkey experienced a radical behavioural shift towards an offensive trade policy orientation starting in early 2000s. Several motives can help to explain the assertiveness in Turkish foreign trade policy. First, it must be admitted that rising competitiveness of the Turkish manufacturing industries induced by the CU has been an essential element to boost an export-oriented approach[46]. Second, offensive policy was not a characteristic only confined to Turkey, but was a preferred approach by almost all developed and emerging economies as competition in the global context became more stiff, and as the liberalisation of world trade has been the trend. Third, following a rapid and dynamic change in the domestic economy as a consequence of its macroeconomic and institutional reforms, Turkish business started to integrate into the world economy and trade more firmly. Turkey’s increasing confidence in this context helped to orient Turkish industrial policy actors towards seeking for diversified export markets. Globalisation has been a compelling reason for Turkey as in many countries, to penetrate into not previously enjoyed markets. In this respect Turkish policy has a resemblance to the EU’s trade policy activism that focuses on opening foreign markets. Hence, it is evident that both the EU and Turkey prioritise greater openness in third countries and a wider possibility of *market access* for their exportables. Finally, the changing parameters of Turkish foreign policy with its regional orientations made economic cooperation and trade agreements important tools to diffuse Turkey’s interests and political

[46] Ümit İzmen and Kamil Yilmaz, ‘Turkey’s Recent Trade and Foreign Direct Investment Performance’, in Ziya Öniş and Fikret Şenses, eds., *Turkey and the Global Economy,* London: Routledge, 2009), 177.

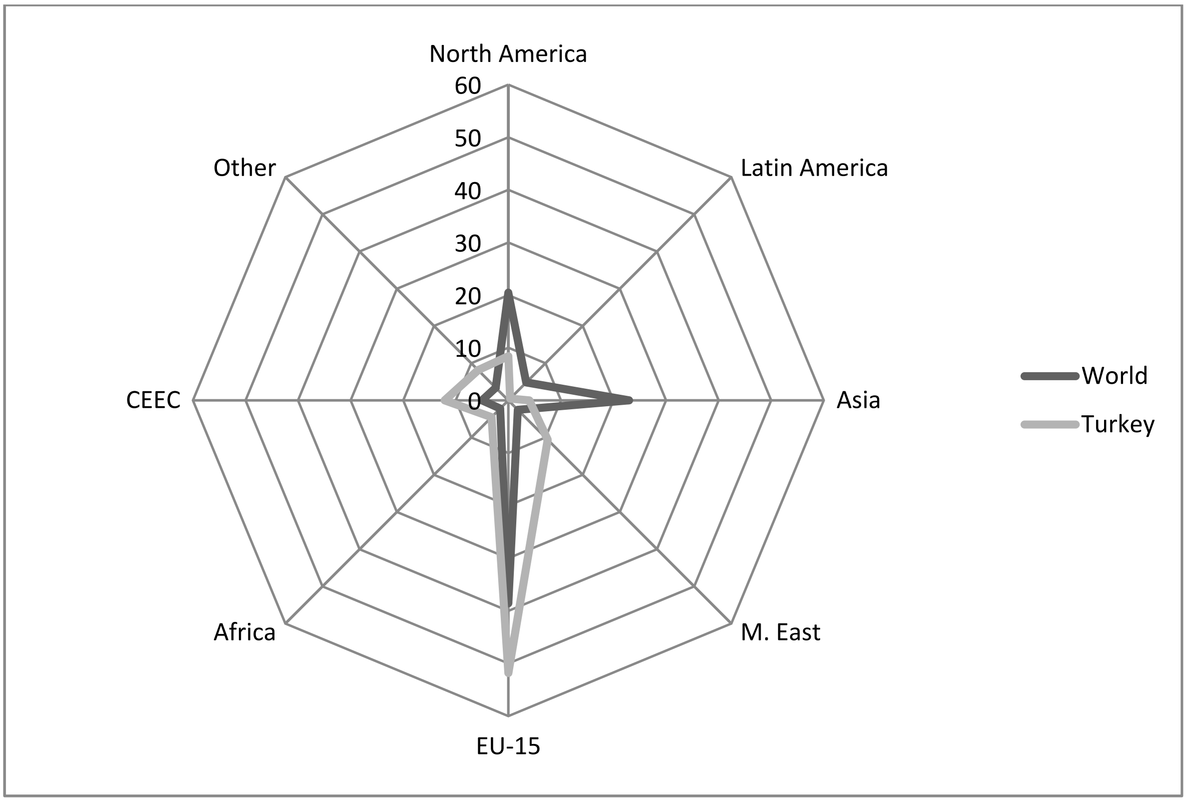
power especially in its neighbourhood. This increased the shares of MENA, Russia, Black Sea basin, and Central Asia as Turkey's main export destinations (other than the EU)[47].

On the other hand, the *target markets* did not necessarily overlap for two sides even though Turkey also covered in its strategy, similar to the EU as much wider area as to include Asia-Pacific region, African, North and Latin American countries so on. For the EU, the 'strategic partners' are bigger nations like the US, China, India, Japan, Russia, and Mercosur (Argentina/Brazil) which represent almost half of the EU trade in goods and services, and 40 percent of foreign direct investment. Other important markets for the purposes of the EU trade policy include the ASEAN countries, Gulf Cooperation Council countries, the Southern and Eastern Neighbourhood countries, Mexico, South Africa and South Korea. Over 30 countries including the strategic partners and emerging markets are regarded as 'priority' export markets whose trade policies are closely scrutinised by the EU[48].

For Turkey, initial priority has been for the 'neighbouring and sorrounding countries' since 2000[49]. The main motivation to include the remote destinations in its list of 'target and priority' markets was linked to a need to diverify export markets to embrace those countries with large and/or potentially expanding domestic markets; or with extensive oil revenues [50]. As emphasised in the export strategy narrower regional concentration of exports had to be expanded. As Figure 1 shows, Turkey's main markets were the EU and Middle East countries, but not Asia or Americas, though the latter represented the largest destinations for world imports.

[47] Kemal Kirişçi and Neslihan Kaptanoğlu, 'The Politics of Foreign Trade and Turkish Foreign Policy', *Middle Eastern Studies,* 47, no.5 (2011), claims that 'the expansion of Turkish trade into neighbouring regions is partly driven by internal economic and political developments and partly by the increasing frustration that Turkish businesses experience in accessing the EU's internal market' (706).
[48] *Seventh Report on Potentially Trade Restrictive Measures (May 2010-September 2010),* (European Commission, 2011). See also, EU's latest *Trade and Invetment Barriers Report 2012,* available at: http://trade.ec.europa.eu/doclib/docs/2012/february/tradoc_149143.pdf (29 February 2012).
[49] The *neighbouring countries* can be defined as the countries that have common borders with Turkey or that may be reached from Turkey directly without having to cross a third country. These include Azerbaijan, Georgia, Iran, Iraq, Syria, the Turkish Republic of Northern Cyprus (KKTC), Greece, Bulgaria, Ukraine, the Russian Federation and Armenia. The *surrounding countries* are those which do not share a common frontier with Turkey but have cultural ties or geographical proximity and are feasible markets in terms of population and/or economic potential. These countries are Turkmenistan, Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, Israel, Saudi Arabia, Jordan, Lebanon, Egypt, Moldova and Macedonia.
[50] In 2023 strategy for example, the *target markets* were referred to as the US, Russia, China, India, Brazil, Canada, Poland, Nigeria, *Egypt*, Iran, Saudi Arabia, Algeria, Libya, *Jordan* and Qatar. Of these, only countries in *italics* indicate those with which Turkey has already completed an FTA deal. Poland is the only EU member state considered as a target market.

Figure 1. Destinations for world imports and regional distribution of Turkey's exports in 2003 (%)



Source: Undersecretariat of Foreign Trade, revised Turkish Export Strategy Report, 2005.

Turkey selects its partner countries on the basis of political relationship; purchasing power, largeness and openness of their markets; investments, legal and commercial infrastructure; energy policies; capital movements[51], and the future prospects in bilateral relations including the desire to sustain its market share. However, Turkey's market share in emerging and large markets (which were regarded by the EU as 'strategic partners') has been very narrow.

Another important factor to shape the differences is the increasing role of the new generation bilateral trade agreements as *new venues of negotiations* in trade policy. Despite their trade liberalisation effect for Turkey, the FTA motivations are not necessarily identical with the those of the EU. The EU has a different combination of motives to initiate its FTA deals. Of these, political motives may be influential as in the case of Euro-Med and ACP agreements, commercial motives come to forefront in order to neutralise trade diversion vis-a-vis the US in markets such as Mexico, Chile, Mercosur, South Korea, and ASEAN. Promoting a European model of integration is another concern in order to induce others to regulate their domestic policies in European terms, and to push harmonisation *a la acquis communautaire*[52]. It is also claimed that 'enhancing EU competitiveness and promoting EU offensive interests with a focus on market access' is essential in FTAs with emerging markets; while 'building markets' and 'improving business environment' are vital in deals with smaller nations[53].

[51] See, 2023 Strategy,152.
[52] Stephen Woolcock, 2007, 3-4.
[53] Enrique V. Rodriguez, The European Union Free Trade Agreements: Implications for Developing Countries, *ELCANO Working Paper* 8/2009, (February 2009), 6-7.

Apparently, for Turkey the EU is a motivation in initiating FTAs. The CU induced obligation to adopt the EU's preferential trade regimes (as stipulated in Article 16 of the CU Decision) is one imperative for Turkey. However, in practice the EUs existing FTAs provides Turkey only with an opportunity in motivating these countries to initiate a bilateral deal, if they are considered in Turkish trade policy as target or priority markets[54]. Hence, these FTAs are facilitating for Turkey in implementing its own market access strategy. In many cases, the EU factor tactically helps Turkey to activate its potential partners to initiate the negotiations[55]. In this way, Turkey improves reciprocally its possibility to have an access to the markets of these countries which would eventually enter into Turkish market by means of their FTA deals with the EU anyway. The priority are given to FTAs with those countries which approach Turkey's offer positively[56], and those that do not insist on obtaining concessions in areas which Turkey does not voluntarily open for domestic reasons.

Turkey's FTAs are not designed in complete harmony with the EU, and constitute a patchwork of several and not well-defined set of actions mainly aiming at penetration possibility for Turkish exports. These initiatives do not represent a coherent policy action by themselves, but serve to an overall objective of diversifying Turkey's export markets in different regions of the world. Therefore, the FTA policy seems to be poorly embedded in Turkey's trade strategy. Actually, the FTA policy must be in line with Turkey's aspirations of accession to the EU. Its accession process and the CU linkage oblige Turkey to consider in a subtle way, if not to follow faithfully the EU's strategy by acting more collectively with the EU. However, the respective strategies of both sides reflect an autonomous behaviour independent of each other.

One compelling reason is that the EU does not consider Turkey's interests when setting its priorities and objectives embedded in its trade strategy. The EU seems to be very much preoccupied with its domestic concerns about and macro objectives of growth, employment and competitiveness as if accession negotiations with Turkey is a residual game that can be set aside. Turkey's claim that its priorities must be taken into consideration in EU's trade negotiations with third countries were neglected as a result of political reasons, and in many cases because of the inactivity in the European Commission driven by political signals coming from various member states. Being a country destined to join the EU, Turkey faces a serious difficulty of access to decision-making mechanisms in the EU. This is a point, popularly raised by Turkish policy-makers and business community who claim that their views are not respected in the formulation of the EU trade policy while the EU's new trade policy orientation will have repercussions on Turkey. Nor does the EU allow Turkey to negotiate jointly with third countries claiming that Turkey *is not* a full member yet. This argument may have a legal reasoning, but the EU does not show any political will to broaden the 'institutional architecture' of the CU so that Turkey's concerns are better integrated. The most notable step from the EU side, was to encourage its trading partners in FTAs that they

[54] For instance, in Turkey's 2023 export strategy the *priority countries* list includes those with which the EU had FTA deal, such as Mexico, Chile, Peru, South Korea, Malaysia, Vietnam, South Africa as well as many of the 'neihbouring and surrounding' countries.

[55] Personal interview with Ugur Ozturk, from the Directorate of the EU, UFT in February 2011.

[56] For a list of FTAs Turkey currently negotiates, and those that are in the pipeline see, http://www.economy.gov.tr/index.cfm?sayfa=tradeagreements&bolum=fta&region=0 (29 February 2012).

should launch similar initiatives with Turkey, under the well-known *Turkey clause*. However, this is not a binding clause, and obviously 'will not have a practical effect, and will not provide a solution to the problem'[57]. This argument is explicit if one considers that the third country will have reasons to refrain from concluding FTAs with Turkey[58].

On the other hand, starting an FTAs is something, while contextualising them in Turkish trade strategy is another. In most cases, the coverage of the agenda, priority issues, and the degree of commitments in an FTA agreement negotiated independently by the EU and by Turkey, with the identical third country may vary substantially. This is a consequence of the differences between Turkey and the EU in connection with their own expectations and prioritisation of issues within the framework of their autonomous foreign trade strategies. In this framework, Turkey does not feel itself 'obliged to fully adopt the content of the FTAs signed by the EU' and considers its 'own priorities regarding industrial and commercial policy'[59].

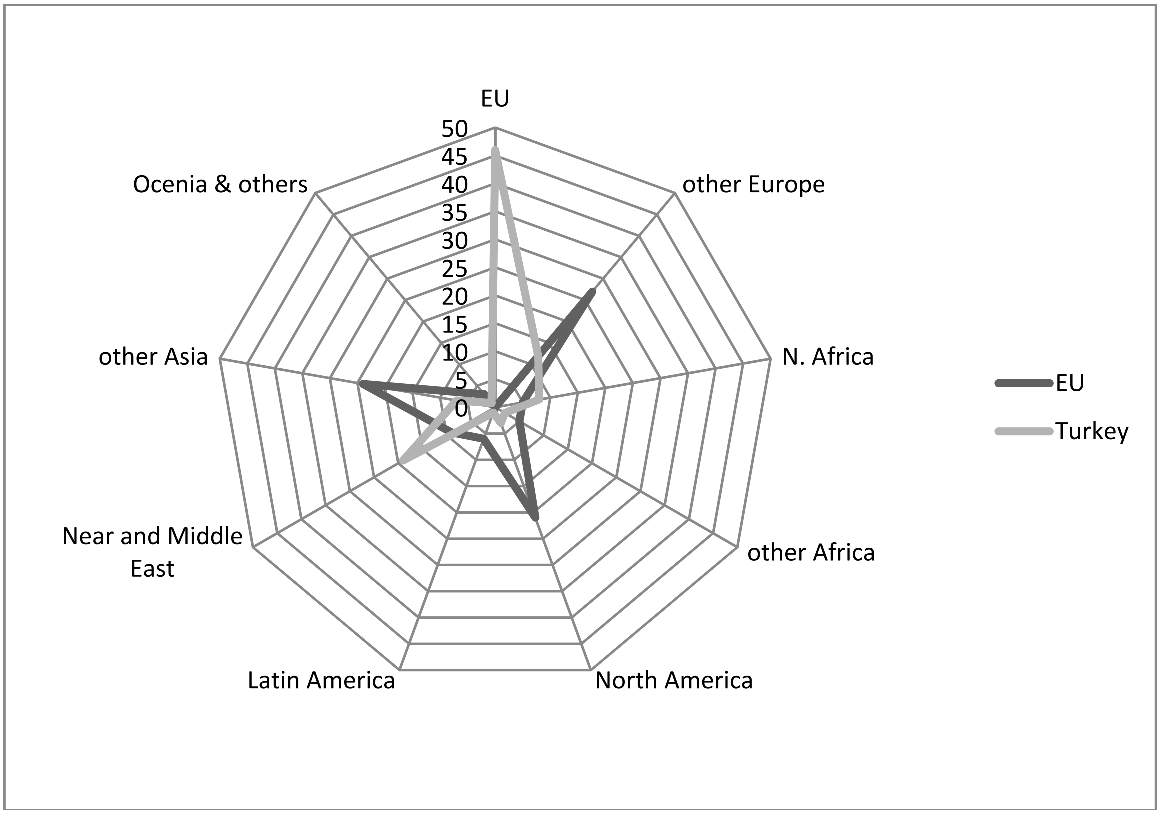
Indeed, Turkish and EU export market destinations do not overlap. The dissimilarity in trade patterns cause a divergency in their policies towards third countries. As shown in Figure 2, a substantial share of extra-EU exports goes to (non-EU) European countries, North America and Far East Asia, while the EU and North Africa and Middle East countries represent the main export markets for Turkey. MENA and Russia are leading trading partners for Turkey with the exception of the EU, but their significance is smaller for EUs market access purposes. This renders parallel negotiations with the same countries by the EU and Turkey difficult due to the differences in negotiation terms and priorities. These differences result from the concerns largely reflected by the changing stakes of different *actors* who involved in policy-making process. It is also evident that the product composition of exports do not overlap due to distinct levels of technology intensiveness of industries, thus making the common position harder to achieve.

[57] Kabaalioğlu, 2010, p.50.

[58] See, S. Akman, 'The European Union's Trade Strategy and Its reflections on Turkey: An Evaluation From the Perspective of Free Trade Agreements, *Dokuz Eylül Üniversitesi Sosyal Bilimler Enstitüsü Dergisi*, 12, no.2 (2010), 25-26. It was obvious in the cases of Algeria, South Africa and Mexico which continuously refused for a long to launch an FTA agreement with Turkey. Other prospective partners such as South Korea, India, Canada started such initiatives –obviously not as a result of *Turkey clause*- but by their own commercial motivations.

[59] See, http://www.economy.gov.tr/index.cfm?sayfa=tradeagreements&bolum=fta&region=0 (29 February 2012).

Figure 2. Regional distribution of Turkey's and the EU's exports in 2009 (%)



Source: calculated from data in Eurostat, 2010 and UFT figures.

Product coverage of exports: similar concerns with different composition

Another important shared concern in respective export strategies of the EU and Turkey is the need to increase the *technology intensiveness* in exports. Turkish Export Strategy, as mentioned above, stressed the need for support of the production and marketing of branded, higher value-added goods and services based on innovation and R&D[60]. It reiterates that the new strategy for exports will have the objective of transition from lower to higher-value added goods, while increasing the production in medium-high tech goods, and investing more in high-tech sectors.

Indeed, Turkey experienced a structural change in its exports that shifted from conventional and unskilled labor-intensive sectors to more sophisticated technology intensive-sectors requiring more skilled labor. Table 1 reveals that Turkish exports increased in basic metals, machinery and equipment n.e.c.,and motor vehicles, trailers and semi-trailers which are classified as medium-low and medium-high sectors. The total share of medium- tech sectors accounted for 65.8 percent in 2009, while it was only 40. 3 percent in 1996. The share of low-tech exports mainly in textiles and clothing dropped sharply from 57.8 percent in 1996 to 31.7 percent in 2009. Turkey's export structure transformed to cover a larger share of medium-

[60] Until late 2000s, however Turkish export strategy underlined only the need for 'high quality products' to create a 'good image' about the quality of Turkish goods and to improve marketing and promotion activities mainly.

tech products which benefits export opportunities thanks to its geographical position and high growth in its main export markets.

Table 1. Share (%) of sub-sectors in total Turkish manufacturing exports (1996-2009)

Sector	Group	1996	2000	2007	2008	2009
15 Food products and beverages	Low	12.0	7.2	5.1	5.2	6.2
16 Tobacco products	Low	0.5	0.5	0.2	0.2	0.3
17 Textiles	Low	18.6	18.1	10.7	9.1	10.0
18 Wearing apparel; dressing and dyeing of fur	Low	23.5	21.2	11.7	9.2	10.1
19 Tanning and dressing of leather… footwear	Low	1.1	0.7	0.6	0.5	0.5
20 Wood and of products of wood, except furniture;	Low	0.3	0.2	0.5	0.4	0.5
21 Pulp, paper and paper products	Low	0.6	0.6	0.8	0.8	1.0
22 Publishing, printing and reproduction of recorded media	Low	0.2	0.2	0.1	0.1	0.2
36 Furniture; manufacturing n.e.c.	Low	1.2	2.5	3.1	2.8	2.9
23 Coke, refined petroleum p.roducts and nuclear fuel	Medium low	1.3	1.2	4.9	5.8	3.8
25 Rubber and plastic products	Medium low	2.5	3.1	3.9	3.8	4.2
26 Other non-metallic mineral products	Medium low	3.8	4.4	3.4	3.5	3.9
27 Basic metals	Medium low	10.9	8.8	12.2	17.9	15.8
28 Fabricated metal products, except machinery & equipment	Medium low	2.3	2.6	4.2	4.4	4.7
24 Chemicals and chemical products	Medium high	6.1	5.5	4.0	4.0	4.5
29 Machinery and equipment n.e.c.	Medium high	4.0	5.4	7.9	7.8	8.5
31 Electrical machinery and apparatus n.e.c.	Medium high	3.8	3.2	4.1	4.0	4.3
34 Motor vehicles, trailers and semi-trailers	Medium high	4.8	6.8	16.8	15.3	13.5
35 Other transport equipment	Medium high	0.8	3.5	2.7	2.7	2.5
30 Office machinery and computers	High	0.1	0.2	0.1	0.1	0.1
32 Radio, television and commun. equipment & apparatus	High	1.5	3.8	2.7	1.9	2.0
33 Medical, precision & optical instr. watches & clocks	High	0.3	0.3	0.3	0.3	0.4

Source: TUİK (Turkish Statistical Association)

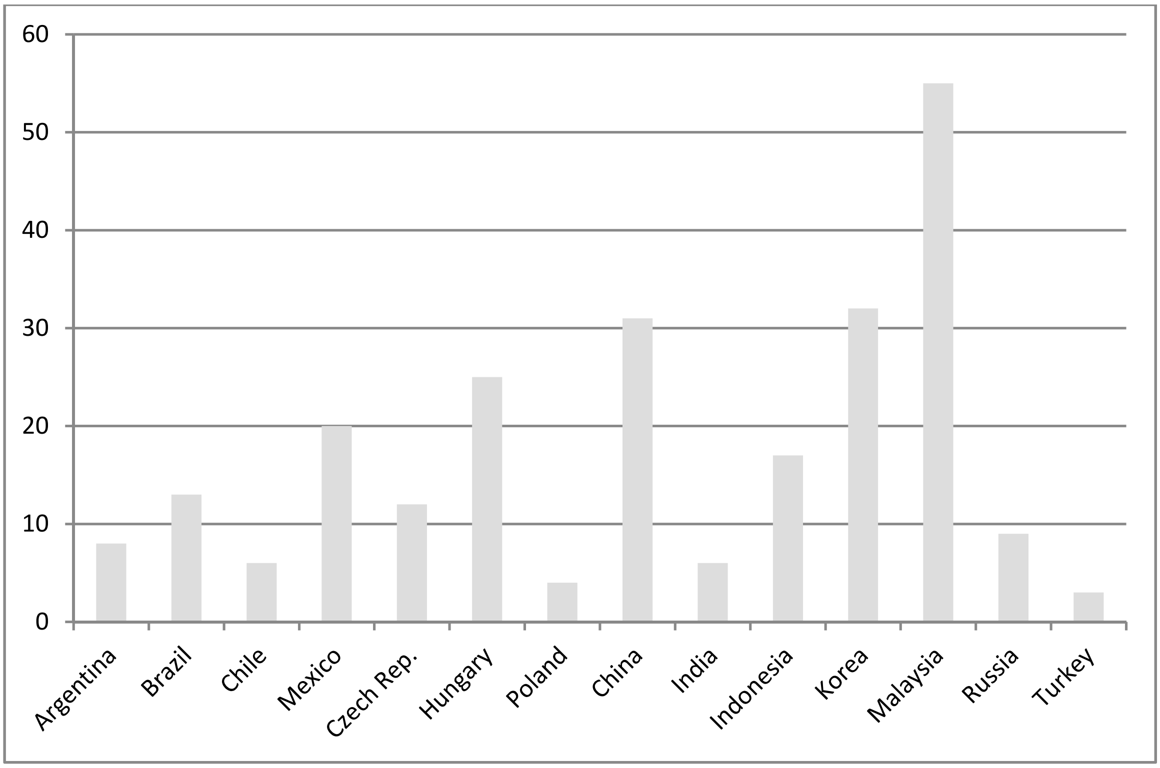
However, the transformation in the structure of exports do not necessarily provide a positive prospect for a couple of reasons: First, Turkish export strategy did not specifically remark ways for increasing the industrial competitiveness under the challenge of dynamic comparative advantages. Recall for switching into technology-intensive sectors do not go beyond a rhetoric unless coupled with a comprehensive agenda linking several related policy areas. An active industrial policy aiming at long-term restructuring based on skill upgrading, science and technology planning, technological support and R&D incentives to enterprises, and attracting technology-based FDI has been important determinants for export upgrading[61]. However, Turkey for long failed to pursue an active industrial policy to retructure its manufacturing sectors to transform into high value-added and technology intensive exportables until very recently. It can be argued that Turkish *Industry Strategy Document* promulgated in 2010[62] provides a clear road map by pinpointing the strong and weak points of Turkish industry. However, the Document does not put forward under its Action Plans a

[61] Sanjaya Lall, 'Turkish Performance in Exporting Manufactures: A Comparative Structural Analysis, *QEH Working Paper Series,* No.47, (August 2000), 19-20.
[62] See, http://www.sanayi.gov.tr/Files/Documents/sanayi_stratejisi_belgesi_2011_2014.pdf for the Document. (10 March 2011).

comprehensive set of instruments necessary to achieve its overall grand objective of making Turkey the ‘production base in Eurasia for medium and high-tech sectors’ by 2023.

Second, in comparison to several emerging economies, Turkey has a distinctively lower share of high-tech exports (see, Figure 3). Indeed, the high-technology exports in Turkey was reported to be only 2.5 percent of total manufactured exports in 2009, according to the World Bank estimates.

Figure 3. Share of high-tech exports in total exports (%)



Source: World Bank, World Development Report, 2007.

TUSIAD Report cleraly indicates that Turkey specialised in products/sectors in which the growth rate in world trade were slow. Accordingly, Turkey has managed to adopt itself to the tarnsformation of international production linkages, but in a passive way by only increasing its advantages in production processes which developed countries have relinguished for competitive reasons to developing countries. Hence, Turkey has not managed to make up the difference with the EU and other developed economies[63].

In addition to a lower share of high-tech products in exports currently, the more pessimistic scenario lies in the world market share and change in the share in these products. As the Table

[63] TUSIAD-EAF Report prepared by E. Taymaz, E. Voyvoda and K. Yilmaz, and titled *Uluslararası Üretim Zincirlerinde Dönüşüm ve Türkiye’nin Konumu,* (December, 2011), available at: http://eaf.ku.edu.tr/sites/eaf.ku.edu.tr/files/eaf_rp_1101.pdf

2 indicates Turkey's market share in high-tech products[64] increased only slightly in a decade, not even showing a comparable level of performance with its rivals. Turkey represents only a margin of 0.11 percent of world's high-tech exports, with a 0.05 percent increase in its share in a decade. The figures reveal that Turkey has a long way to go to become a 'base' in these products.

Table 2. Share and % change in world market share, for high-tech products

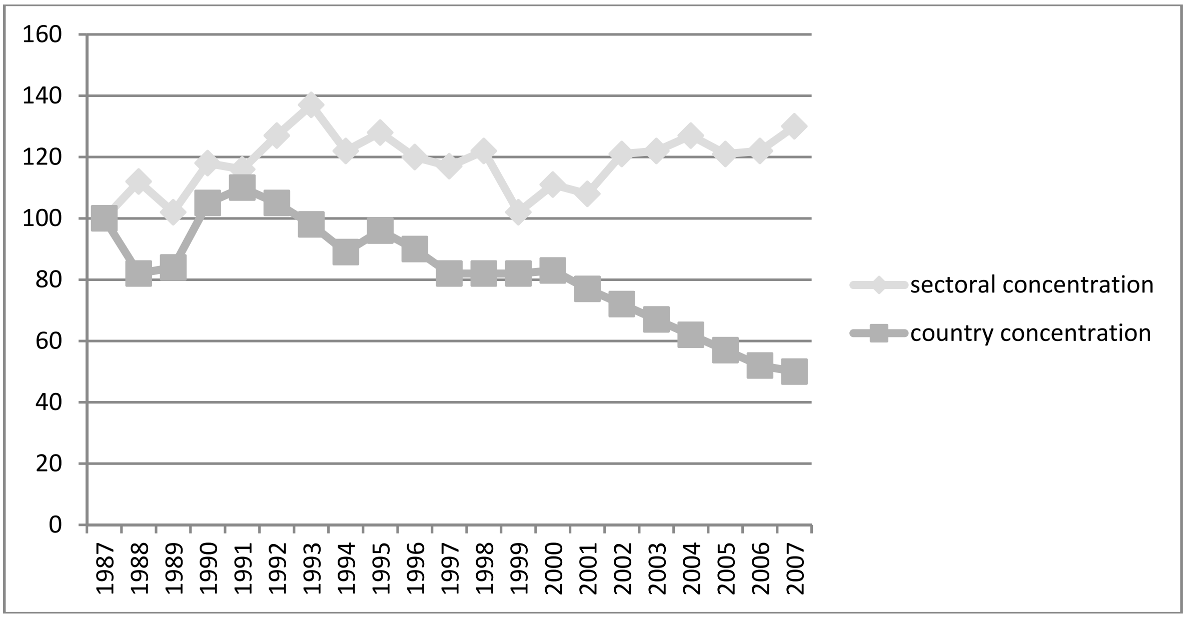
Exporter country	Market share in value terms (%)	% change in market share
	2005	*1995-2005*
EU 25	18.51	-2.39
USA	16.47	- 8.11
China	15.93	12.36
ASEAN	11.96	0.73
Japan	10.33	-6.44
S. Korea	5.79	2.45
Canada	2.52	-0.96
Mexico	1.90	0.46
Other Mercosur	0.94	0.54
Brazil	0.84	0.53
Russia	0.60	0.25
India	0.41	0.07
Turkey	0.11	0.05
Rest of the World	5.22	-1.36

Source: BACI, CEPII calculations

Third, Turkish export concentration ratio (CR) by sectors does not provide a promising trend despite improvements in concentration ratio by export markets. Indeed, Turkey's CR diminishes with a diversification of export destinations. This means Turkey presently exports to more different markets of its products. However, sectoral concentration is increasing meaning that product diversification in exports is diminishing. This trend is manifest in 2000s, as depicted in Figure 4.

[64] According to the World Bank, high technology cover products with high R&D intensity, such as the aerospace, computers, fine chemicals and pharmaceuticals, scientific and precision instruments, optical instrument, complex electrical and electronic machinery.

Figure 4. Turkey's export concentration by country and sector (Herfindhal-Index, 1990-2007)



Source: Türkiye Kalkınma Bankası (2010), 10.

Differences in product composition and technology intensiveness of Turkish and European exports displays that in their trade negotiations with third countries, the EU and Turkey have diverging positions as regards liberalisation of tariffs, non-tariff barriers, and trade-related topics. The EU's trade negotiating agenda is driven by the need to open markets for its high value-added exports while it largely liberalises, if not to sacrifice mostly labour-intensive senile industries by reducing trade protection in sectors such as textiles, clothing, footwear, basic metals so on. Indeed, in its Global Europe Strategy the EU points that 'our core argument is that rejection of protectionism at home must be accompanied by activism in creating open markets and fair conditions for trade abroad' (p.6). Thus, an ever increasing number of trade agreements will further decrease domestic tariffs, and this in turn increase the number and pressuring effects of export industries while reducing the political power of import-competing sectors. Therefore, each liberalisation step will trigger pressure for further trade liberalisation[65]. The impact of this trend for Turkish imports is apparent. The nominal protection rates (NPR) and import values in these sectors are high in Turkey. For example, it is 8.93 percent in textiles; 8.03 percent in footwear; 5.36 percent in base metals; 6.36 percent in transport equipment; and 5.41 percent in chemicals. These protection rates are higher than the average in these sectors[66]. The EU trade agreements will generate competition on several industrial sectors in Turkey by lowering the protection via the Common Customs Tariff.

Fourth, export oriented strategy has forced Turkish firms minimise their costs by using cheap imported inputs to be able to compete in international markets. The share in total Turkish imports of *investment* and *intermediate goods* (under broad economic categories) that are processed domestically for exportation has been significant. The total share is considerable in 2009 with a sum of 85 percent. In this respect, Turkey serves as a place of industrial assembly

[65] WTO, *World Trade Report 2007,* (Geneva: WTO, 2007), 57.
[66] Sübidey Togan, 'Turkey: Trade Policy Review 2007', *The World Economy,* 2010, 1353.

relying on inputs produced in other countries[67]. It should be emphasised that trading in intermediate goods has been an impetus for Turkish export performance. The variety of these goods allows firms the most appropriate input choice possibility to produce their final products, therefore Turkey's dependence on these goods, like in many other trading nations is understandable. However, concern over rising imports in inputs and raw materials are deeply rooted in new trade strategy while it is argued to cause current account deficits[68].

Hence a new 'input supply strategy' (*girdi tedarik stratejisi)*[69] is offered to replace import content of exports by domestic content. However, a policy action concerning the domestic procurement of inputs, unless applied properly shall be a costly process that may bring about resource misallocation. While focusing on increasing the share of medium and high-tech industries, Turkish export strategy overlooks the fact that industrial supply chains blurres the 'country of origin'. Increased vertical integration and the rise of global manufacturing led to significant changes in traditional trade patterns. Therefore, the true strategy must be to focus on stages of value-added chain that Turkish industry should position itself rather than trying to replace inputs with domestic production. *À la import substitution* policies are inferior and Turkey must bear in mind that it is itself a part of the global chain and a substantial share of its exports are composed of the intermediates.

A 'broader' trade agenda

Turkish trade strategy is heavily focused on manufactures, with particular attention paid to exports leg of trading relations. Market access seems to be the priority issue to diversify Turkish export markets. However, this strategy has certain divergencies from the EU trade strategy.

It does not consider an expansive coverage as articulated by its partner, the EU in its *deeper trade agenda*. It is confined to manufactures to a considerable extent without having a widespread issue coverage that the EU proposes in regulation of trade relations, namely issues pertinent to trade in services, trade related areas like investment, competition, government procurement, intellectual property rights. Such issues are important items of EU trade agenda [70]. One crucial motivation for the EU to switch into regional arena from multilateralism and its retreat from the role of leadership in the WTO after Cancun Ministerial can be attributed to the pressuring effect of the domestic need for a new and an expanded agenda. The EU position therefore reflects this need and largely differs from the Turkish trade strategy which does not take on board, at least comprehensively the new issues. Though every single issue requires a broader elaboration it is beyond the aim of this article. However, it can be proposed overall that one important reason for the mismatch of trade agenda by Turkey

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[67] Gaye Yilmaz, 'Turkey: WTO Negotiations in the Shadow of the European Union', in W. Blass and J. Becker, eds., *Strategic Arena Switching in International Trade Negotiations,* (Aldershot: Ashgate, 2007), 245-246.

[68] See, for example the statement by Z. Caglayan, avaliable at: http://www.kutso.org.tr/dbase/images/zafer-caglayan-yazi-tam.pdf (15 March 2011)

[69] For the strategy see, http://www.ekonomi.gov.tr/girditedarik/anasayfa.cfm available at the Ministry's webpage.

[70] See, Global Trade strategy (European Commission, 2006: 7). EU trade strategy, as emphasised above consider 'stronger rules in new trade areas of economic importance' to the EU such as WTO-X and WTO+ issues. The EU seeks for FTAs with a comprehensive scope to go beyond existing WTO disciplines.

and the EU is largely a result of their respective levels of economic and social development. Turkey is a middle-income economy having a twin characteristics of a developing country specialised on medium-tech products and have domestic regulatory structure largely reflecting its developmental status; and a country with a high ambition to raise its production in higher-technology areas. The latter refers to its concerns over the anti-competitive impact of regulatory measures such as stringent environmental, social, and technical standards. Another concern is its timid approach to open its market in areas like government procurement and services for domestic reasons. Both of these reasons are eventually the reflections of domestic actors' interests in trade policy-setting.

Doha negotiations also revealed that Turkey's priorities were not the same with the EU especially in issues that rest beyond the scope of the CU**.** In non-agricultural market access (NAMA) negotiations, Turkish strategy was largely in alignment with the EU where both had pressed for further reductions in tariff by third parties. Adoption of EU's Common Customs Tariffs, urged Turkey to follow the EU in this area. However, the same cannot be argued for areas like *agricultural trade negotiations* where Turkey had to resort to its developing country status within the WTO context and had largely cooperated with the developing countries[71].

The case in *intellectual property protection* and TRIPs is more critical while Turkey has continued to be a target of European arguments that counterfeit goods are still a serious problem in bilateral trade relations[72]. Similar emphasis was made on *government procurment* issue where the EU approach differs widely as it requires Turkey to open its procurement market for European firms insistently.

Another point is relevant to *standards and technical barriers to trade*. The EU has been keen on forcing its trading partners to regulate their domestic framework, while asking in its market access strategy for the elimination of technical barriers applied to European firms. Turkey's position should be in the same line with the EU since it is in the accession process where adoption of European *acquis* is in progress. However, the 'adjustment costs, related to the elimination of the TBTs in trade with the EU have been substantial for the Turkish public sector', concerning the adoption of the technical legislation, the establishment of the relevant institutions, and providing the required infrastructure and training the staff[73]. WTO Trade

[71] For example, in agriculture Turkey sided with G33 group of developing countries which raised their concerns over 'special products' (SP) and 'special safeguard mechanisms' (SSM) that were regarded as controversial issues to deadlock the Doha negotiations. In their press statement, the G33 countries- including Turkey stated in para. 4: 'Ministers insisted that all aspects of SPs and SSM must be incorporated integrally in any modalities to be agreed by July 2006. They further stressed that no modalities in agriculture can be acceptable which do not fully reflect the expectations of the vast bulk of developing countries in the WTO on SPs and SSM'. See, http://www.tradeobservatory.org/library.cfm?refID=88374 (14 March 2010).
[72] This was one of the critical issues in European Parliament's Report on trade and economic relations with Turkey (2009/2200(INI)). In minutes, one of the MPs went on to suggest that 'we should explain to them (Turks) in no uncertain terms that anyone who places counterfeit goods on the market is a common thief who crudely preys on owners copyrights, patents or intellectual property rights'!
[73] Sübidey Togan and Saadettin Doğan, 'Standards, Conformity Assessment and Technical Barriers to Trade, in S. Togan, ed., *Economic Liberalization and Turkey*, (London: Routledge, 2010), 70.

Policy Report for Turkey in 2012 also urges Turkey in the case SPS, to ensure that measures are taken by scientific evidence and not be trade-restrictive than necessary[74].

Investments issue is becoming an important aspect of economic relations and trade agreements. In the EU, international investment treaties with third countries proliferated in time. The main objective in these treaties is to provide a high level of protection for European investments and investors against arbitrary actions of foreign governments receiving the investment. Before the entry into force of the Lisbon Treaty, the Member States were in charge of negotiating and signing these investment agreements. With the Lisbon Treaty, foreign direct investment has become an exclusive competence of the EU and an integral part of the EU's external trade policy[75]. Therefore, it becomes imperative for Turkey to align its investment policy approach to the EU policy within the sphere of the EU common commercial policy. However, it seems that Turkey prefers to keep its bilateral investment protection treaties within the scope of its mixed economic commission schemes with third countries and outside the scope of its trade agreements, therefore does not consider deeper trade agreements to cover the investment issue extensively. The likely implication of this will be that the EU while negotiating for its investment interests abroad can make a trade-off between tariff liberalisation and stronger investment protection without considering its implications for the Turkish domestic industry. This may result an increasing dissonance of voices between Turkey and the EU in both bilateral and multilateral venues.

The case in *services* is another factor for the divergency. For Turkey, services negotiations are more complex than the case in liberalization of goods. The services require the reduction of regulatory barriers to market access and national treatment. However, these are problematic areas as far as existing level of the domestic regulatory system, and institutional co-ordination are concerned. The negotiations in trade in services needs a convergence of two sides to mitigate differences in their positions with regard to several sectors. While Turkey concentrates on tourism, transportation and construction; the EU priority areas are mainly financial and banking services, telecommunications and engineering. The legal and regulatory deficiencies as well as the insufficient level of domestic coherence among public and private institutions in Turkey left trade in service as a secondary issue[76].

Thus, the problem in the case of Turkey is that its expectations and priorities concerning ‘beyond-the-border’ issues vary greatly from the EU, mainly because of differences in their trade patterns, economic and social development levels, and domestic interests. The latter is also relevant to the the nature of actorness and the sensitivities perceived by the actors. In matters such as *environment, labour standards, food safety, consumer protection, and human rights* issues Turkish NGOs as new type of actors have not so far developed a comprehensive trade-related rhetoric[77] to involve in trade policy-making process, while the EU counterparts

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[74] See, Concluding remarks by the Chairperson, for Turkey’s Trade Policy Review, 2012 at: http://www.wto.org/english/tratop_e/tpr_e/tp359_crc_e.htm (1 March 2012).

[75] See, Woolcock, S., ‘The Treaty of Lisbon and the EU as an Actor in International Trade’, *ECIPE Working Paper*, 1/2010.

[76] M. Sait Akman, paper presented under the title ‘Trade in Services: A Sidelined Area of Negotiations in the Doha Round-The Turkish Context’ in *Journal of International Trade and Diplomacy* International Conference ‘Beyond the Doha Round’ held in Istanbul in November 2008.

[77] This is not to say that Turkey must necessarily develop a interventionist and protectionist position in these matters, nor does it claim the EU rhetoric always transforms into concrete

have a better experience. In this context it can be argued that the transformation of *actorness* in Turkey and the actors' degree of involvement do not indicate a similar trend pertinent to trade-related areas as in the EU. This eventually lead to the formation of different trade policy priorities in negotaiations by Turkey and the EU in these matters.

Implications of venue shift for Turkey

The deadlock in multilateral negotiations made preferential agreements (e.g. FTAs) a preferred mechanism overshadowing, if not denying the the WTO's role. Major negotiators like the EU seemed to have less need and enthusiasm for the WTO multilateralism in achieving market access objectives and in bringing new rules and regulations for trade-related areas. It can be argued that Doha negotiations became too complex to manage among an increasing number of trading interests[78]. However, several eminent studies reveal regionalism in world trade has a restraining effects on the multilateral trading system[79].

The 'venue change' in trade negotiations from WTO towards regional argreements may have negative effects on Turkish interests in negotiations with the non-EU countries. Accordingly, under current trade protection levels, Turkish applied tariffs are comparably much lower than its developing country rivals because of the adoption of the EU's Common Customs Tariff (CCT). As current stalemate in Doha negotiations continue without substantial motivation from global actors like the EU, FTAs seem to be the most notable alternative for curbing existing barriers for market access. Thus, under the EU's new trade regime Turkey is obliged to negotiate similar FTAs with third countries with higher trade barriers, so that it could level the playing field. This is a burdensome process for Turkey as its partners are likely to ask for compensatory trade concessions in return in prospective bilateral FTAs[80].

As a global actor the EU has a capacity to manage regional and multilateral routes concurrently. Nevertheless, for Turkey regional trade agreements may induce a 'complexity effect'. As WTO's Trade Policy Report in 2003 asserted:

> *"Turkey's FTAs makes its trade regime complex and difficult to manage. Future trade agreements could further complicate the trading environment creating a web of*

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policy action in an effective way. However, this indicates an 'agenda mismatch' in trade relations between the EU and Turkey in both bilateral and multiletaral contexts.

[78] For a discussion on it see, S. Akman, ''Doha Kalkınma Turu ve DTÖ: Sorunların Açmazında Çözüm Arayışları', in S. Akman and Ş. Yaman, editörler), *Dünya Ticaret Örgütü Çoktaraflı Ticaret Müzakereleri ve Türkiye,* (Ankara: TEPAV, 2008), see especially 32-36.

[79] See, Warwick Commission Report, *The Multilateral Trade Regime: Which Way Forward?*, 2007, http://www2.warwick.ac.uk/research/warwickcommission/report/uw_warcomm_tradereport_07.pdf, ; P. Sutherland et.al. eds., *The Future of the WTO: Addressing Institutional Challenges in the New Millenium,* (Geneva: WTO, 2004); Baldwin, R. E., 'Failure of the Doha Ministerial Conference at Cancun: Reasons and Remedies', *The World Economy*, 29, no.6, (2006); and J. Bhagwati, *Termites in the Trading System: How Preferential Agreements Undermine Free Trade,* (Oxford: Oxford University Press, 2008).

[80] Akman, 2010, 29.

incoherent rules and detract from multilateral efforts, given the limited resources available'[81].

Hence, Turkey will be disadvantaged in liberalising trade by means of FTAs if it totally disregards multilateral trade liberalisation under the WTO realm. A succesful conclusion of Doha Round on terms to be agreed to substantially reduce tariffs especially in non-agricultural products is important for Turkey's longer term interests to achieve a competitive and fairer trading system.

One example can help to illustrate it. If Doha Round is completed successfully in line with the proposed draft modalities for NAMA (non-agricultural market access), the bound tariff rates on chemicals will amount to only 24 percent. This represent a sharp decline from a peak of 437 percent in South Korea. In Mexico, the bound rate will be only 17 percent, instead of 50 percent. This is a much fair and acceptable result for Turkish export interests which has a bound rate of 133 percent on paper, but currently applie 3.7 percent tariff only due to the adopted Common Customs Tariff (CCT) of the EU. Same is true for many sectors (like clothing, textiles, electrical machinery, vehicles, paper) constituting a significant share in Turkey's exports. Trade liberalisation is essential for Turkey, as its average applied rates are lower compared to many competing emerging economies. Liberalisation process under multilateral scheme can be more facilitating for Turkey in order to obtain further market access compared to bilateral FTAs with equally powerful countries like South Korea, India, Brazil, Argentina, Malaysia so on. This is because; these countries will be enforced to reduce their tariffs when faced with an increasing pressure from other significant actors such as the EU under NAMA[82]. Therefore, it becomes essential for Turkey to be able to conduct its own bilateral relations under the shadow of the EU's changing trade paradigms without prejudicing its own multilateral prospects under the WTO.

CONCLUDING REMARKS

Turkish exports have displayed substantial increses in the last couple of years, and export markets diversified significantly. The composition of exports have also continuously changed towards more technology intensive products since 2001. Turkish imports, on the other hand increased even more leading to a growing trade imbalances. Domestic production and exports are largely dependent on intermediates imported from trading partners. Therefore, Turkey faces a high current account deficit problem. Turkish trade strategy reflects these problems focusing on the need to increase the level of high tech exports, to reduce the import content, and to have as broader access into more sustainable and diversified markets as possible.

On the other hand, the EU's new trade strategy is characterised by shifts reflecting the changes in global economic balances in the last two decades. It uncovers Europe's evolving priorities in trade negotiations. From the EU's point of view three aspects in conducting its trade relations are important. First, the negotiating framework is changing whereby the EU takes an assertive strategy for its exports to have a sustainable share in foreign markets. This

[81] WTO (2003), 17. Trade Policy Review: Turkey, Geneva: WTO, available at: http://www.wto.org/english/tratop_e/tpr_e/tp225_e.htm (01. February 2011).
[82] Sait Akman, 2010, 30; and Sait Akman, 'Turkey in the World Trading System and the WTO: Activism under Global Challenges and the EU Process', *Journal of Afro Eurasian Studies,* 1, no.1 (2012): 134-172.

also widens into new areas beyond manufacturing and conventional trade policy matters, and extends into trade-related issues. Second, the negotiation venue for the new framework focus too much on regional trade agreements, while the WTO is sidelined. The EU's free trade deals will affect Turkish interests. Finally, the global economic and social developments change relative power and perceptions of existing and new actors, who ultimately seek to reflect their interests in the EU position in trade negotiations. Turkey needs to follow the developments in EU strategy while improving its own, as it has a customs union link and it is in the accession process. Having failed it, Turkey's position in trade negotiations diverges from the EU albeit the existence of the CU, with likely implication of inducing Turkey to act alone without getting any susbtantial assistance or solidarity from its main trading partner.

Turkey follows an independent trade strategy to overcome challenges, without duely considering the CU. However, such a self-confident approach based on its recent economic performance and emerging political presence needs to be sustainable. Flaws in trade strategy, coupled with insufficient investment in new technologies and knowledge in the industry, and inertia in the reform process constitutes challenges. Turkey has to restore its relations with the EU by updating the CU, completing the adoption of the EU *acquis;* and having a more coordinated action towards third countries, while committing itself to continue its reforms consistently with its European ambition. This indicates that a cheer of activism can only be sensible if complemented by reforms needed to enhance the competitiveness of the Turkish economy, and to provide a sustained economic growth. Turkey, in this respect has to change its linkage in international production chains by moving from standardised products dependent on lower costs, into rising sectors and high value-added processes.

From the EU perspective, it should be noted that the marginal return to the CU is diminishing. This, if assessed in conjunction with the element of 'open-endedness' of Turkey's membership to the EU, shall not only cause Turkey to pursue its own way of foreign (trade) policy, but render an additional cost for the EU in regaining Turkey in the future.

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