

TTIP: AN ECONOMIC NATO IN FORMATION

When the Transatlantic Trade and Investment Partnership (TTIP) and Trans Pacific Partnership (TPP) agreements come into effect, the tectonic plates under global trade and investment flows will move. Turkey will be profoundly impacted. With no seat at the TTIP negotiation table and no clear path for inclusion in this massive new transatlantic trade block in formation, Turkey needs a realistic strategy. This article demonstrates that the recent “docking” of Japan to the TPP is a precedent that Turkey can follow. Over the next three years, Turkey and other US allies that will also be negatively impacted by their exclusion from TTIP should lobby for a clause to allow them to be included.

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As the world growth estimates for 2015-17 are revised yet again by the IMF, OECD, and major economic analysts, trade liberalization continues to be the lowest-hanging fruit that could boost global economic expansion. The United States, having committed to finalizing two major trade agreements in parallel – the Transatlantic Trade and Investment Partnership (TTIP) with the EU and the Trans Pacific Partnership (TPP) with 12 Pacific nations – sits squarely in the center of this opportunity, and continues to be the indispensable nation for both agreements to become a reality.¹

What is TTIP?

While TPP is largely driven by America’s desire to expand its ties to fast-growing Asia, as well as give assurances to Pacific nations against real and perceived security threats from China, America’s agenda for TTIP is different. With TTIP, the United States aspires to create a deeply integrated transatlantic market composed of the 28 EU member countries and the US. This would establish a trade zone spanning one billion people, commanding 45 percent of global GDP and 30 percent of the world’s trade. TTIP aims to lower or eliminate already low trade barriers by addressing the tougher non-tariff barriers and harmonizing regulations that govern reciprocal investments. It also seeks to open new sectors such as agriculture, government procurements, and services to international competition, as well as standardize rules with respect to labor, the environment, investment, competition policies, and state-owned enterprises.

According to *The Economist*, “trade in goods and services between [the US and EU] amounts to nearly one trillion dollars each year, and total bilateral investment between them is nearly four trillion dollars. Getting rid of remaining tariffs could raise Europe’s GDP by around 0.4 percent and America’s by a percentage point. Ditching even half of today’s non-tariff barriers could boost GDP in both places by three percent.”²

TTIP is the economic NATO. TTIP is the new frontier in trade liberalization, an effort to write the new global trade constitution, a blueprint for deep integration trade agreements for the 21st century. TTIP is undeniably a big deal. The question for Turkey is: what impact will it have on Turkey?

What is at Stake for Turkey?

TTIP is likely to have a profound impact on the Turkish economy.

1 TPP includes Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and Korea.

2 “Free trade across the Atlantic: Come on, TTIP,” *The Economist*, 16 February 2013,

<http://www.economist.com/news/leaders/21571890-good-idea-state-union-address-business-should-rush-support-come-ttip>

In the *short* term, trade diversion will result in a significant loss of income and employment in Turkey. Countries outside the TTIP with existing preferential trade arrangements with the US or the EU (Australia, Canada, Mexico, Norway, Switzerland, and especially Turkey, among others) will lose economic activity as their special market access becomes significantly less exclusive. Turkey will suffer for additional reasons. Because of Turkey's Customs Union with the EU, the US will enjoy preferential access to the Turkish market without having to open up its giant economy to Turkish exports.³ Secondly, and more importantly, Turkish companies will be seriously disadvantaged in European markets by now having to compete with increasingly competitive US companies that are currently deterred by European market barriers. A recent analysis by the Brookings Institution and TUSIAD suggests that the Turkish economy may lose up to 2.5 percent of its GDP if Turkey is left out of TTIP.⁴

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In the *medium* term, it will be very hard for Turkey to reach its target of becoming a Top 10 global economy by 2023 if it is not a part of TTIP. A Turkey that adopts and implements the regulatory standards of TTIP can attract higher FDI, which is “stickier” than the fickle capital flows that dominate the Turkish equity market. Higher FDI would not only help to address Turkey's perennial current account deficit, but also help Turkey attract and develop the advanced know-how and technology that it needs to avoid being stuck in a “middle income trap” of around 10,000 dollars GDP per capita. With growth having slowed to low single digits and political risk heightened by allegations of authoritarianism and a general perception of a lack of rule of law and due process, Turkey desperately needs big positive economic news. TTIP would qualify.

In the *long* term, Turkey being left out of TTIP will have dire geostrategic consequences, akin to being left out of efforts to restructure the Western liberal economic order.

3 IFO Institute's report predicts substantive employment gains after TTIP but notes that countries with preferential trade arrangements with the U.S. or EU would be losers due to trade diversion. Australia, Canada, Mexico, and Turkey are highlighted as major losers. “Transatlantic Trade and Investment Partnership (TTIP) Who benefits from a free trade deal?,” *Global Economic Dynamics*, 17 June 2013, <http://www.bfna.org/sites/default/files/TTIP-GED%20study%2017June%202013.pdf>

4 Kemal Kirişçi, “Turkey and the Transatlantic Trade and Investment Partnership: Boosting the Model Partnership with the United States,” *Brookings Institute*, Turkey Project policy Paper No. 2 (September 2013), <http://www.brookings.edu/research/papers/2013/09/turkey-transatlantic-trade-and-investment-partnership-kirischi>

It would be a significant negative, outward, and visible sign that the Turkish economy is not up to the same standards of developed and sophisticated economic players.

What has been Done so Far?

Not much. When the US and the EU launched TTIP negotiations, Turkey requested a seat at the table as per its rights as a country with a Customs Union with the EU. This request was duly rejected by both parties. The argument was that Turkey's inclusion would "complicate the process," which sounded like a technical excuse but was actually a politically expedient one. Although Turkey has been vocal in its desire to develop a deeper trade relationship with the US, regrettably, it had laid virtually none of the required groundwork to shape public opinion in the US.⁵ Thus, the decline of its request was not surprising. All Turkey received were "assurances" from American and EU leaders that Turkey would regularly be informed about relevant developments on TTIP negotiations. The US-Turkey High Level Committee, led by the Ministry of Economy of Turkey and the Office of the US Trade Representative, continues to hold meetings, but without making any substantial progress.

For now, a limited and toothless Bilateral Investment Treaty between the US and Turkey is what Turkey is stuck with, and while the 20-year old Customs Union continues to be the foundation of the Turkey-EU economic relationship, it has not brought the type of enhanced cohesion and deeper economic integration envisioned within TTIP. Given the high stakes, Turkey cannot afford to give up. But what realistic option does Turkey have?

What are Turkey's Options?

A stand-alone US-Turkey Free Trade Agreement (FTA) is not politically feasible in the US, despite the fact that Prime Minister Erdoğan raised it as an agenda item during his meeting with President Obama in May 2013. This is mainly due to US congressional politics. Traditional foes such as the Armenian and Greek lobbies have already raised objections to Turkey's involvement in TTIP based on historical grievances. Furthermore, Turkey's incessant criticism of Israel in its conflict with Hamas and other differences with the US on Middle East policy do not make matters any easier. A long, drawn out negotiation process would be a negative factor for Turkey's relations with its allies. A recent, much less ambitious attempt to have an FTA between Turkey and Native American tribes went nowhere in the US House of Representatives.

⁵ According to Turkish media, Erdoğan articulated his frustration about this "unfair trade situation" in a letter to Obama in March 2013.

In a relatively recent and important development, the US has advocated for Japan's eventual inclusion in the TPP through a provision called "docking."⁶ TPP negotiations had begun without Japanese participation, but Shinzo Abe's election prompted a request by Japan to be included in TPP. This request initiated a search for an innovative solution for how the US could fulfill this request. Subsequently, the US Trade Representative office brought up the docking provision, which is written into the TPP draft agreement that would permit Japan and other countries to join the TPP at a later date without suffering any disadvantages.

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For docking to be an option for Turkey, TTIP would need to have a generic docking clause included in the agreement. At a later date, when current political controversies have been addressed, Turkey's application would need to be accepted. It is critical that the effort to include a docking provision be a collective one by all countries that will be impacted by TTIP and that the clause allow those countries the right to accede to TTIP, provided that they adhere to all its clauses. These countries would take on all the treaty obligations without the possibility of negotiating any of the terms. Nonetheless, they would at least have the option to be included through a technical process, rather than a political one akin to Turkey's EU accession saga. Such a clause will be hard for congressional leaders to object to – especially because it might benefit key allies like Australia, Norway, Switzerland, Canada, and Mexico.

What Should Turkey do Now?

Turkey should initiate a major lobbying effort with the US administration, key leaders in Congress, and EU decision-makers to write the necessary docking provisions into TTIP. This would grant all countries that have longstanding trade agreements with the US or the EU the right to apply to and join TTIP. In order to be successful, Turkey should build a coalition of like-minded countries such as Australia, Mexico, Norway, South Korea, Canada, and Switzerland, among others. This needs to be done before the agreement goes to the US Congress for an up or down vote and to the EU Parliament for ratification.

⁶ Soon after he took power, Prime Minister Abe swiftly proceeded with his first and second arrows (fiscal and monetary expansion) while being less clear about the third arrow in his economic reform package. His third arrow is widely believed to be the comprehensive reform of industries like agriculture. Previous Japanese governments' reform attempts have failed politically. Through TPP, Abe presumably will provide his administration a powerful political shield while pursuing reforms under the auspices of the TPP agreement.

The central tenet of this campaign should be the “tipping point” argument. As TTIP strives to set the global standards for deep-integration trade agreements, it would be beneficial if all American and European allies with sizable economies could be signatories and participants. A TTIP with a docking clause would encourage other large emerging markets such as China, Brazil, and South Africa to adopt the new standards and principles in TTIP and TPP in order to enjoy market access.

In parallel, the Turkish government should use TTIP as an anchor for spurring a new round of economic reforms in Turkey, especially in the agriculture and services sectors. The combined impact of these reforms would boost the recently sluggish growth rates and would be beneficial for Turkey, regardless of what happens with TTIP.

How Much Time does Turkey Have?

If there is any silver lining to this seemingly Herculean task, it is the fact that Turkey still has about three years to pursue the opportunity to be included in TTIP. Negotiations can only be completed after President Obama leaves office on 20 January 2017. In all probability, the next US president will sign TTIP into law.

Almost all trade agreements that America has successfully completed and ratified have been facilitated by the existence of Trade Promotion Authority (TPA).⁷ This “fast-track” authority is given to the executive branch by Congress. It is critical for the executive branch to negotiate and complete trade agreements by limiting Congress’ influence over the text to an up or down vote after only 20 hours of debate on an accelerated legislative timetable.

The US executive branch’s fast track authority expired for new agreements on 1 July 2007.⁸ Despite the fact that the Obama administration indicated that renewal of the authority is a requirement for the conclusion of TPP and TTIP negotiations, Congress is unlikely to act anytime soon to extend TPA. The plain truth is that TPA faces headwinds from both parties in Congress. Democrats continue to bend to demands by organized labor groups to either reject TPA outright or include anti-trade

7 The exception is the US-Jordan FTA that was signed on 24 October 2000 as the first FTA the US signed with an Arab country (and the fourth US FTA after Israel, Canada, and Mexico). The US House and the US Senate both ratified the FTA by voice vote, an indication of the agreement’s widespread support, which was driven mostly by security concerns. One can also make the argument that Jordan being a small country with limited ability to compete with American companies in most sectors. The US-Jordan FTA never had the political opposition in the US that other FTAs negotiated with larger economies with competitive industries had, like the US-Korea FTA.

8 President Obama’s fast track authority continued to apply to agreements already under negotiation until they were eventually passed into law. In October 2011, Congress and President Obama enacted into law free trade agreements with Colombia, South Korea, and Panama using the fast track rules, all of which the George W. Bush administration had signed before the deadline.

restrictions in the language of TPA. Meanwhile, Republicans do not trust President Obama to negotiate an agreement with Europeans that might bypass Congress' authority and expand the scope of US wage, safety, and environmental laws.

TTIP negotiations have also recently been stalled by the spying allegations that caused political headaches between the US and Germany, the largest economy in the EU and America's *sine qua non* European counterpart for any trade agreement. Only time will cool down the inflamed German public opinion about the US, as well as allow the recalcitrant French opposition to soften. Only then can the TTIP negotiations regain momentum.

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What are Turkey's Arguments?

Turkey has powerful arguments as to why it should be included in TTIP, and it needs to deliver these arguments as part of a sustained, well thought-out, and funded campaign to shape public opinion in the US. The central message should be that the inclusion of Turkey in TTIP would visibly contribute to TTIP's economic, strategic, and political goals.

First, the US and the EU would *economically* benefit from Turkey's inclusion in TTIP. With a GDP of almost one trillion dollars, Turkey is the seventh largest economy in Europe (including Russia) and the 17th largest in the world. Turkey is deeply integrated with the global economy – particularly with the EU. The Turkish economy is driven by service and an export-oriented manufacturing sector. Foreign trade makes up 50 percent of GDP. In 2012, Turkey was the sixth largest trading partner of the EU, just ahead of Japan and Brazil. More than 70 percent of FDI into Turkey came from the EU and the US, while in turn two-thirds of Turkish capital was invested in the EU and the US.

Second, the US and the EU would *strategically* benefit from Turkey's inclusion. It is important for American and European strategic interests that Turkey is permanently anchored to the West. Turkey is a difficult and prickly ally for the US. Its divergences on a range of US foreign policy issues have recently become more conspicuous. Having said that, American, European, and Turkish economic interests

are well aligned. A deeper economic integration between the three actors will only bring more stability, coherence, and consistency to the relationship. A common long-term economic interest will create a great opportunity for a rapprochement between Turkey, the US, and EU that will help NATO better deal with the security challenges generated by an aggressive and revanchist Russia. As Mark Twain said, “History doesn’t repeat itself, but it does rhyme.” Ankara would be wise to remind its American and European allies why TTIP, the economic NATO, should not exclude a leading NATO member like Turkey. Economic interests tend to dominate political interests, and TTIP could be the strong cement that binds the alliance over the long term.

Third, the US and the EU would *politically* benefit from Turkey’s inclusion in the TTIP. News on deepening economic relations with the US and the EU could be announced as a bright new era for the US-EU-Turkey trilateral relationship. Such news could help defuse the rampant anti-Americanism in some parts of Turkish society – a population that reads about the catastrophe in Syria and Iraq on a daily basis. TTIP would be helpful in building support for any US-Turkey joint security and antiterrorism operations in the Middle East and enable military cooperation between US and Turkey – the lack of which created great consternation during the 2003 Iraq War. News of Turkey’s inclusion in TTIP would also lighten the resentment of the Turkish public towards the moribund EU accession process and give impetus to the resolution of long-standing issues between the EU and Turkey, like Cyprus. For European leaders such as German Chancellor Angela Merkel, who has been adamantly opposed to Turkey’s accession to the EU as a full member and has advocated a “strategic partnership” instead, Turkey’s inclusion in TTIP could be a political gift. She can characterize TTIP as the “strategic partnership” she masterminded between EU and Turkey, and portray it as further evidence of her being a pragmatic leader who responds to German voters’ concerns.

Turkey’s alignment with the West has been a critical geostrategic issue for the US and the EU and a top political issue for Turkey for last three quarters of a century. If successful, Turkey’s inclusion in TTIP would be a more significant economic and political event than Turkey’s customs union with the EU in 1996 and Turkey’s inclusion in NATO in 1952. As Ataturk said, “However great political and military victories are, unless they are crowned by economic victories, they cannot last.”

TTIP, the economic NATO, would be that crowning economic victory that would positively redefine this trilateral relationship. One may only hope that this historic opportunity is pursued vigorously by all.