

TRADE AS TURKEY'S EU ANCHOR

SINAN ÜLGEN

Having reached a dead end on Turkey's path of EU accession for the time being, Ankara and Brussels have instead invested their hopes in an upgraded Customs Union. Revamping this trade arrangement would unlock numerous economic benefits for both sides by further liberalizing trade between Turkey and the EU.

Yet this initiative is now under threat as a group of EU members led by Germany have formally opposed any new trade deal with Turkey. These countries should reconsider their position, because blocking the renewal of this trade deal would all but eliminate the most feasible means of encouraging rules-based governance in Ankara and maintaining EU engagement with Turkey.

The Likely Benefits of Modernizing the Customs Union

- Reworking the Customs Union could help spark economic growth in Turkey and the EU by extending the union's scope beyond manufactured and processed agricultural goods to cover the agricultural sector writ large, as well as public procurement and trade in services.
- Such a restructuring would entail significant reforms in four key areas: dispute settlement, public procurement, state aid, and services regulation.
- Reforms in these areas would help bind Turkey more closely to rules-based economic governance, provide a more viable vehicle for adjudicating trade disputes, and preserve the remaining momentum of EU-Turkey economic engagement.

The Risks of Forestalling a Customs Union Modernization

Given that the Turkey-EU political relationship is in deep crisis with no real prospect of recovery in the foreseeable future, a failure to upgrade the Customs Union with Turkey would be counterproductive for the EU because it would entail:

- **Leaving current economic problems unaddressed.** The Customs Union would remain plagued by a dysfunctional dispute resolution mechanism and limited regulatory convergence between Turkey and the EU in economic sectors critical to future growth.
- **Undermining the EU's most feasible vehicle for pursuing economic and diplomatic engagement with Turkey and encouraging domestic reforms in Ankara.** The EU would, without a modernized Customs Union, lack viable ways to press Turkey to align its economic regulations more closely to EU standards and to encourage the changes in Turkey's political economy that such reforms could potentially unlock.
- **Taking the onus off Turkey to make difficult economic and political decisions.** German-led European obstructionism could conceivably allow the Turkish government to evade responsibility if it ultimately opts to reject a Customs Union deal that is keenly supported by many domestic constituencies, so as to preserve the Turkish state's ability to direct domestic economic resources to consolidate political control.

ABOUT THE AUTHOR

Sinan Ülgen is a visiting scholar at Carnegie Europe in Brussels, where his research focuses on Turkish foreign policy, nuclear policy, cyberpolicy, and transatlantic relations.

CONTACT

Christine Lynch
Communications Director
+32 2 209 29 93
clynch@ceip.org

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