

February 2019

FEUTURE Online Paper No. 29

Modes of Regional Cooperation and their Political Economy

George Berulava

Panagiota Manoli

Can Selçuki



This project has received funding
from the European Union's Horizon 2020
Research and Innovation Programme
under Grant Agreement No 692976.

Abstract

With the accession talks at a virtual halt, economic cooperation presents itself as one of the few open areas of dialogue between the EU and Turkey. On the one hand, Turkey is trying to reposition itself as a regional and global player weighing its options outside of the EU in terms of economic cooperation. On the other hand, both parties agree to the need to upgrade the current limited Customs Union (CU) agreement. Outside of but highly relevant for the political tensions between the two long term partners, the world trading regime is on the verge of major changes through mega trade agreements such as the TPP and the TTIP. Although currently rising trade wars seem to shadow the multilateral trade regime, big deals are to come whether bilateral or otherwise. More than the EU, Turkey will need to shape its policy to prevent potential losses. This paper evaluates different modes of economic cooperation between the EU and Turkey as well as Turkey’s potential involvement in partnerships outside of the EU.

Özet

Üyelik müzakereleri durma aşamasına gelmişken, AB ve Türkiye arasında iletişim imkânı kalan nadir alanlardan biri ekonomik iş birliği çerçevesi olarak ortaya çıkmaktadır. Bir taraftan, kendini bölgesel ve küresel bir oyuncu olarak yeniden konumlama gayretinde olan ve bu doğrultuda AB dışı alternatifleri değerlendiren bir Türkiye bulunmaktadır. Öte yandan hem AB hem de Türkiye işleyişinde birçok sorunu beraberinde getiren ve kapsam olarak limitli Gümrük Birliği anlaşmasının güncellenmesi konusunda mutabık bulunmaktadır. Küresel ticaret rejimi, İki ülkenin arasındaki siyasi gerilimlerin dışında ama aynı zamanda bu gerilimleri çok yakında ilgilendirecek büyük bir değişimin eşiğindedir. Trans-Atlantik ve trans-pasifik ticaret anlaşmaları bu değişimin göstergeleri niteliğindedir. Her ne kadar şu anda ticaret savaşlarının gündemde olması çok taraflı ticaret rejimini gölgeliyor olsa da, önümüzdeki dönem ikili veya farklı şekillerde büyük ticaret anlaşmalarının yapılacağı öngörülmektedir. Bu değişimin arifesinde özellikle Türkiye’nin doğru politikaları benimseyerek, değişimin olumsuz etkilerine karşı kendisini korumaya alması gerekliliği görülmektedir. Bu makale, AB ve Türkiye arasında gerçekleşebilecek farklı ekonomik iş birliği modellerini ve aynı zamanda Türkiye’nin AB dışındaki potansiyel iş birliği ihtimallerini mercek altına almaktadır.



Contents

Introduction.....	1
Chapter 1: Current Customs Union and Its Prospects.....	2
Chapter 1.1: Modernisation of the Customs Union.....	5
Chapter 2: Different Models of Economic Integration.....	6
Chapter 2.1: European Economic Area Membership	6
Chapter 2.2: Deep and Comprehensive Free Trade Agreement.....	7
Chapter 2.3: Market access through Transatlantic Trade and Investment Partnership.....	11
Chapter 3: Turkey’s Eurasian Option: The Shanghai Cooperation Organisation	13
Chapter 3.1: Level of Integration between Turkey-SCO	13
Chapter 3.2: Turkey in SCO: Arguments for and against	15
Chapter 3.3: Significance for EU – Turkey Relations.....	17
Conclusions.....	18
Bibliography.....	21



Introduction

Economic cooperation between Turkey and European Union (EU) countries goes back a long time and is strongly underpinned by geographical proximity. Whilst economic cooperation is an inescapable reality, moving forward, its rules will have to be renegotiated between the parties to take aboard ever-changing realities.

From a purely economic perspective, it is clear that Turkey has achieved significant gains from cooperation and integration with the EU. The so-called European “Convergence Machine” helped the Turkish economy transform in the past (Gill & Raiser, 2012; Gros, 2017). Following the start of economic liberalization in the 1980’s, Turkey truly managed to diversify its economy and integrate with the World economy. Indeed, integration with the EU and the Customs Union (CU) agreement was an integral part of Turkey’s transformation. This process was challenging in the beginning because of the sudden exposure of Turkish firms to global competition. But the private sector as a whole emerged stronger. Although the Customs Union agreement contains several imperfections and hence remains sub-optimal, its benefits to the economy are ubiquitous.

The global financial crisis of 2008 which was followed by a sovereign debt crisis within the Eurozone unavoidably caused the EU to lose its lure as an economic powerhouse. However, as the EU growth is recovering, Turkey still stands to benefit from being part of the “convergence machine”.

Yet, the relationship between Turkey and the EU has never been a simple one. As two neighboring partners, decisions that govern economic cooperation are seldom void of historical and cultural baggage. On the one hand, the membership talks that were initiated in October 2005 are at a virtual halt. With membership prospects out of the way, economic cooperation models remain the only mode of partnership.

On the other hand, Turkey has been weighing its options regarding reaping the benefits of its wider region. As a member of WTO there are opportunities for Turkey to diversify its economic ties. Its more assertive role in regional and global affairs is a testimony to this perspective. At the same time, the country managed to diversify its exporting destinations in the past decade. The extent to which new export destinations help Turkey become producer of high value-added goods is debatable. The EU countries continue to be the main export destination of Turkey for mid and high technology goods. Finally, in the long-term Turkey will have to assess its position vis-à-vis the changing global trade regime. It may choose to be on the EU side of the table when negotiating with trading giants such as the US and China (Gros, 2017). The current terms of the Customs Union agreement prevent Turkey from being part of EU negotiations with third countries.

The debate on the model of economic cooperation between the EU and Turkey is not a new one. In the wake of failing membership talks, the concept of “privileged partnership” resurfaced. The term, which has been highly contested in Turkey for a long time, is vague in itself but implies a level of economic integration that is less than membership and more than cooperation. The difference now is that both parties appear ready to discuss alternatives. The idea of a two-tier EU



and the United Kingdom’s exit from the EU (Brexit) provides thought for new kind of economic cooperation models between Turkey and the EU that will very likely also be the backbone of the relationship between the two (Derviş, 2013).

At this critical juncture, this paper aims to examine the more commonly discussed economic cooperation models. Accordingly, chapter 1 takes stock of the Customs Union and its prospects, chapter 2 looks at different models of economic integration between the EU and Turkey and finally chapter 3 examines Turkey’s links with the Shanghai cooperation Organisation (SCO) as an alternative regional economic cooperation model which includes two key global economies; Russia and China.

Chapter 1: Current Customs Union and Its Prospects

Despite all the political turmoil of the last decade the European Union remains the most important trading partner of Turkey. This is true not only in terms of volume but also type of exchanges. EU member states continue to be the main destination for Turkish mid and high technology exports. Therefore, while the geographical diversification of Turkish exports over the last two decades is a noticeable development, trade with the EU is fundamental to achieve the country’s development targets.

The EU-Turkey bilateral preferential trade framework is a complex one which goes beyond the Customs Union as summarized in the table below, taken from the Impact Assessment Inception Report of the European Commission.



Table 1: EU-Turkey Preferential Trade Framework

Association	1963 Association Agreement (Ankara Agreement)	Establishes association between the European Economic Community (EEC) and Turkey, with the aim to continuously strengthen trade and economic relations, in particular through the progressive establishment of a Customs Union in three stages: preparatory, transitional and final, with protocols laying down the rules of the preparatory stage.
	1970 Additional Protocol	Lays down the rules for implementing the transitional stage of creating the Customs Union, including the progressive abolition of customs duties between the EEC and Turkey over twenty-two years.
Current bilateral preferential trade framework (BPTF) including CU for industrial goods	1995 Customs Union Decision	Establishes the Customs Union for industrial goods by the final stage which ensures that Turkey aligns its external tariffs to those of the EU. Also requires that Turkey aligns its customs and technical legislation to the EU as well as its commercial policy vis-à-vis third countries in the CU context.
	1996 Coal and Steel Free Trade Agreement (FTA)	FTA on coal and steel products (including rules on competition).
	1998 Agriculture and Fisheries 'FTA'	Bilateral preferential concessions in agricultural and fisheries products.
Accession process	1999 Turkey candidate for EU accession	Turkey takes political commitment to progressively harmonise its national legislation with the EU acquis.
	2005 start of accession negotiations	Up to now, 16 out of the total 35 chapters have been opened

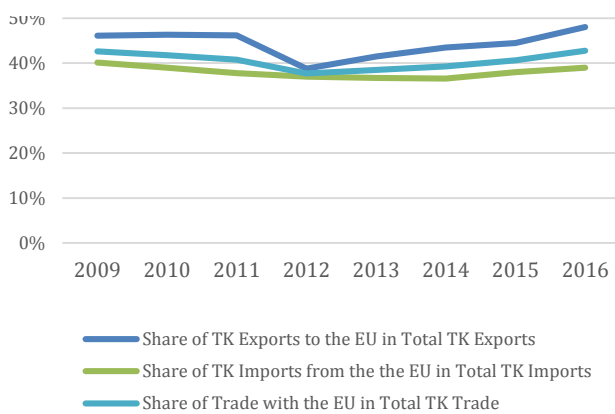
As demonstrated, the scope of the relationship between the two partners goes well beyond that of the Customs Union dating back to the 1963 Association Agreement. Since coming into force at the very end of 1995, Turkey has benefited greatly from the CU agreement. It covers trade in industrial goods (including the industrial components of processed agricultural products) and excludes primary agriculture and services. As a result of the CU, trade integration between the two parties is significant as there has been almost a fourfold increase in bilateral trade since 1996. According to European Union statistics for 2017 Turkey is the EU’s 5th main trading partner globally with the value of bilateral trade in goods currently amounting to €154 billion. The EU is the most important trading partner for Turkey, representing 41% of Turkey’s global trade. The CU



has brought greater benefits than a free trade agreement (FTA) would have. The World Bank (2014) estimated that Turkey’s exports to the EU would have been 3.0%-7.2% lower under an FTA. Another quantitative assessment by Aytuğ et al (2017) estimates that as a result of the CU, Turkey’s exports to the EU have increased by 38% and Turkish GDP per capita by 13%.

It would be safe to say that the CU has led the way to Turkey’s integration into the world trade system. Competitive pressures acted as the driver of transformation of the Turkish manufacturing industry as a whole resulting in Turkish firms to be integrated into global value chains. The availability of high quality intermediary goods contributed to the increase in export sophistication. In addition to the productivity gains for firms, the CU agreement has also led the way for increased FDI into the country. Over the years, European FDI into Turkey have increased significantly, with three quarters of overall FDI stocks coming from the EU (66,3% on average between 2008 and 2016), Turkey has become integrated into the EU’s supply and production chains (Vesterbye & Akman, 2017: 2). The European FDI has been the main source of innovation and R&D investment in Turkey for the last two decades (Atiyas & Bakış, 2015). Finally, the CU further acted as a driver for regulatory modernization.

Figure 1: Share of Trade (exports & imports) with the EU in Total Turkish Foreign Trade



Source: TÜİK (Turkish Statistical Office)

The economic rationale for this discussion is quite straight forward. The 2014 World Bank study titled “Evaluation of the EU-Turkey Customs Union” as well as the impact assessment undertaken by the Commission clearly concludes that a deepening of the CU agreement would benefit both sides (The World Bank, 2014) as global economy changes raising new challenges for both parties. However, there is also a political rationale. The political developments both in the EU and in Turkey have resulted in virtually pausing of the accession process.

For the time being, the CU (or any other trade deal) appears to be the only medium that would enable the two sides to entertain dynamic relations despite the currently damaged relationship.

In the last 20 years, the CU agreement has been a significant positive contributor to Turkey and the EU relationship both economically and politically. Likewise, going forward, both parties stand to benefit from its modernization. Currently, the modernization of the CU is blocked by some EU member states and institutions for political reasons. Yet instead of politicizing this process keeping it technical in nature would benefit the relationship.



Chapter 1.1: Modernisation of the Customs Union

The dialogue on the modernization of the CU started in 2014 and in December 2016 the European Commission completed its working document recommending authorization of the opening of negotiations with Turkey. In his statement on December 8, 2017, Deputy Prime Minister Mehmet Şimşek reiterated Turkey's expectations for the CU modernization (Hurriyet Daily News, 2017). The Council has not yet given mandate to begin negotiations. The modernization of the Customs Union agreement entails the extension of the agreement to include agriculture and services as well as changes in dispute settlement, public procurement, state aid, and services regulation.

There are a number of reasons that drive the discussion behind CU modernization. From the political perspective, it would help the EU regain its position as a benchmark for Turkey. For Turkey, modernization of the CU and its proper enforcement would actually prepare it for the mega-trade agreements such as TTIP. On the economy side, removing more tariff and non-tariff barriers to trade in various sectors would benefit both sides. On the Turkish side in particular, it has the potential to provide next wave of productivity growth that the country needs through increased trade, investment and regulatory upgrade. Finally, on the technical front, this would provide an opportunity to resolve all the issues that EU criticizes Turkey regarding poor implementation of its commitments (European Commission, 2016).

Turkey would particularly benefit from liberalizing its trade with the EU with regards to services (particularly professional services) not only in terms of trade but also productivity (The World Bank, 2014). According to a study by the European Commission (EC, 2016), an enhanced commercial framework could raise welfare in the EU and Turkey by €5 billion and €12 billion respectively. Potential welfare gains including agriculture and services in the CU is estimated at 1.84% additional gain to Turkey's GDP (Felbermayr, et al., 2016).

On the public procurement side, the opening up of Turkish tenders to EU companies would restore competition in public procurement. The increased competition would benefit increase the efficiency of the allocation of public resources. It would be beneficial for the Turkish firms by allowing them to bid in EU countries' public tenders on a level playing field with other players. There are a quite number of Turkish firms that are globally successful which operate in sectors such as construction and transportation which enjoy a large share of public tenders in the EU. After considering various options for the future of EU-Turkey trade relations (e.g. 'no policy change', 'CU modernization and FTA in additional areas' and 'Deep and Comprehensive Free Trade Agreement'), the EC Study of 2016 concludes that the best policy option was that of a Modernized Customs Union plus an FTA covering services, public procurement and further liberalization in agriculture (European Commission, 2016). In the no policy change scenario, it is deemed likely that trade between the two partners would be harmed due to poor implementation standards on the Turkish side and the non-functioning dispute resolution mechanisms. Furthermore, the unfulfilled potential that would come from further liberalization of trade would remain unrealized with



Turkey losing its competitiveness. The second option, namely the CU modernization and FTA in additional areas, projects GDP growth for both parties, albeit larger for the EU, and provides an opportunity to fix the design deficiencies of the CU. The third option of a DCFTA is assessed to be economically less beneficial. But more importantly, it falls short of solving some of the problems faced today. First, it removes the legal obligation of Turkey to align itself with EU policy and leaves it to its commitment and second, Turkey continues to go at it alone when negotiating trade agreements with third parties. Two reasons why it would not be suitable for both parties.

The next chapter looks into different models of cooperation that could strengthen EU-Turkey economic integration.

Chapter 2: Different Models of Economic Integration

Chapter 2.1: European Economic Area Membership

The European Economic Area (EEA) Membership of Turkey is often discussed as an alternative to EU membership and model to govern the economic cooperation between the EU and Turkey. The rationale for this option is twofold. First, it may act as a waiting room for Turkey on its way to becoming a full EU Member State (Pelkmans, et al., 2012). This is not unprecedented: Austria, Sweden and Finland were members to the EEA before acceding the EU. Second, the EEA would provide relevant mechanisms of a sort of sub-membership if this would turn out to be the only solution for EU-Turkey. This has already been applied in the case of Norway – a country that has strictly ruled out an EU membership. Moreover, in the latter outcome, Turkey and the EU would have a much deeper economic integration than what the CU is currently offering. An EEA would even go beyond a modernized version of the CU because it effectively means single market except for Common Agricultural and Fisheries Policies. In fact, it would even bring about a deeper integration than between EFTA countries that are also in the EEA but not part of the Customs Union. It is important to note that EEA membership would be equivalent of closing 21 chapters of the EU’s *acquis communautaire* that are closely linked to the internal market. However difficult this may sound the option of EEA membership is a compelling one and also realistic particularly as hopes for EU membership wane. Nonetheless, this option is deemed practically and legally difficult. First, it would undermine the functioning of the EEA as mentioned below. Second, it would be unrealistic to expect Turkey to align with all the policy implied by being in the EEA prior to stronger political decision and commitment for the future of the relationship between Turkey and the EU.

The primary objective of the EEA agreement was to increase the level of economic integration between EU and EFTA countries through the extension of the Internal Market to these countries. The non-EU EEA countries do not have any decision power over issues concerning the Internal Market. However, they are obliged to implement relevant EU *acquis* on a rolling basis. The fact



that the EEA is properly functioning is demonstration of the consensus by all members on the benefits of the Internal Market and also the administrative capacity of its non-EU members.

Ironically, even if EEA membership was an option desired by both the EU and Turkey, there would be little both could legally do. Simply because the membership is not for the EU to offer. Prior to becoming a non-EU EEA member, Turkey would first have to become an EFTA member getting the approval of Iceland, Liechtenstein and Norway. There is very little evidence to willingness of these countries to invite Turkey into their club. The rationale for both the EFTA and the EEA is the same: As mentioned above, these institutions rely on a consensus of mutual benefit and adequate acquis transposition capacity. There is little room for politics if at all for their well-functioning. Therefore, the introduction of Turkey would potentially undermine the smooth functioning. Yet, for too long now Turkey has been, rightfully so, complaining about the asymmetry created by the Customs Union agreement with regards to EU's Free Trade Agreements with third countries. In the case of EEA membership, Turkey would have to accept adopting a significant amount of legislation for which it has no say during deliberations. This seems unlikely. In short, a country like Turkey would undermine the functioning of the EEA and thus its introduction through EFTA would not be welcome.

It is worth revisiting the fact that, EEA membership would mean Turkey's alignment with the acquis across 21 chapters that concern the Internal Market. This would mean a massive reform initiative by Turkey. Whether Turkey currently has the right kind of domestic political environment to undertake these reforms is a valid question. But more importantly, even if so, it is highly questionable whether Turkey would be willing to undertake all these efforts without a proper end in sight. As mentioned before, the EEA could either be a road leading to EU membership that would allow for partially delaying political priorities initially and focusing on the Internal Market. Yet, if this was the case, Turkey would needed to be presented with this scenario. Alternatively, the EEA could be a desired halfway solution that is short of EU membership but going well beyond the Customs Union. Officially, Turkey accepts nothing short of EU membership proper. It is unknown if Turkey would officially opt for a membership minus solution. When comparing the EEA option with the Customs Union modernization, it is important to note that while the latter presents with a scenario to keep the relationship going, improve it to be more beneficial, at the same time it keeps the full membership option on the table.

Chapter 2.2: Deep and Comprehensive Free Trade Agreement

The Deep and Comprehensive Free Trade Areas (DCFTA) represent a series of arrangements between the EU on the one hand and Georgia, Moldova and Ukraine on the other, which ensure preferential trade regimes; better access to markets; similarity of regulatory environment among others. In essence, the DCFTA is only a part of the more comprehensive Association Agreements (AA) between the EU and these three post-soviet countries respectively, which covers trade and trade-related matters of the AA. The AA treaty, besides trade affairs, envisages cooperation on



issues such as political dialogue and reform; in the areas of foreign and security policy; freedom, security and justice; economic and sectoral policies and others.

The Agreement with Georgia and Moldova was signed in June 2014, and has subsequently been ratified by the European Parliament, all 28 EU member states as well as by Georgia and Moldova. For these countries, the AA had entered provisionally into force since September 2014 to a great extent already, while the AA completely entered into force in July 2016 only.¹ Unlike Georgia and Moldova, Ukraine faced some obstacles and delays in signing the Agreement due to pressure from Russia. The AA between the Ukraine and the EU was signed in June 2014 and provisionally entered into force in November 2014, except the DCFTA², which took effect only provisionally, in January 2016. However, the Agreement with Ukraine is lacking ratification by one EU member states – the Netherlands – due to the negative turnout of a referendum³. Therefore the AA has not completely entered into force yet. Additionally, it should be mentioned that even before the provisional entry of the DCFTA, the EU unilaterally liberalized trade with Ukraine from April 2014 through the ‘autonomous trade measures’, and with Moldova from 2008 through ‘autonomous trade preferences’.

In general, the DCFTA arrangement contains two broad components: the agreement on free trade – the FTA part – which abolishes tariff barriers thus providing better access to markets, and envisages other trade remedies; and the Deep and Comprehensive (DC) part, which focuses on harmonization of legal and regulatory environment in partner countries with EU standards, including competition policy and intellectual property rights, technical standards and food safety regulations, public procurement and services liberalization (ISET Policy Institute, 2016). The purpose of the ‘DC’ component is to create in partner countries, a business environment similar to that in the EU and thus to facilitate for European companies the entry to respective markets.

The establishing of a free trade area aims first of all at abolishing the most import duties and prohibition of all export duties as well as all quantitative restrictions (unless allowed by relevant WTO rule). For instance, the EU’s DCFTA with Ukraine targets elimination of 98.1% and 99.1% percent of duties in EU’s and Ukraine’s trade volumes, respectively (European Commission, 2013). In particular, with regard to industrial goods, exported from Ukraine, EU removes immediately 94,7% of tariff lines, while remaining ones will be abolished after a certain transitional period (Emerson & Movchan, 2016; European Commission, 2014). Ukraine, in turn, grants immediate preferential treatments to 49.2% of industrial exports from the EU. For selected industrial products Ukraine opens its markets only after a transition period of three up to seven years (with the car industry receiving special safeguard treatment). Upon a transitional period, 96% of EU

¹Source: <http://ec.europa.eu/trade/policy/countries-and-regions/countries/georgia/>

<http://ec.europa.eu/trade/policy/countries-and-regions/countries/moldova/>

² Source: Due to request from Russia

³ Source: <http://ec.europa.eu/trade/policy/countries-and-regions/countries/ukraine/>



industrial exports to Ukraine will be liberalized. For agricultural products, the EU fully abolishes 82.2% of tariff lines immediately, while 1.2% will be removed after a seven-year transitional period (Emerson & Movchan, 2016; European Commission, 2014). For some types of agricultural products, the EU applies tariff-rate quotas (TRQ). However, as recent analysis of the DCFTA implementation shows, the TRQs are not binding and most of them are not utilized completely or are employed only partially (Emerson & Movchan, 2016). Among the factors that limit the use of TRQ are: non-compliance with EU food safety and SPS standards, problems on the side of both demand and supply; problems in distribution channels (Movchan et al., 2015). Ukraine, in turn, fully removes 88.5% of duties on agricultural products, half of which will be eliminated immediately and the other half after a transitional period of up to seven years. It should be mentioned that not all tariffs for EU exports will be reduced to zero. Additionally, like the EU, Ukraine applies TRQ on some products, though their number are much smaller than those of the EU's (Emerson & Movchan, 2016). In general, according to European Commission estimations, under the DCFTA arrangement, annually, Ukraine will lose approximately 391 millions of Euro in import duties, while Ukrainian exporters will save 487 millions of Euro from tariff liberalization (European Commission, 2013; Emerson & Movchan, 2016).

Like in the previous example, in case of Moldova tariff liberalization is asymmetrical, too. For instance, the EU fully and immediately removes all tariffs duties on industrial goods, while Moldova enjoys a transition period of three to five years for several goods (Gill & Raiser, 2012; Gill & Raiser, 2012). For agricultural products, however, full liberalization is not assumed. Though the duties on most of Moldavian agricultural export will be liberalized immediately, TRQ still applies to a limited number of agricultural products (Emerson & Cenuşa, 2016). The asymmetry in trade liberalization assumed by DCFTA arrangements with Ukraine and Moldova, gives time to domestic producers in these countries to prepare for competition with EU companies and thus supports these countries in safeguarding of sensitive industries. Not like Ukraine and Moldova, Georgia, doesn't enjoy a transition period for the elimination of import tariffs, because such tariffs were abolished earlier under a liberal reform (Emerson & Kovziridze, 2016). DCFTA with Georgia assumes full liberalization of trade in goods with only limited number of exceptions for some agricultural goods. For instance, on some sensitive agricultural products EU applies tariff rate quotas (TRQ). Another exception is foreseeing of 'anti-circumvention mechanism', which assumes monitoring of trade flows and productive capacities of the respective country with the aim to safeguard against fraudulent supply from third countries. Also, several products are subject to a specific duty (Emerson & Kovziridze, 2016).

The DCFTA foresees the general rules of origin, which confirm whether a good is eligible for receiving a movement certificate of origin 'EUR.1', necessary for exporting to the EU. In particular,



the Protocol I of the Association Agreement⁴ outlines different criteria, which confirm whether a good is wholly obtained from the territory of one of the parties, or whether products have undergone “sufficient processing” to obtain the movement certificate. Since the DCFTA allows bilateral accumulation⁵ all partner countries can benefit in mid and long term by applying diagonal accumulation⁶ among its members. Georgia, can also gain from ‘diagonal accumulation’ of rules of origin with Turkey, after aligning bilateral free trade agreement between these two countries with the EU’s system of rules of origin (Emerson & Kovziridze, 2016). Other important aspects of the DCFTA are rules that define trade remedies against imports that can potentially jeopardize domestic economy, such as provisions for anti-dumping, anti-subsidy and safeguard, based on the relevant WTO rules.

The key policy instruments of this component of the trade arrangement are: 1) measures that ensure fast, efficient and transparent customs services; 2) activities oriented on the adoption of European technical regulations, procedures and standards for industrial products, which are vital for overcoming technical barriers for trade and ensuring modernization and competitiveness; 3) strategies focused on approximation of sanitary and phytosanitary (SPS) regulations and legislation in agri-food sectors with that of EU, and introduction of EU-style institutional and legal framework for SPS measures; 4) commitments to liberalization and reservations of services, which are necessary for the development of a dynamic and competitive service sector; 5) activities that ensure aligning of public procurement system and legislation with EU requirements, which increase transparency and competition; 6) efforts aimed to modernize intellectual property rights system; 7) legal commitments that comply with DCFTA requirements for competition policy; 8) measures oriented on creation modern and internationally comparable statistical system.

In the context of Turkey-EU relations, the DCTFA arrangements with post-soviet countries can be considered as an outline for the future development of the trade and economic relationships between Turkey and EU. Though, generally, having positive impact on the Turkish economy, the existing Custom Union agreement causes some problems in Turkey-EU relations, due to its

⁴ See: Protocol I Concerning the Definition of the Concept of "Originating Products" and Methods of Administrative Co-operation, http://eeas.europa.eu/archives/docs/ukraine/pdf/12_ua_protocol_i_en.pdf

⁵ **Bilateral accumulation** involves two partners and allows a trader in country A to use materials originating in country B as if they originated in A, and vice versa, with the origin criteria applying only to non-originating goods; it is therefore sufficient for the operation carried out in A to have been "more than minimal" to obtain A origin for the goods; this form of accumulation is applied in all the bilateral agreements concluded by the Community and in its autonomous preferential arrangements (Generalised preference schemes, separate measures for the Western Balkans, Overseas Countries and Territories (OCT) procedure).

⁶ **Diagonal accumulation** is based on the same principle but involves at least three partners who must have established a network of free trade agreements among themselves incorporating the same rules of origin and providing for this type of accumulation; the prototype of this form of accumulation is "pan-European" accumulation, involving the Community, the EFTA countries, the countries of central and eastern Europe and Turkey.



asymmetric nature (Mumcu & Balin, 2016). For instance, those countries who have established FTAs with the EU can export goods to Turkey without any duty, while maintaining import tariffs on Turkish goods. Thus, signing an FTA agreement with EU instead of a Customs Union would help in solving existing issues in Turkey-EU relations and in general will be much more beneficial for Turkey than existing trade regime. Along with increased exports of goods, such an agreement will attract FDI to Turkey from countries that do not enjoy free access to EU markets (e.g. China, Russia and etc.).

Chapter 2.3: Market access through Transatlantic Trade and Investment Partnership

The Transatlantic Trade and Investment Partnership, also known as TTIP, is fundamentally an agreement designed to allow the United States of America (US) and EU companies to easily offer their services and products in the EU member states and in the US respectively. The idea was born out of necessity. First, in the aftermath of the failure of the 14 years long Doha talks in 2015, countries started looking for alternatives to the multi-lateral trading regime of the WTO. The most noteworthy one was the Trans-Pacific Partnership that involves the US, Japan and Vietnam along with nine other countries. Second, governments searched for a way out of stagnation at the time following the global financial crises. Accordingly, in June 2013 the negotiations for the TTIP agreement were initiated.

A lot has changed in the world since the initiation of these negotiations. The election of Donald Trump as the US President in 2016 caused a rupture as President Trump stood by his protectionist election platform and halted the TTIP negotiations.

While the European Commission iterated that the impasse did not necessarily mean that the negotiations were officially off, politics on the EU side have not been a rosy ride either. From the onset, the TTIP faced massive public protests particularly from the left-wing supporters within the EU. The argument behind the protests were that the TTIP would mean the EU lowering its environmental standards to the level of the US and that sovereignty would be transferred to multinational corporations due the envisaged dispute resolution mechanisms.

The environmental concerns have been somewhat justified. In mid 2017, the US administration initiated a softening on its position with respect to the TTIP (The Financial Times, 2017). However, as President Trump announced the withdrawal of the US from the Paris Agreement on climate change mitigation, things again took a turn for the worse. In late January 2018, French Foreign Minister Jean-Baptiste Lemoine declared France’s position on not reviving the TTIP talks unless Trump foregoes his promise to pull the US from the Paris Agreement (Keating, 2018). Needless to say, the EU’s response to President’s Trump plan imposing tariffs on steel and aluminium imports has been harsh (Reuters, 2018).



In sum, TTIP is off the table for the time being. Why then discussing it further? Whether be it TTIP or another such agreement, large trading blocks in the world will have to come to an agreement in the future. With the WTO multi-lateral trading regime beginning to lose its significance, the EU will find itself negotiating possibly another TTIP (or continue the current negotiations) (Gros, 2017). This is where Turkey comes in. The fact that Turkey is a by-stander to the trade agreements that the EU signs with third countries already constitutes a big tension point between Turkey and the EU. Understandably, a trade deal with a partner the size of the US worries the Turkish authorities more than other relatively smaller countries. This is the case for two reasons. First, the sheer size of the US economy and the second is the ability of Turkey to undertake a FTA with the US. The TTIP is also relevant for Turkey’s economic cooperation model with the EU from the perspective of deepening the CU. As TTIP covers areas such as agriculture and public procurement that are currently outside the scope of the Customs Union but would be a part of after a modernization and deepening. Indeed, if this was to be achieved before the signing of the TTIP, Turkey would be in a much-prepared state to “dock in” to the agreement, which is the most commonly voiced mechanism of Turkey’s inclusion.

The initial impact of the TTIP agreement will be Turkish exports facing more competition in the EU market as US imports will be benefiting from reduced tariffs as well as removed non-tariff barriers. In addition, US products will access the Turkish markets without any duty while the reciprocal is not possible due to lack of a FTA between Turkey and the US. Finally, Turkish exports to the US will have a disadvantage with regards to European exports due to the latter not facing any duty. A study estimates that non-inclusion of Turkey in the TTIP could result in GDP loss of 0.1 to 0.5% for Turkey (Mavuş, et al., 2013). On the other hand, its inclusion could yield additional GDP growth between 0.6 to 4%. The same study estimates the gains for both the EU and the US up to 0.3% increased GDP growth in both inclusion and exclusion scenarios. This is important. The inclusion of Turkey in the TTIP not only has clear gains for Turkey but also benefits both the EU and the US. Indeed, what is not estimated in studies so far is the externalities that Turkey stands to benefit. These benefits come from the regulatory alignments that Turkey will have to undertake as a result as well as increased investment and FDI.

The future of TTIP is unclear for the time being. Even if it goes through, the mechanism through which, if at all, Turkey would be involved are also unclear. Turkey, like other third countries that have Preferential Trading Areas (PTA)s either with the US or the EU, will probably be better off if they do not insist on being a part of the negotiations from the onset but rather try to develop side conversations with the relevant party with regard to their particular case and get ready to be included when the time comes (Ulgen, 2014). In the case of Turkey, the deepening of the Customs Union agreement provides a tool exactly for that. Turkey is at a point where it can benefit from the overlapping of the CU and the TTIP and revive its trade policy vis-à-vis the EU in the short term and also well position itself for the coming mega-trade agreements such as the TTIP (Long, 2016).



Chapter 3: Turkey’s Eurasian Option: The Shanghai Cooperation Organisation

Chapter 3.1: Level of Integration between Turkey-SCO

Geographical proximity does not only link Turkey with the European Union market, which constitutes the most developed single market in the world, but with neighboring Asian markets as well whose growth rates are accelerating. The reason why SCO is examined rather than other regional cooperation options is the political will that has been voiced by Turkish policy makers at the highest level to be a part of the organization. One of the largest and newest formations in Eurasia is the Shanghai Cooperation Organization (SCO) which was established in 2001 (though originally founded in 1996) by China, the Russian Federation, Kyrgyzstan, Tajikistan and Kazakhstan. On 9 June 2017, India and Pakistan joined SCO as full-fledged members. SCO was initiated under the name “Shanghai Five” to build mutual trust among its member states, to disarm the border regions and to encourage regional cooperation. The Organization does not have economic goals in the heart of its activities as its primary objectives are promoting cooperation on security-related issues, namely to combat terrorism, separatism, and extremism. Thus, the first actions of the Shanghai Five were in 1996 and in 1997 when the “Treaty on Deepening Military Trust in Border Regions” and the “Treaty on Reduction of Military Forces in Border Regions” were respectively signed. In summit meetings between 1998 and 2000 SCO members considered ways to increase security in border region as well as on political, economic and security issues. SCO did not originally aim at a close union of its member states. Rather than being conceived as a vehicle of advanced integration, it was formed as a confidence-building forum to demilitarize borders. It has been argued that the organization has emerged as an anti-U.S. bulwark in Central Asia, and it is also believed that frictions among its members effectively prohibit a unified, thus effective SCO (Albert, 2015).

Throughout time, the organization's agenda has broadened to include military and counterterrorism cooperation and intelligence sharing while it has turned its focus, even though reluctantly, towards economic cooperation. At a Heads of State Meeting held in Shanghai on 14-15 June 2001 and in the light of global security developments it was decided to transform the Shanghai Five into a regional organization to carry out a more effective cooperation for combating threats of terrorism, separatism and radicalism. In this context, the Declaration on the Establishment of Shanghai Cooperation Organization and the “Shanghai Convention on Combating Terrorism, Separatism and Extremism” were signed. The SCO was also enlarged with Uzbekistan. Soon after, on 14 September 2001, a Memorandum of Understanding on Creating Better Conditions for Regional Economic Cooperation and Trade, as well as Investments was signed. In parallel to developing security oriented and anti-terrorism structures, the SCO took steps to



enhancing Multilateral Trade and Economic Cooperation. The integration of the two major economic schemes in Eurasia, the China-led Silk Road Economic Belt and the Russia-led Eurasian Economic Union, has attracted the interest of SCO. A SCO Development Strategy was adopted at the Ufa Summit in Russia, which includes bolstering finance, investment, and trade cooperation as a priority over the next ten years. A SCO Development Bank and the establishment of a regional free trade zone has been also proposed by Beijing. Despite Moscow’s skepticism over such proposals that could underline China’s influence in Central Asia, other Shanghai members have embraced more economic cooperation (Albert, 2015). It is also believed that Russia may be finally more willing to cooperate with China in order to gain from closer ties (Albert, 2015). Still, however not much has taken place either in the issue of the development bank or in trade related issues. A field of interest primarily for Russia and other Shanghai members is energy. At a SCO Summit in June 2006, President Vladimir Putin called for an "energy dialogue, integration of our national energy concepts, and the creation of an Energy Club" that would lead to a unified energy market for oil and gas exports while also promoting regional development through preferential energy agreements (Albert, 2015). As in the field of economy, in energy too such plans have not moved forward due to diverging interests between energy consumers (China) and energy producers (Russia, Kazakhstan), as members "prefer to keep national control over their production, supply, and consumption mechanisms and agreements," according to Julie Boland, a former Federal Executive Fellow at the Brookings Institution (Albert, 2015).

Table 2: SCO Members and Turkey

Country	Area (km ²)	Population (millions)	GDP per capital (PPP, constant prices, 2011 international dollar units)	GDP (% of global PPP)
Russia	17,075,400	143.965	24,971.057	3.221
China	9,640,011	1,382.710	14,277.334	17.688
India	3,287,590	1,299.796	6,210.040	7.232
Kazakhstan	2,724,900	17.927	23,336.624	0.375
Kyrgyzstan	199,900	6.140	3,261.141	0.018
Pakistan	881,912	193.560	4,724.718	0.819
Tajikistan	143,100	8.655	2,788.060	0.022
Uzbekistan	447,400	31.848	6,044.950	0.172



Turkey	783,562	79.815	23,168.742	1.657
--------	---------	--------	------------	-------

Sources: IMF Data (2016)

What does SCO mean for Turkey in trade terms? Among the SCO members, China and Russia are the largest economies and Turkey’s main trade partners. China is the top import country for Turkey (\$25 billion) and Russia represents the third largest import country (\$10.4 billion). Accordingly, 13% of Turkey’s total imports come from China and 5.6% from Russia while 3.1% come from India. However, Turkey has a large trade deficit with the SCO group as only 1.3% of its exports are directed to Russia and 1.6% to China.⁷ Overall, 6.7% of Turkey’s foreign trade is with China, 5.7% with Russia, and 1.8% with India (year 2017). The level of bilateral trade with these three SCO countries is thus high (in total 14.2% of Turkey’s foreign trade is conducted with these three) though still the EU28 as a trade block represents 40.7% of Turkey’s foreign trade.⁸ Trade with all others SCO members is limited. Turkey’s exports to Kazakhstan constitute just 0.52%. There is thus potential for further liberalization of trade with SCO countries but problems do exist as in the case of a long negotiated Free Trade Agreement between Turkey and Pakistan. Given the rising importance of Chinese capital not only for Turkey but also for other European economies, Turkey would opt for different levels and flexible models of economic integration with it. Chinese FDI in Turkey in 2016 is however limited, valued at approximately \$642 million⁹ or 1.26% of FDI. Economic interdependences are stronger with Russia driven by energy needs, private sector interests and market complementarities. Russia is the eight largest investor in Turkey with a share of 6.10% of FDI¹⁰ focusing mainly on energy while Russia is one of the largest destinations for Turkish construction companies. As Turkey’s bilateral economic links with Russia and China are stronger and deeper than its links to the SCO as a group, it is these bilateral developments that largely define Ankara’s SCO policy. Ankara still values access to developed EU markets where it can bargain its economic interests. Its policy towards SCO lies somewhere between its distancing with the West and its seek for crafting new relations with emerging powers in a globalized economy.

Chapter 3.2: Turkey in SCO: Arguments for and against

President Recep Tayyip Erdoğan was quoted in November 2016 saying that Turkey did not need to join the European Union "at all costs" and could instead become part of the SCO. He had already made the same announcement about possible SCO membership during a November 2013 meeting

⁷ Source: <https://atlas.media.mit.edu/en/profile/country/tur/>

⁸ Source: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113456.pdf

⁹ Source: George Marshall Lerner, “In Turkey, US Loss Is China's Gain,” *The Diplomat*, January 31, 2017.

¹⁰ Source: <http://www.invest.gov.tr/en-US/investmentguide/investorsguide/Pages/FDIinTurkey.aspx>



with V. Putin. According to Erdoğan, joining SCO would considerably broaden Turkey's "room for maneuver" (Natasha, 2016).

On 23 March 2011, Turkey applied for receiving the Status of Dialogue Partnership in the SCO which was approved by the Organization in June 2012. A Memorandum setting out cooperation modalities between Turkey as Dialogue Partner and the SCO was signed on 26 April 2013 in Almaty by the then Minister of Foreign Affairs Ahmet Davutoğlu and the former Secretary General of the SCO Dmitry Mezentsev as according to Turkish leadership Turkey shared "the same destiny" as members of the bloc.¹¹ Dialogue Partnership envisages the improvement of cooperation between Turkey and SCO in various areas mainly in regional security, fight against terrorism, drug trafficking and preventing organized crime as well as economic and cultural fields. Furthermore, Turkey chaired the Energy Club of the Shanghai Cooperation Organization (SCO) in 2017, becoming the first non-SCO country to hold its term presidency.

Beyond being the first dialogue partner to chair a prominent SCO institution in the history of the Organization¹² is it possible for Turkey to become a full member of the SCO? Turkey's bid for full membership is in principle supported by the member states of the Organization and its two regional power patrons. However, full membership in SCO would conflict with Turkey's NATO membership. The founding members of SCO have openly pointed this and have signaled Turkey to distance itself from the western military alliance to become more integrated in the SCO.¹³ Still, SCO is not a strategic and military alliance like NATO. Unlike the NATO, the SCO does not guarantee the collective security of a member state in their alliance pact like NATO does by its Articles 1 and 5. Unlike the NATO the SCO does not have an integrated military-political structure and does not get engaged in regular political deliberations. While the main focus of NATO is with external threats, the SCO is more concerned with internal security issues within its members' territory.¹⁴ Furthermore, the secretariat of SCO has not expressed any interest on immediate enlargement and mentioned that the Organization has its own schedule to follow on this issue.¹⁵ It should also be kept in mind that there are other states in a more prioritized observer status like Iran, Mongolia and Belarus, waiting in line for membership accession. Thus, Turkish membership, even though welcomed and supported by the power patrons of the organization would be more gradual than expected.

¹¹ Dialogue partners are entitled to take part in ministerial-level and some other meetings of the SCO, but do not have voting rights.

¹²Source: "Turkey to chair 2017 Energy Club of Shanghai Cooperation Organization." DailySabah. November 24, 2016. <https://www.dailysabah.com/energy/2016/11/23/turkey-to-chair-2017-energy-club-of-shanghai-cooperation-organization>.

¹³Source: Sputnik. "Şanghay Beşlisi kurucularından İvaşov: Türkiye üye olur ama..." Sputnik Türkiye - Son dakika haberleri ve analizler - radyo, foto, video, infografik. November 21, 2016.

¹⁴Source: Marcel de Haas, "Time for the EU and NATO to engage with the Shanghai Cooperation Organisation", *Europe's World Autumn 2008*, (October 01, 2008): 45.

¹⁵Source: Sputnik. "SCO Sees Increased Interest From Numerous States, Secretary General Says." Sputnik International - Breaking News & Analysis - Radio, Photos, Videos, Infographics. November 23, 2016.



The prospect of Turkey's membership in SCO would thus raise questions regarding the country's future identity as a NATO member and an EU candidate and could damage its credibility as a Western ally. Joining the SCO is an easy process as it does not require reforms and meeting high standards of economic and political criteria. Thus, in contrast to EU membership which is itself a deep transformation process, SCO membership does not require domestic reforms and it is an easy process to conclude bearing no political cost domestically. Ankara's geopolitical interests in Central Asia and its interest in the ethnically close Turkic peoples of Central Asia, including those in Kazakhstan underline its interest in SCO. Ankara's Central Asian policy is reviewed as part of the wider reconsideration of Turkey's strategic positioning in a multi-polar environment. The improvement in relations with Russia is part of this trend. Turkey is looking to gain greater leadership influence in Eurasia, and serve as a bridge between Europe, the Caucasus and Central Asia (Ibragimova, 2016). Furthermore, the authoritarian regimes of all other SCO members are closer to the current Erdogan regime. The erosion of democratic institutions in Turkey actually facilitates closer cooperation with Central Asian regimes and would relax their concerns on a democratic pro-Western Turkey.

The prospect of Turkey joining SCO is not however necessarily strongly welcome by all members of the organization as its bilateral relations with SCO members have not always been smooth (as with the case of Uzbekistan). Furthermore, Central Asia is only marginal in Turkish foreign policy compared to its bilateral relations with China and Russia, thus it is questionable whether Ankara would move beyond the current sectoral partnership status to deeper integration with its Asian neighbors. One of the political consideration that underpins Turkey's reluctance is being part of a China-Russia dominated group where its influence will be limited.

Chapter 3.3: Significance for EU – Turkey Relations

Can the SCO constitute an alternative to the EU for Turkey? The SCO is not in equal standing to the EU as a political organization. The EU is a bonding political union that unifies its member states in an economic, political, and monetary union whereas the SCO is an alliance implying shallow integration. Therefore, the SCO should not be seen as an alternative or the Eurasian counterpart to the EU. This has been argued by Turkish political elite in several occasions. Prime Minister Binali Yıldırım has stressed that Turkey is not "switching" its position from the European Union through its cooperation with the Shanghai Cooperation Organization (SCO) Energy Club, but is rather enhancing its "determining position in the region." Speaking to media members during his visit to Russia, he said, "Our remarks on the Shanghai Union are nothing new. We have been doing so even when our relations with the EU were normal. The Shanghai Union is not an alternative to the EU" (Aydoğan, 2016).

Nevertheless, Turkey's possible request for SCO membership could imply as well a differentiated model of EU-Turkey relations. Turkey's geopolitical location between Europe and Asia puts the



country on the Eurasian belt and renders it as a part of the SCO's geographic scope. The questioning of Turkey's European stance and its labeling it as Middle Eastern contribute to a Eurasian shift of geographic identity in Turkish perceptions.

One possible scenario would be that Turkey becomes the “Western interlocutor” in Eurasian integration. In this respect, Turkish Eurasian policy, far from being an alternative to Euro-Atlantic alignment, may instead play a useful role also for its Western interlocutors (Frappi, 2013). The distancing of current Turkey from the West makes this scenario less realistic.

Conclusions

The economic relationship between the two long standing partners – the EU and Turkey – go deep. It is actually a strategic partnership that spans more than 60 years. Indeed, the trade relationship goes beyond the scope of the Customs Union. However, as things stand, the Customs Union and therefore the evolution of the trade relationship between the EU and Turkey remain the backbone of dialogue as the accession talks are at an impasse due to the volatile nature of their political relationship.

As indicated above the Customs Union has been greatly beneficial for Turkey over the years. This has been the case not only through increased trade due to reduced tariffs but also through increased FDI and the positive externalities that come with it. Overall, Turkey enjoyed increased productivity and further integration into global value chains. Finally, the importance of the governance of the trade relationship is fundamentally important for Turkey as it is the most viable option not to be left out of the mega trade deals at the global level.

This paper evaluated four different scenarios that are plausible for the future of EU-Turkey trade relations. Namely, the modernisation of the Customs Union, European Economic Area Membership, Deep and Comprehensive Free Trade Agreements and Transatlantic Trade and Investment Partnership. Finally, as Turkey increases its bid to become a regional and global actor, an assessment of its potential participation in the Shanghai Cooperation Organization. The assessments benefit from other empirical studies and considers the political economy of each option more heavily.

The options evaluated under trade relations with the EU are not exhaustive. There are also the options of going back to a Free Trade Agreement or to trading under WTO regime. These options were deemed irrelevant. There are two reasons. First, implementing these options would mean accepting a status quo that will challenge all the gains achieved thus far. Economically this does not make sense. Both parties benefited from the Customs Union and stand to benefit more from deepening of trade relations in one form or the other. Politically, both parties have stated in several occasions, even at the climax of political tensions at the working level, their preference on the development trade relations. Second, as discussed earlier the WTO has been weakened



following the failure of Doha round. World trade regime is evolving away from the multi-lateral regime. Therefore, these two options fall within the realm of possible but not probable outcomes.

The European Economic Area membership indeed implies a level of integration that goes beyond what is offered by the status quo. In effect, it means an EU Membership minus outcome the involves harmonisation across many chapters of the accession process that involves the Single Market. However, the EEA is a fragile club that works well only because all non-EU countries adopt Single Market legislation on a continuous basis while at the same time not being part of the deliberations. Introduction of Turkey to such a system would disrupt the smooth running of the club. It needs to be remembered that one of the main motivations behind opening talks of modernising the Customs Union was enforcement issues. Finally, although deemed a technicality by some, EFTA membership is a prerequisite to EEA membership of non-EU members and the EU cannot offer Turkey EFTA membership. This would be the right step towards further integration and deepening of the trade relationship but politically not feasible.

The Deep and Comprehensive Free Trade Agreement goes beyond what the Custom Union has to offer. It covers services and agriculture as well as regulatory coherence. From an economic perspective, this would entail a significant change in the way trade is governed between the two parties. However, a DCFTA would mean letting go of the Customs Union. This is problematic because politically implies acceptance of an outcome short of EU membership for Turkey. Regardless of the fact that the membership talks are not progressing, this outcome is not yet formally accepted. There are two reasons for this implication. First, DCTFA is a tool that has been utilized for non-EU members. Second, as mentioned in the Commission’s impact assessment, the Customs Union is perceived as milestone for accession and removal of this agreement would imply a non-membership scenario for Turkey.

The Shanghai Cooperation Organization is yet far from the kind of political and economic cooperation that EU achieved. Therefore, it does not make sense to compare the two as alternatives to one another. On the other hand, Turkey has been actively pursuing a more prominent role regionally and globally. From an international trade perspective, Turkey had some success through diversifying its export destinations over the last 15 years. Coupled with this success is the dissatisfaction Turkey has been feeling with regards to its Western allies, the EU member states in particular. It is in this vein that Turkey started weighing its option with other regional cooperation organizations. At the same time, Turkish officials often stress that the SCO is not perceived as an alternative to the EU. Finally, if Turkey were to be a member of the SCO, it would have a difficult time reconciling the values of the organization with those of the EU which Turkey accepted.

Finally, the modernisation of the Customs Union with the Transatlantic Trade and Investment Partnership in sight is deemed to be the most beneficial scenario economically, politically and strategically. The modernisation would mean expansion into services. A Customs Union that



covers services would mean Turkey liberalising its services, professional services in particular, which would serve as a new source of productivity gain for the whole economy. Needless to say, this would revitalize the stagnating FDI into Turkey. The gains are also empirically proven for the EU. It would resolve enforcement issues as well. Politically, this would keep the membership option on the table while at the same time avoiding, at least for the time being, the political tension that comes with it and provides an area of mending and progressing the relationship between the two partners. Strategically, it prepares Turkey for “docking-in” to a potential TTIP agreement between the EU and the US in the future. This is crucial for Turkey. Unlike other FTAs that the EU signed with third parties, Turkey would have a difficult time negotiating a FTA with the US and if un-prepared both in terms of sectors and regulations it would be harmed. For the relationship between the EU and Turkey, this would help avoid a major tension point.



Bibliography

Albert, E., 2015. *The Shanghai Cooperation Organization*. s.l.:Council on Foreign Relations.

Atiyas, I. & Bakış, O., 2015. *Identifying the links between innovation and FDI flows in Turkey*, Istanbul: *Sabanci University and TUSIAD - Sabanci University Competitiveness Forum.

Aydoğan, M., 2016. *Daily Sabah*. [Online] Available at: <https://www.dailysabah.com/eu-affairs/2016/12/09/shanghai-pact-not-an-alternative-to-the-eu-affirms-pm-yildirim>

Derviş, K., 2013. *Brookings Institute*. [Online] Available at: <https://www.brookings.edu/opinions/economic-policys-narrative-imperative/>

Emerson, M. & Cenuşa, D., 2016. *Deepening EU-Moldovan Relations: What, why and how?” One of a trilogy of Handbooks explaining the EU’s Association Agreements and DCFTAs with Georgia, Moldova and Ukraine*, London: Rowman & Littlefield International, Ltd.

Emerson, M. & Kovziridze, T., 2016. *Emerson, M. and T. Kovziridze. (2016): “Deepening EU-Georgian Relations: What, why and how?” One of a trilogy of Handbooks explaining the EU’s Association Agreements and DCFTAs with Georgia, Moldova and Ukraine*, London: Rowman & Littlefield International, Ltd., London.

Emerson, M. & Movchan, V., 2016. *Deepening EU-Ukrainian Relations: What, why and how?” One of a trilogy of Handbooks explaining the EU’s Association Agreements and DCFTAs with Georgia, Moldova and Ukraine*, London: Rowman & Littlefield International, Ltd..

European Commission, 2013. *The EU-Ukraine Deep and Comprehensive Free Trade Area*, Brussels: The European Commission.

European Commission, 2014. *European Commission proposes temporary tariff cuts for Ukrainian exports to the EU*. Brussels: The European Commission.

European Commission, 2016. *Commission Staff Working Document – Impact Assessment*, Brussels: European Commission.

Felbermayr, G., Yalçın, E. & Aichele, R., 2016. *Turkey’s EU integration at a crossroads*, Gütersloh: Bartelsmann-Stiftung.

Frappi, C., 2013. *Central Asia's Place in Turkey's Foreign Policy*, s.l.: ISPI.



Gill, I. S. & Raiser, M., 2012. *Golden Growth: Restoring the lustre of the European economic model*, Washington DC: The World Bank.

Gros, D., 2017. *Project Syndicate*. [Online]
Available at: <https://www.project-syndicate.org/commentary/world-trade-system-backlash-us-china-eu-by-daniel-gros-2017-12>

Hurriyet Daily News, 2017. *Hurriyet Daily News*. [Online]
Available at: <http://www.hurriyetdailynews.com/turkey-eu-look-to-build-better-ties-123833>

Ibragimova, G., 2016. *Russia Direct*. [Online]
Available at: <http://www.russia-direct.org/analysis/turkeys-plans-central-asia-now-include-russia>

ISSET Policy Institute, 2016. *DCFTA Risks and Opportunities for Georgia*. s.l.:s.n.

Keating, D., 2018. *Forbes.com*. [Online]
Available at: <https://www.forbes.com/sites/davekeating/2018/02/08/eu-tells-trump-no-paris-climate-deal-no-free-trade/#8dea82537c7e>

Long, C., 2016. The Opportunity Space of Overlapping Trade Regimes: Turkey, the Customs Union, and TTIP. *Global Policy*, 7(3), pp. 363-364.

Mavuş, M., Oduncu, A. & Güneş, D., 2013. *The Possible Effects of Transatlantic Trade and Investment Partnership (TTIP) on Turkish Economy*, Ankara: Central Bank of Republic of Turkey.

Movchan, V., Kosse, I. & Giucci, R., 2015. *EU Tariff Rate Quotas on Imports from Ukraine*. Berlin/Kyiv: German Advisory Group in cooperation with the IER Kyiv.

Mumcu, A. & Balin, E., 2016. The European Union-Turkey Trade Relations under the Influence of Customs Union. *Journal of Economics, Business and Management*, 4(2), pp. 155-160.

Natasha, B., 2016. *Business Insider*. [Online]
Available at: <http://www.businessinsider.com/turkey-russia-china-shanghai-cooperation-organization-2016-11>

Pelkmans, J., Boehler, P. & Selçuki, C., 2012. *Who remembers Turkey's pre-accession?*, Brussels: Centre for European Policy Studies.

Reuters, 2018. *Reuters*. [Online]
Available at: <https://www.reuters.com/article/us-usa-trade-trump/trump-to-impose-steep-tariffs-on-steel-aluminum-stokes-trade-war-fears-idUSKCN1GD4ZW>



The Financial Times, 2017. *The Financial Times*. [Online]

Available at: <https://www.ft.com/content/7996f226-282a-11e7-9ec8-168383da43b7>

The World Bank, 2014. *Evaluation of the EU-TURKEY Customs Union*, Washington DC: The World Bank.

Ulgen, S., 2014. *LOCKED IN OR LEFT OUT? Transatlantic Trade Beyond Brussels and Washington*, Brussels: Carnegie Europe.



About the Authors

George Berulava



Dr. George Berulava is Professor of the Sokhumi State University and the Head of Business Studies Department at P. Gugushvili Institute of Economics of Ivane Javakhishvili Tbilisi State University. His research interests are in the areas of business and economics. In the FEUTURE project, he contributed to the research on political economy issues of the Eurasian Economic Union.

Panagiota Manoli



Panagiota Manoli, Head of the Programme in Slavic, East European and Eurasian Studies of ELIAMEP is Assistant Professor in International Political Economy at the Department of Mediterranean Studies, University of the Aegean. Her research interests and publications focus on comparative regionalism, security and development, European Neighborhood and Black Sea politics.

Can Selçuki



Can Selçuki is General Manager and Board Member at İstanbul Economics Research. His work entails Private Sector Development with a focus on competition, innovation and industrial policy.



Disclaimer: This publication reflects the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein.



This project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 692976.

ABOUT FEUTURE

FEUTURE sets out to explore fully different options for further EU-Turkey cooperation in the next decade, including analysis of the challenges and opportunities connected with further integration of Turkey with the EU.

To do so, FEUTURE applies a comprehensive research approach with the following three main objectives:

1. Mapping the dynamics of the EU-Turkey relationship in terms of their underlying historical narratives and thematic key drivers.
2. Testing and substantiating the most likely scenario(s) for the future and assessing the implications (challenges and opportunities) these may have on the EU and Turkey, as well as the neighborhood and the global scene.
3. Drawing policy recommendations for the EU and Turkey on the basis of a strong evidence-based foundation in the future trajectory of EU-Turkey relations.

FEUTURE is coordinated by Prof. Dr. Wolfgang Wessels, Director of the Centre for Turkey and European Union Studies at the University of Cologne and Dr. Nathalie Tocci, Director of Istituto Affari Internazionali, Rome.

The FEUTURE consortium consists of 15 renowned universities and think tanks from the EU, Turkey and the neighborhood.

Coordination Office at University of Cologne:

Project Director: Dr. Funda Tekin

Project and Financial Manager: Darius Ribbe

Email: wessels@uni-koeln.de

Website: www.feuture.eu

 facebook.com/feuture.eu

 [@FEUTURE_EU](https://twitter.com/FEUTURE_EU)

