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**Impact of TTIP on third parties and especially on
Turkey from the European point of view**

With the view of getting the degree of Master in Management

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Table of Contents

ACKNOWLEDGMENT	I
TABLE OF FIGURES	IV
TABLE OF APPENDIX	V
I. INTRODUCTION	1
II. LITERATURE REVIEW	4
1. FREE TRADE AGREEMENTS	4
1.1 NEW “MEGA DEALS”	4
A. TTIP – Transatlantic Trade and Investment Partnership	4
B. TPP – Trans-Pacific Partnership	5
C. RCEP - Regional Comprehensive Economic Partnership	5
D. CETA – Comprehensive Economic and Trade Agreement	6
2. FOCUS ON TTIP	7
2.1 WHY THE TTIP?	8
2.2 WHAT IS TTIP?	10
2.3 WHY IS THE TTIP DIFFERENT?	15
2.4 WHY WILL THE TTIP IMPACT ALL COUNTRIES?	16
2.5 IMPACT ON TTIP’S COUNTRIES	18
2.6 TTIP VS. WTO	19
2.7 SUCCESS OF TTIP	20
III. DEVELOPMENT	22
IV. GENERAL CONSEQUENCES OF THE TTIP	23
1. INTRODUCTION	23
2. WHO IS GOING TO BE AFFECTED BY THE TTIP?	25
2.1 BRIEF FOCUS ON CHINA	26
3. GEOPOLITICAL IMPACTS WORLDWIDE	28
4. COUNTERVAILING MEASURES AT NATIONAL LEVEL FOR THIRD PARTIES	30
5. CONCLUSION	31
V. IMPACT ON TURKEY	34
1. INTRODUCTION	36
2. CUSTOMS UNION WITH TURKEY	36
3. THE CURRENT ECONOMIC SITUATION BETWEEN THE EU AND TURKEY	38
4. DOES THE CUSTOMS UNION STILL WORK?	42
5. THE CONSEQUENCE OF INCLUDING TURKEY IN THE TTIP	52
5.1 STUDY FROM THE CENTRAL BANK OF THE REPUBLIC OF TURKEY	52
A. Methodology	52
B. Impacts on the EU and the US ... if exclusion of Turkey	53
C. Impacts on the EU and the US... if inclusion of Turkey	54
D. Impacts on Turkey	55

5.2 STUDY FROM EUROPEAN COMMISSION	57
A. Methodology	58
B. Impacts	58
6. REFLEXION ON HOW TO ENGAGE TURKEY IN THE TTIP	62
<u>VI. CONCLUSION</u>	<u>67</u>
<u>VII. TTIP'S PROSPECTS AND PERSONAL REFLEXION</u>	<u>70</u>
<u>VIII. BIBLIOGRAPHY</u>	<u>73</u>
<u>IX. TABLE OF APPENDIX</u>	<u>I</u>

Table of Figures

Figure 1: EU-US trade in goods over time, bn Euro, 2004-2014	9
Figure 2: Content of the TTIP	11
Figure 3: Turkey, export by Partner	40
Figure 4: Turkey, import by Partner	40
Figure 5: GDP Growth of the EU, Turkey and three specific EU countries	41
Figure 6: The impacts on the EU and the US if Turkey was excluded	54
Figure 7: The impacts on the EU and the US if Turkey was included	55
Figure 8: The impacts on Turkey if Turkey was excluded	56
Figure 9: The impacts on Turkey if Turkey was included	57
Figure 10: Impact of TTIP on trade flows	59
Figure 11: Di-section of Turkey-US bilateral exports, ambitious scenario	60
Figure 12: Decomposition of total export effects for third countries	61

Table of Appendix

Appendix 1: Comparing regulatory cooperation in CETA and the EU TTIP proposal	i
Appendix 2: Goods trade of EU countries with US	v
Appendix 3: Accession agenda with each sector and open-date of the negotiation	vi
Appendix 4: Trade cost reductions in TTIP scenario	vii
Appendix 5: Study phases and reporting	viii
Appendix 6: The project landscape	viii
Appendix 7: Changes in global real per capita income, with deep liberalisation	ix
Appendix 8: Changes in global real per capita income, tariff scenario	ix
Appendix 9: Interview guide with Mrs. Pinar Ersen Rousk	x
Appendix 10: Interview guide with Mrs. Renita Bhaskar	x

I. INTRODUCTION

Nowadays, everything has to become « mega », cities are becoming megacities; kilobytes are not big enough so people need megabytes and even gigabytes, and bilateral free trade agreements are now “mega” regional agreements. This evolution is a fundamental change of perspective that some recently called “a shift in paradigm”. Globalisation is a reality and has created super-powers. After the 2008 crisis, some of them have feared losing their supremacy and have decided to work together to consolidate their achievements.

The terms “mega deal” or “mega regional agreement” have been broadly used in recent years in most trade deals between some of the developed countries around the world ¹. Nowadays, countries and businesses benefit from international economic integration. The progressive abolition of restrictions on international trade and the lowering of customs barriers increase competition and create a bigger market that rewards economies of scale (Van den Hengel, 2013). These mega-deals have significantly reshaped the global trade policy landscape.

Usually, multilateral trade agreements are supposed to be concluded through the World Trade Organization (WTO). But since the latest Doha Development Round of trade negotiations in 2001, no decisive agreements have been reached. Due to the interconnection and the complexity of the trade relations amongst the 162 WTO Members, it has appeared very complicated and tedious to achieve common agreement. Plus, many developing countries have shown little interest in new market opening initiatives and don’t share yet the idea of common principles (Hamilton, 2014).

The risk of this attitude is to see in the coming years a dangerous drift in the use of national discriminatory trade, regulatory and investment practices. This rising

¹ There were already large Free Trade Agreements (FTA) such as the NAFTA (the North American Free Trade Agreement) signed in 1994 by Canada, Mexico and the United States.

influence of emerging countries has slowed the supremacy of the developed and industrialised countries and particularly the “Quad” (the US, Canada, the EU and Japan), based on the Western liberal economic order. Indeed since the Doha Round, we observed a noticeable assertiveness of developing countries (Bozkurt, 2015).

It was during a conference organized by the Istanbul Chamber of Industry during my internship at the Consulate General of Belgium in Istanbul that I realised the potential impact of the rise of free trade agreements for the world and especially the Transatlantic Trade and Investment Partnership (TTIP) for Turkey. Thanks to the director of the Center for Multilateral Trade Studies at TEPAV (Economic Policy Research Foundation of Turkey), Bozkurt Aran, I have become increasingly interested in this topic. Bozkurt Aran, who was also one of my teachers two years ago during my Erasmus at the Bilkent university (Ankara), introduced me to this topic with a very gripping eBook whose subject represents the central pillar of this master’s thesis: *Catalyst? TTIP’s impact on the Rest*, Edited by M. Sait Akman, Simon J. Evenett and Patrick Low.

The following paper will start with the literature review. Firstly we will briefly discuss the main four mega-deals in the world and then we will focus our research on TTIP. We will develop the content of this agreement and explain why, when people talk about TTIP, they are talking about a new generation of Free Trade Agreement (FTA).

After this, we will briefly discuss the inclusivity of this agreement and then we will examine the TTIP’s impact. We will describe the general consequences of TTIP on third countries. We will mainly develop the economic and geopolitic impact of this agreement. Our research will focus especially on Turkey. We will start by analysing the customs union between the EU and Turkey. Then, we will argue as to its efficiency today. Finally, we will analyse two studies, one made by the Central Bank of the Republic of Turkey and one by the European Commission. These two studies will allow us to discuss the various expected

impacts on Turkey, the US and the EU in case of Turkey's inclusion in (or exclusion from) the TTIP.

In the last part of this paper, we will try to go one step further, based on the discussion with Renita Bhaskar, the deputy head of unit DG trade, from the European Commission, and discuss the opportunity for Turkey to join the TTIP, even if it is after its conclusion.

II. Literature review

1. Free trade agreements

As of February 2016, the WTO committee on regional trade agreements had received 625 notifications of Regional Trade Agreements (RTAs) counting for goods, services and accession agreements separately. Out of these 625, 419 agreements are already in force (World Trade Organization, 2016). Most of those have been signed either between small States or between larger and smaller States. In the main, their purpose is to improve market access. In addition, the Organization for Economic Co-operation and Development (OECD) has encouraged nations, through export growth, to increase the implementation of new FTAs. They should be seen as a complement rather than an alternative to multilateral agreements concluded with the WTO framework (Organization for Economic Co-operation and Development, 2015).

Recently, we have observed the emergence of new “mega regional” agreements between large blocks of nations engaged in the construction of more deeply integrated economic areas.

1.1 New “mega deals”

The four large agreements under negotiation are the Transatlantic Trade and Investment Partnership (TTIP) – also called TAFTA –, the Trans-Pacific Partnership (TPP), the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive Economic and Trade Agreement (CETA). They represent over three-quarters of global gross domestic product (GDP) and two thirds of world trade (OCDE, 2015).

A. TTIP – Transatlantic Trade and Investment Partnership

It was in February 2013 when President Obama announced for the first time publicly that the US and the EU were launching negotiations for a comprehensive Transatlantic Trade and Investment Partnership. Many scholars estimate

together that they constitute around 50% of the global output, 30% of global merchandise trade and 20% of global foreign direct investment (OECD, 2013). The first round of negotiations was launched in July 2013. This agreement will be developed more deeply below.

B. TPP – Trans-Pacific Partnership

This agreement counts currently twelve Members namely Australia, Brunei, Chile, Canada, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam. Including Japan, who joined in July 2013, there are now twelve countries from America, Asia and Oceania.

The Trans-Pacific Partnership represents a challenge because it includes both developed and developing countries' economies and consequently, the concern of each State regarding each sector, political views and national lobbies are sharply different. The agreement is mainly focused on tariff measures.

C. RCEP - Regional Comprehensive Economic Partnership

The RCEP was initiated in November 2012 and now regroups ten Member States of the Association of Southeast Asian Nations (ASEAN) (Brunei, Burma (Myanmar), Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, Vietnam) and six States with which ASEAN already had existing FTAs (Australia, China, India, Japan, South Korea and New Zealand). RCEP combines a GDP of approximately \$17 trillion (24% of the total GDP) and accounts for about 40% of world trade. It includes more than 3 billion people.



Print screen from Wikipedia²

²https://en.wikipedia.org/wiki/Regional_Comprehensive_Economic_Partnership

It also faces important development diversities. However, it includes some guiding principles for developing countries such as Cambodia, Laos, Myanmar, and Vietnam. This partnership comprises flexibility, differential treatments and technological cooperation to reduce development gaps. Even if there is great diversity between these countries, the potential of this FTA is substantial.

D. CETA – Comprehensive Economic and Trade Agreement

The CETA is a proposed negotiated EU-Canada treaty. The negotiations were concluded in August 2014 with the agreement to be approved by the Council of the EU, the EU Member States and the European Parliament. If approved, this agreement will remove 98% of the tariffs between the two actors. It will offer EU firms more and better business opportunities in Canada and support jobs in Europe (and vice versa).

According to the European Commission (EC) website, the agreement will eliminate customs duties, remove restrictions on access to public contracts, open the service market, encourage bilateral investment and help preventing illegal copying of EU innovation and traditional products. According to the EC such an agreement will increase EU standards on areas such as food safety and workers rights. In the first appendix, there is a comparison of the regulatory cooperation between the CETA and the TTIP proposals.

These four comprehensive trade liberalisation agreements aim to boost the economy of these countries. However, the main difference between TTIP/TPP and the other agreements is that the latter still focus mainly on reducing tariffs levied while TPP and TTIP aim to go one step further by reducing service trade barriers and trade costs of time (Van den Hengel, 2013). Once concluded, these two agreements will transform substantially the way global trading and the multilateral system operate, both in terms of market access and the rules that dominates international trade (Bozkurt, 2015).

However TTIP stands apart. Firstly it is more a bilateral future agreement than a plurilateral one. Then, as already mentioned, the two protagonists are both advanced and very integrated economies. Last but not least, TTIP is unique in that it is mainly based on mutual recognition (and other non tariff-barriers) rather than in tariff barriers.

2. Focus on TTIP

Definitions

- *Full harmonisation* would mean identical standards, certification, labelling, and conformity assessment procedures in order to allow products of different countries to access to each other's markets. (Akman, Evenett, Low, 2015)
- *Equivalence* would mean that even if we accept the idea of different standards and measures, we are still pursuing a shared objective. This is a sort of trade restriction in order to reduce differences. Countries can liberalise trade and at the same time preserve different domestic regulatory rules (Akman, 2015).
- *Mutual recognition*: It would mean that even if standards between trading partners are different, it doesn't justify market access restrictions. These differences don't harm countries. Mutual recognition agreements focus on conformity assessment procedures. It reduces trade costs by ensuring that products are only controlled once. These would include rules of origin, design and procedural aspect of standards and other non-tariff and tariff barriers (Akman, 2015).
- *Spillover effect*: The first assumption would be to say that the TTIP would lower trade costs only between the EU and the US. However, if the agreement lowers trade costs for TTIP Members it will also have an impact on third countries. Baldwin (2011) supports the idea that the

negative effect on excluded countries may be weakened and even become positive. Indeed, its importance may create substantial regulatory convergence, so that it turns into positive spillovers for all countries, even third parties. (Felbermayr, Heid, Larch, Yalcin, 2014)

- Rules of origin: *“criteria needed to determine the national source of a product. Their importance is derived from the fact that duties and restrictions in several cases depend upon the source of imports. (...) While the requirement of substantial transformation is universally recognized, some governments apply the criterion of change of tariff classification, others the ad valorem percentage criterion and yet others the criterion of manufacturing or processing operation. In a globalizing world it has become even more important that a degree of harmonization is achieved in these practices of Members in implementing such a requirement.”* (WTO, s.d.).

2.1 Why the TTIP?

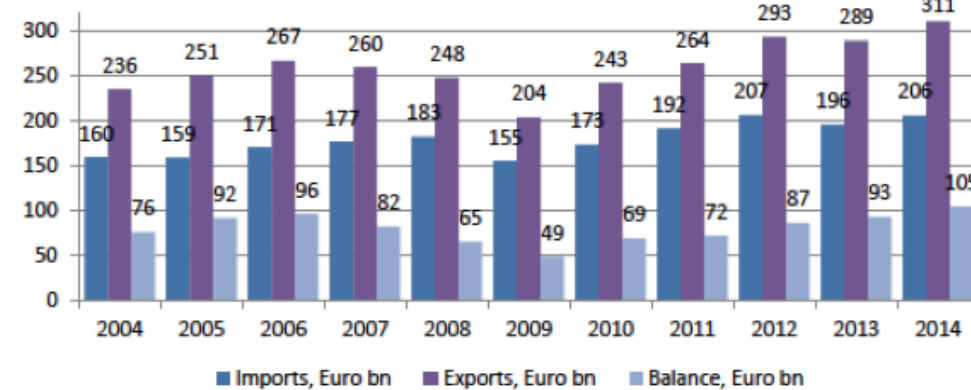
Despite the rise of many developing countries, the United States and the European Union remain the leaders of the world economy. These two protagonists are the most important and profitable market. They generate, just between themselves, \$5.5 trillion in total commercial sales a year and employ up to 15 million workers in mutually “onshored” jobs on both sides of the Atlantic. They are also the broadest and the richest market in the world, accounting for over than 35% of the world GDP in terms of purchasing power (Hamilton, Quinlan, 2016).

The US and the EU are already very integrated. Indeed, every day roughly \$1.7 billion of goods and services cross the Atlantic. This represents about one third of total global trade in goods and more than 40% of world trade in services. The relation is particularly strong in foreign direct investment (FDI), portfolio investment, banking claims, trade and affiliate sales in goods and services, mutual R&D investment, patent cooperation, technology flows and sales of

knowledge-intensive services. Both the United States and the European Union have built up the majority of their stock in each other's economies. Mutual investment is very important. Trade between the US and the EU has become essential to preserve jobs and prosperity (Hamilton and al., 2016).

In the figure n°1, we can observe that exports in goods to the US have increased almost continuously since the crisis in 2008. However, despite the impressive volumes and sum of money, these figures need to be put into perspective. In 2014, total exports, imports and bilateral surplus of goods and services to the US represented about 3.6% of the EU's GDP, 2.8% and 0.8% respectively. Appendix n°2 details and compares the goods' trade of every EU country with the relative exports, imports and their balance to the level of GDP (Felbermayr, 2016; Hamilton and al., 2015).

Figure 1: EU-US trade in goods over time, bn Euro 2004-2014



Source: Eurostat Comext, author's calculations and illustration.

However, the “domination” of the transatlantic economy should not be taken for granted. Indeed, due to the economic crisis in Europe and the rise of the emerging economies, China is about to become the single most -important trading power in the world. It's important to point out that this mutual relation between the US and the EU is, over time, cracking. Even if the US remains the largest single bilateral exporter market for the EU, it has decreased from about 27% to less than 20% whereas it has almost doubled with China over the last few years (Hamilton, Pelkmans, 2015).

On the import side, the transatlantic economy is also bound to fall in relative size in the world economy. Hamilton, D. and Pelkmans, J. (2015) expect that by 2050 countries, such as China, India, Brazil and other rising economies will have increased their economic size and have become more and more integrated in the global economy. The risk for the US and the EU is that these countries might start to align to their own regulation, leading to sharp divergence in the future.

2.2 What is TTIP?

“The heart of the 21st century trade is an intertwining of: 1) trade in goods, 2) international investment in production facilities, training, technology and long-term business relationships” (Baldwin, 2011)

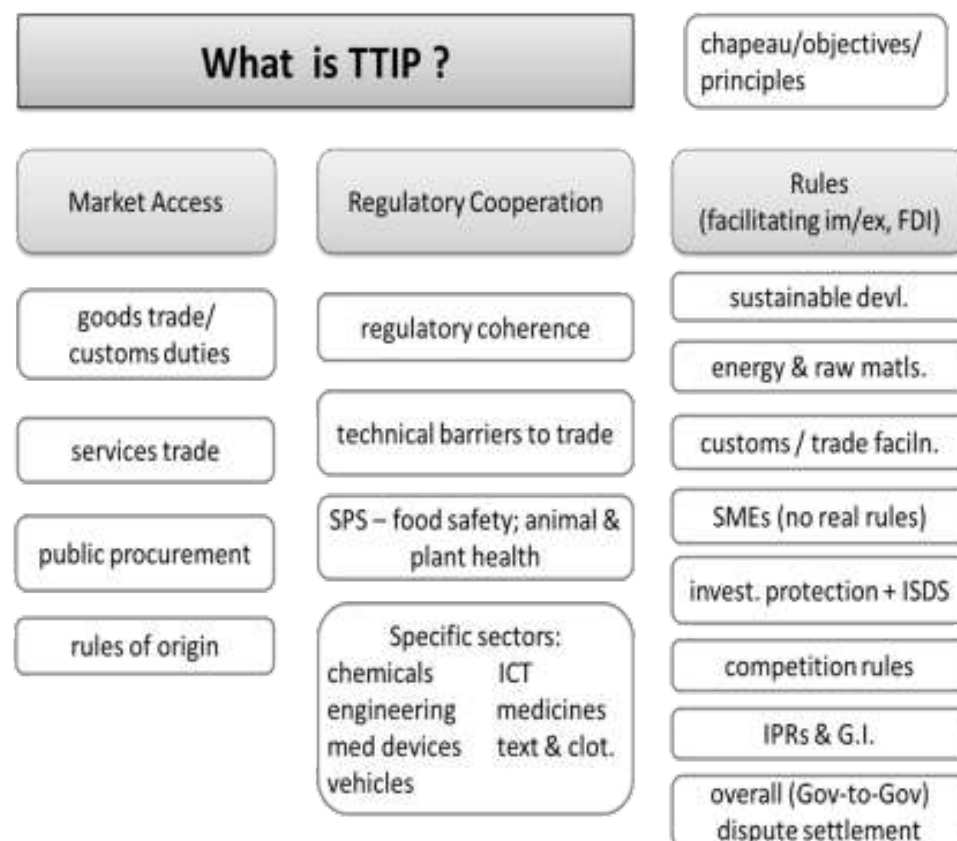
This figure n°2 provides a good structure to introduce the TTIP's substance. At the top right you have the general set of principles and the basic rationale called “chapeau”. Then you have three headings of negotiation. The first pillar represents the market access issues such as tariffs and rules of origin that will make trade more straightforward and transparent. They will remove import duties on goods and some services and facilitate investment in order to promote global trade and thus serve the common public good.

However, the heart of the negotiations is the middle column (regulatory cooperation) with the addition of public procurement and services trade from the left pillar, as well as geographical indications (G.I.) and investor-state dispute settlement (ISDS) from the right pillar. The agreement will include also several other sectors specified at the bottom of the middle column. The second pillar presents the pioneering nature of the TTIP which ensures common standards for consumers, workers and companies. It seeks to reduce, whenever possible, non-tariff barriers and increase coherence, convergence or recognition of substantial similarity between the two Parties (US and EU).

The objective is to reduce redundant regulation and lead to more efficiency in the regulatory coherence. Concretely, it will diminish unnecessary costs due to differences in regulatory standards and legislation for consumers and

companies. In addition, the right of individuals to live and work in another country has also been taken into consideration. The third pillar presents the common agreement on norms and standards regarding such topic as sustainable development and investment.

Figure 2: Content of the TTIP



Source: from Hamilton, D., Pelkmans, J. (2015).

On 9th October 2014, the General Secretariat of the Council of the European Union (2014) declassified and disclosed a document on directives for the negotiation on the Transatlantic Trade and Investment Partnership between the European Union and the United States of America. In the following paragraphs, you will find a summary of the main issues raised in TTIP.

In this document, the US and the EU confirm that TTIP is based on common values that protect and promote human rights and international security. The agreement should also be consistent with the WTO rules and obligations but, at

the same time, it is expected to go beyond the existing commitment. Furthermore, it reinforces the binding obligation of the Agreement on all the levels of the government.

This Agreement shall deal with three components: market access, regulatory issues and non-trade barriers (NTBs), and rules. These three elements will be negotiated together and will form part of one single undertaking that will ensure in parallel a balanced outcome between the elimination of unnecessary regulatory obstacles to trade, an improvement in rules and the elimination of duties.

Regarding market access, the objective is to remove all *duties* on bilateral trade in order to achieve a substantial elimination of tariffs. Some exceptions regarding sensitive products will be approved but must be justified. The goal is to reconcile the EU and the US approaches regarding the *rules of origin*.

Other measures are also discussed such as the *anti-dumping* and *countervailing measures* and *bilateral safeguard clauses*. It means that one party should remove, part or in full, its preferences if they are causing or threatening serious injury to the other domestic industry.

Regarding *trade in services and establishment*, both Parties should agree to grant equal treatment for the establishment of companies in their own territory. They should also develop a framework to facilitate mutual recognition of professional qualifications between the two Parties.

Regarding *investment*, the aim is to discuss investment liberalization and protection provisions. But it will still depend on a prior consultation with Member States (MS). This topic remains very unclear. However it should provide and promote Europe's attractiveness and protect European investors in the US and vice versa.

In addition, the negotiations should include in particular, but not exclusively, these successive *standards of treatment and rules*:

- a) *“Fair and equitable treatment, including a prohibition of unreasonable, arbitrary or discriminatory measures,*
- b) *National treatment,*
- c) *Most-favoured nation treatment,*
- d) *Protection against direct and indirect expropriation, including the right to prompt, adequate and effective compensation,*
- e) *Full protection and security of investors and investments,*
- f) *Other effective protection provisions, such as an “umbrella clause”³*
- g) *Free transfer of funds of capital and payments by investors, (...)”*

(General Secretariat of the Council, 2014).

The Agreement ambition is to enhance mutual access to *public procurement* markets at all administrative levels (local, regional and national) without discrimination.

The objective is to reach an ambitious level of regulatory harmony for services and goods through mutual recognition, harmonisation and through better cooperation between regulators.

There are two sort of mutual recognition: the first is the *mutual recognition of existing standards*. The EU adopted this in 1979 with the “Cassis de Dijon judgment” of the European Court of Justice. The second is *mutually recognising each other’s testing of own standards*, also called conformity assessment. This

³ « In the context of a **bilateral investment treaty** (BIT), a clause that obliges the host state to observe specific undertakings towards its foreign investors. An umbrella clause protects investments by bringing obligations or commitments that the host state entered into in connection with a foreign investment under the protective “umbrella” of the BIT. Investors often rely on an umbrella clause as a catch-all provision to pursue claims when a host state’s actions do not otherwise breach the BIT. Umbrella clauses are usually broadly written to cover every conceivable obligation of the host state. Practically speaking, an umbrella clause can elevate a contract claim to the level of a treaty claim. Usually, violating a contract does not invoke treaty protection under international law. » (Thomason Reuters, s.d.)

means country 1 trusting country 2 to approve that the products made by country 2 fulfil country 1's rules. A key example of such an agreement is the rule of origin.

The future discussion will determine how far the TTIP will go towards the integration of the US and the EU markets. However, as we all know, the perceptions between the US and EU consumers diverge. One of the most notable divergences concerns genetically modified organisms (GMO). The negotiators will have to find a path between producer aspirations for a better market access and the legitimate concern of the consumers.

Regarding the *regulatory issues and non-tariff barriers*, the Parties will mainly follow the WTO *Sanitary and phytosanitary measures (SPS)* Agreement. In this context they are seeking an agreement based on the recognition of equivalence.

Regarding *technical standards and conformity assessment procedures*, their commitment will also follow the WTO Agreement on Technical Barriers to Trade (TBTs). Indeed, the objective is to facilitate the access to each other's markets, improve openness, transparency and convergence in regulatory approaches and establish a mechanism to improve cooperation on TBT issues. Indeed, as we have said previously, more *regulatory coherence* will also reduce costs.

Regarding *sectorial provisions*, the Agreement will include provisions or annexes regarding further commitments to promote regulatory compatibility with the objective of reducing costs from regulatory differences notably in the automotive, chemical, pharmaceuticals, information and communication technologies and finance sectors.

Rules regarding the intellectual property rights, trade and competition, trade related energy and raw materials, small and medium-sized enterprises, transparency, customs and trade facilitation, trade and sustainable development will also be covered. The Agreement will mainly follow international standards. An independent Sustainability Impact Assessment Group (SIA) will examine the

economic, social and environmental impacts. Sectorial Trade Agreements (STA) will be built on an existing sectorial trade agreement.

Last but not least, in order to ensure an effective follow up of the commitments under this Agreement, the European Commission will set up an *institutional structure*. The Commission will also regularly report to the Trade Policy Committee on the negotiations. Regarding the dispute settlement, the Agreement will include an appropriate dispute settlement mechanism, but the details are still unknown.

2.3 Why is the TTIP different?

According to Pascal Lamy, the former Director-General of the World Trade Organization: “ TTIP is the first show of the new world of trade ⁴”

Tariff barriers between the US and the EU are already relatively low, at about 3%-4%. As shown in Felbermayr and Larch (2013) paper, the weighted average tariff on manufactured goods is about 2.8% for both regions and the weighted tariffs on agricultural goods are slightly higher and more asymmetric. Some other specific tariffs remain quite high in such categories as textiles, apparel and footwear. However, even if the average tariff barrier is low, due to the importance of the trade's volume, the removal will significantly boost trade. A report made by ECIPE, a European Think Tank, estimated that the transatlantic zero-tariff deal could foster goods export by 17% (Erixon, Bauer, 2010; Berden, Francois, Tamminen, Thelle, Wymenga, 2009).

However, trade in goods is only accountable for 20% of transatlantic commerce. Potentially, the gain would be more important if they open TTIP to the service economy, ensure common rules for investment and tackle technical and other non-tariff barriers (NTBs). Indeed, NTBs' diminution should lead to trade cost

⁴ From a conference (13 February 2016) on new economic diplomacy: rise of free trade agreements in the world and TTIP negotiations organized by Erdal Bahçivan, the chairman of the Istanbul Chamber of Industry.

reduction. In addition, the reduction of regulation differences is an essential dimension in order to move to a next generation if trade agreement. It might also involve mutual investment, non-tariff and regulatory barriers and open services markets. The TTIP is far more than just a new trade agreement; it's about creating a new order that ensures the power of the West (Baldwin, 2014).

2.4 Why will the TTIP impact all countries?

Due to global economy, goods that are produced in the EU and in the US need components from third countries such as China or Turkey. They also use raw materials from Africa and Canada and require services from Japan or Switzerland. Obviously, nowadays, goods and services are from everywhere: there is no exclusivity anymore. It's very rare to find a product fully "made in France". Our traditional understanding of national production is changing into an international fragmentation of production (Hamilton, 2015).

There are three main approaches to competition policy. The first one, the prescriptive approach from the European Union, has always been focused on persuading partners to embrace EU practices. The second is the US approach that is concentrated on co-ordination and co-operation between existing competition authorities acting on their own regulations. A third way is the example of the FTA between Japan and Thailand which stipulates that each party should promote fair and free competition by applying its own rules, without discrimination on the basis of nationality (Baldwin, 2014).

Very few Regional Trade Agreements (RTAs) have explicitly discriminatory provision. RTA provisions on competition policy generally insist on principles that include non-discrimination thanks to processes and transparency. However, even if commitments are made under preferential trade deals, their effects are multilateral; commitments included in RTAs have multilateral effects, despite being codified as bilateral agreement.

Concretely, a US firm in Turkey has the same rights and obligations before the Turkish competition authorities as an EU company, even though Turkey's

competition policy results from a bilateral agreement with the EU (Kulaksizoglu, 2004). This lack of discrimination is mainly driven by the fact that nowadays it is becoming very difficult for governments to determinate the nationality of a corporation. As a result, they tend to enact rules that are applicable to all corporate activity inside their border, notwithstanding nationality (Baldwin, 2014).

The spread of the TTIP-style would be thought as a multilateralising regionalism in two ways. Firstly, the numbers of countries that will sign this “mega deal” and the market they represent indicates a pervasive and general future common norm. Due to the number of FTA already signed by these two super-powers; the norm is expected to grow quickly in countries economically interlinked (Baldwin and al., 2008).

Secondly, a harmonization to a single regulatory regime liberalizes trade in the same way that adoption of an international standard liberalizes technical barriers to trade (TBTs). A common set of rules applied to private firms in many nations foster competition and trade. It's seen as unilateral pro-business policy reforms (Baldwin and al., 2005).

The case of the European model is very specific. Indeed, the EU offers many levels of preferential market access to its trading partners (Baldwin and al. 2005). The single market access is limited to countries that have, amongst other things, adopted EU competition policy norms and practices. Non-EU nations that are dependent on the EU market usually adopt EU internal policies, including competition policy, on a “voluntary” basis. As a result, if the EU and the US sign TTIP, it will create a domino effect and drive the EU's partners to integrate these new norms in the future.

Moreover, due to spillover, these high standards will prevail all around the world. Indeed, mutual recognition of essentially equivalent norms and regulatory coherence normally form the core of broader international norms and

standards. Last but not least, foreign direct investments are central to access to other markets within the preferential zones.

2.5 Impact on TTIP's countries

In many EU Member States and even outside, the future TTIP agreement is very controversial even if, in reality, no one knows exactly the scope and the details of the deal. Some argue that TTIP may undermine a new world agreement as the relative importance of WTO is declining.

With the TTIP, tariffs will be reduced and some countries inside the EU might become more competitive compared to other countries that enjoyed tariff exemption before. EU and US companies will gain market share in the future. However, there is still a risk that the situation will be the opposite. This will depend if the demand effect in third countries can rebalance the negative trade diversion.

Here we will focus on the potential gains from the TTIP for the different actors. According to Felbermayr, Heid, Larch and Yalcin (2014), the TTIP will increase real income by 3.9% in the present 28 countries of the European Union and by 4.0% in the US. However, it will lower by 0.9% in the rest of the world.

Inside the EU, there will be some substantial degree of heterogeneity. Indeed, a gain of 3.5% in Germany is predicted, while the gain in Spain should be around 5.6%. It is also pointed out that a TTIP systematically gives better results for the US than for the EU, due to the fact that the TTIP will offer access to imports from 28 different EU countries for the US market. Concretely, it means that thanks to this deal, American consumers will have access to more product varieties than the Europeans. However, when all EU States are aggregated into one single economy, then the distinction between the US and the EU gains is less obvious.

2.6 TTIP vs. WTO

As we have previously said, this treaty will not only transform the trade and investment relationship between protagonists but also impact the rest of the world and especially those who have strong economic ties with the US and the EU.

Regarding the TTIP third pillar, the rules are more binding than those of the WTO. An agreement on issues such as services, discriminatory industrial policies, intellectual property or state-owned enterprises will create a new benchmark that might become applicable for possible multilateral agreement under the WTO. As already mentioned above, this new international trading system will also concern broader political principles such as the rule of law, labour, environmental and human rights and consumer standards.

This is the reason why some governments but also some major companies are concerned about the proliferation of Regional Trade Arrangements (RTAs). They fear they could cause problems of coherence in international trade relations and put developing countries at a disadvantage. This is why, in order to limit problems and maximise the benefit of RTA, the international Organization for Economic Co-operation and Development (OECD) promotes transparency to TTIP actors and encourage consistency with WTO rules (OECD, 2007).

However, the WTO is accused by developing countries of promoting only the economic development of developed countries and of being fundamentally undemocratic (Global Exchange, s.d.). With the WTO negotiations stalled, major countries have decided to shift to bilateral and regional FTAs.

Even if part of the criticism of the WTO is exogenous – the shift in the new global economic centre of gravity, the crisis and the geopolitical tensions between the West, China and Russia – some is also internal. The WTO has concentrated its effort on rule writing and opening up the market. Some principles such as the

notion of reciprocity and the most favoured nations⁵ (MFN) obligation have discouraged many nations. In addition, the consensus rule interpreted as a mechanism of inclusion is actually more a tool to block new agreements.

Nevertheless, we are still far from the conclusion of any transatlantic economic agreement. There are many differences of views regarding the regulatory policy. Indeed, there remain many grey areas especially in agriculture, one of the most politically sensitive point and over topics such as food safety and environmental standards. These subjects are very sensitive in domestic political arenas and have strong public interest.

It remains that these “mega-FTAs” are likely to have global impacts on international trade and consequently influence the future WTO negotiations. Indeed, some of these new rules have paved the way and will continue to do so for future agreements within the WTO. Services, intellectual property, environment, investment and competition policies are very challenging issues raised in regional negotiations but also developed into agreements or discussion in the WTO.

2.7 Success of TTIP

At the European level, it is very complicated and complex to make arrangements. Indeed, some States are very reluctant to go further because they all want to protect their national sectors. At the US level also, it is not as smooth as we could imagine. Between the federal level, the different States and sometimes, local governments, it can take time to find common agreements. In addition, every European country and the US have to deal with all their national and independent regulatory agencies.

⁵ *“With respect to customs duties and charges of any kind... and with respect to the method of levying such duties and charges... any advantage, favour, privilege or immunity granted by any contracting party to any product originating or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties.”* (General Agreement on Tariffs and Trade (1994) Article I.)

Nevertheless, the potential payoff for jobs and growth is so important that the United States and the EU are ready to commit themselves to overcome these differences in order to remain rule-makers rather than rule-takers in a globalising world in which their influence is waning.

There are for the moment many disagreements regarding TTIP's key issues between the EU and US. This may lead to the dilution of the content. For the European countries, many organisations have strongly argued against the forced privatisation, the content of some mandatory sector standards, and the investor-state dispute settlement.

III. Development

Up until now, TTIP does not include an accession clause. However, seemingly third countries might be allowed to join the agreement once it is totally finalized while others have suggested that TTIP would be use as a future new WTO treaty.

However, there is no reason why other participants would not be included after the bilateral negotiation. Indeed, restricting participation to only EU and US entities would sharply minimize their credibility to determine the new economic rules of the 21th century.

The problem is that the agreement will surely be a “take it or leave it” deal. Based on what we know for the moment, the US and the EU have no intention to reopen the negotiation once it will be concluded with the newcomers. This will have several consequences for the third parties.

On the one hand, we will evaluate the general consequences of TTIP for third countries. Our research will be based on the literature, interviews and conferences. Then, we will crosscheck the information in order to focus on the macroeconomic and the geopolitical issues of TTIP. We will also analyse the different options for third countries to join TTIP.

On the other hand, we will especially focus our analyses on Turkey’s impacts. Indeed, due to the existing customs union with the EU, we want to know what are going to be the consequences of such a deal for the Turkish economy. Concretely we will analyse two economic impact studies, one realized by the Central Bank of the Republic of Turkey and one by the European Commission.

Then, we will develop our reflexion on how to include Turkey in the TTIP and analyse the different options. Finally, we will conclude our research Master’s Thesis by arguments and ideas from our analysis.

IV. General consequences of the TTIP

Definitions

- Economic Zones *“are ring-fenced enclaves that enjoy special regulatory, incentive and institutional frameworks that are different from the rest of the economy”* (MENA-OECD, 2010).
- Trade diversion is an economic term in which a trade between two actors moved from one more efficient exporter towards a less efficient one due to the signature of a free trade agreement or a customs union with specific tariff. (Felbermayr and al., 2014).
- Preference erosion concern special tariff concessions granted by developed countries to developing countries. When normal tariff rates are reduced; differences between these two tariffs, normal and preferential rates, disappear.

1. Introduction

According to the World Trade Organization database, due to their high level of export to and from the US and the EU, more than seventy countries will directly depend on the TTIP's new negotiation (Akman and al., 2015). And these are only gross trade numbers; they do not take into account trade dependency through both supply chains and investment relationships. However, most economies of the world would be directly and indirectly impacted by the TTIP. How much so will depend on their degree of participation in global value chains and the nature of pre-existing preferential arrangement between countries. It will also depend on the outsiders' ability to align with TTIP's regulatory arrangements. In short, and using an analogy, TTIP could be seen as huge fortress that will make the US and the EU stronger for a long time yet.

If TTIP standards between the Parties are really going to be harmonized this would allow a deeper integration and exporters to the TTIP zone would only have to comply with a single regime in the two largest markets of the world. Indeed, it will affect the income effect by inducing gain efficiency and trade cost reduction. However this would surely not be the case because it seems that deciders will go for a mutual recognition system instead of harmonization⁶.

The main objective is to create a more integrated economic zone in order to attract foreign direct investment (FDI) and increase exports. It is also a way to achieve sustainable growth strategies and generate new employment opportunities. One of the major aspects of this new economic zone between the US and the EU is to strengthen the link with local economy to improve socio-economic conditions. On the top of that, it will reduce regional disparities (MENA-OECD, 2010).

It might also induce regulation and procedural changes that might increase trade diversion. Indeed, new regulation might work as a system to restrict importation and reduce market access for outsiders. These new regulations might also raise new production costs for third parties. In order to fulfil new standards, they will have to change their production. This will be costly and reduce competitiveness.

One of the solutions to lessen trade restriction and costs increase as a consequence of regulatory reform would be to implement the least rigorous pre-existing standards. It seems that most of the action on the regulatory front will be in the nature of mutual recognition and not an increase of regulation. Still, developing countries will face difficulties in meeting standards and regulation because many factors have direct impacts on trade cost in the regulatory field.

⁶ From a conference (13 February 2016) on new economic diplomacy: rise of free trade agreements in the world and TTIP negotiations organized by Erdal Bahçivan, the chairman of the Istanbul Chamber of industry.

2. Who is going to be affected by the TTIP?

Obviously, the more strongly the country's economy is linked to exports of goods, the more strongly it could be directly affected by trade diversion. Firstly tariff reduction in TTIP's countries will modify the impact of tariff preference margins in developing countries. Preference erosion will occur for some third economies and especially in sectors where tariffs are currently relatively high such as apparel in the US and motor vehicles in the EU. It will particularly impact countries that have strong economic relations with the US and the EU.

Economists have evaluated losses of about 3.1% in Canada, 2.6% in Mexico and 1.6% in Turkey. For countries that are less exposed to these two markets, the loss will be around 0.9% while the world gain should be around 1.6% (Felbermayr and al., 2014).

Felbermayr, Heid, Larch and Yalcin (2014) have analysed that adverse welfare implications can be very unprofitable for the EU's and US's trading partners. Indeed, the study points out the vulnerability of countries with existing RTAs with the EU and the US such as Chile, Japan, Canada, Mexico and Turkey. Those countries will struggle from erosion of their trade preferences once TTIP is implemented. This is the main reason why some countries are trying hard to be included in the TTIP negotiation. It's the case for Turkey, which back in 2014, stated, through the voice of its former Minister of European Union Affairs, Volkan Bozkir: "Turkey might freeze its customs union deal with the EU if the planned TTIP does not include Turkey"(Demirtas, 2014).

Indeed, under the terms of the customs union with the EU, Turkey would be obliged to provide duty-free access to US goods without necessarily enjoying corresponding duty-free treatment for the United States (European Commission, 2015). But Turkey is not the only country to face negative consequences. The EU has also other free trade agreements with Switzerland, Norway and Iceland where the same drawbacks could also be seen. Mexico and Canada have already

FTAs with both the EU and the US although the EU's FTA with the Canada is not yet ratified.

However, if all these agreements were made consistent and compatible with each other, this would create a homogenous Atlantic market never seen before. In addition, the conclusions provided in the World Trade Organization report (2012) challenge such spillovers. First they stressed that real impacts depend on the content of the agreement which is, until now, pretty uncertain. Indeed, negotiation might lead to mutual recognition of national standards instead of new world standards. In this case, it will depend on the rules of origins (RoO).

The benefits or the drawbacks for third country markets will depend on the application of the stringency of potential rules of origin applied in the agreement and the effects of standards set out in the agreement. If the regulatory convergence contains discriminatory clauses like the RoO, some countries will face larger barriers to breach, or to retain their position on the transatlantic market. This could be especially the case for Morocco and South Africa. Obviously, until the deal is reached, impacts cannot be clearly measured and the supposed impact on the EU and the US economy differ from one study to another due to the differences in assumed liberalisation scenarios (ECORYS, 2014).

Nevertheless, it remains that the TTIP should be used as a tool to bring major emerging economies back to the WTO negotiation table. And that the US and the EU should stay focused on their previous agreements with their key partners in order to minimize discriminatory effects against third countries (World Trade Organisation (WTO), 2012).

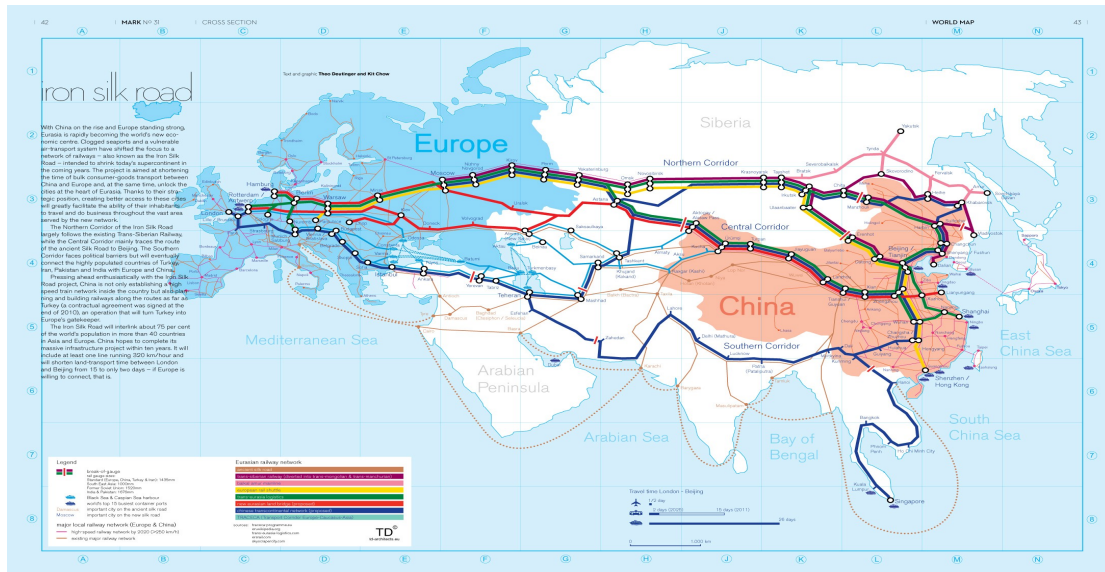
2.1 Brief focus on CHINA

Even if this master's thesis is mainly focused on the impact of the TTIP on Turkey and other third countries directly linked with the US and the EU, China remains one of the biggest outsiders of this big mega deal (and the TPP as well).

During a conference on new economic diplomacy about the rise of free trade agreements in the world and TTIP negotiations organized by Erdal Bahçivan, the chairman of the Istanbul Chamber of industry, Wang Wen, the executive Dean of the Chongyang institute for Finance Studies at Renmin University (China), explained TTIP & TPP's risks from China's perspectives.

From the point of view of Chinese officials, the current development of these mega deals represents more a game of influence on global order evolution process than a positive economic (r)evolution. According to Wang Wen, it is a protectionist deal that creates unnecessary friction in the current competition between developed countries and emerging countries. De facto, these two agreements exclude all emerging economies such as China, India, Russia, Brazil, Indonesia, all the Middle East, and all Africa. TPP and TTIP will increase tension and uncertainties in global economic and political systems. These two agreements are anti-globalization and not pro-globalization.

Since 2013, China has become the world's largest trader and consumption market and sees its exclusion as a strategic provocation. Firstly, Wang Wen encourages everyone to maintain communications on global trade issues and especially through the institutionalization of the trade minister conference of G20. Secondly, he believes and argues that the international community should first cherish the results already attained in free trade negotiations under WTO framework before starting new exclusive FTA. Finally, he encourages the international community to pay more attention to the regional economic and trade cooperation that forms under the Belt and Road proposals of China. On the picture below, we can observe this Chinese project that wants to connect the Luoyang and Quazhou, two main port towns to the West of Europe.



Printscreen from: <http://slideplayer.com/slide/9972746/>

However, during the last few years, China has intensified its diplomacy and started negotiations with India, Japan/Korea and ASEAN+6 on RCEP as well as a possible involvement in the TPP and even specific deal with the USA.

3. Geopolitical Impacts Worldwide

TTIP is more than a trade Agreement; it is about creating a more dynamic and strategic EU-US relationship. In fact, it is about creating a more confident and common power in order to strengthen the basic rules of the international order.

Despite all the critics, the fundamentals of such an Agreement are those of two democratic societies and perhaps two of the most democratic in respect of Human Rights and Rules of Justice. Moreover, up until now, the US and the EU are among the few countries that include environmental and consumer protections in their trade agreements. A future “mega” trade agreement that combines trade, sustainability and protection would be an important asset regarding common values and, a powerful instrument to ensure the internationalisation of such standards (Hamilton, 2014).

Some agree with the idea that the stronger the bonds between the US and the EU are, the better is their opportunity to include emerging powers (Hormats, 2014).

Indeed, the more integrated and united the Parties which achieve an Agreement, the greater is the likelihood that emerging powers will adhere to the same rules. And conversely, the weaker those bonds are, the greater the likelihood third countries will challenge and confront this order.

Since the beginning of the talks about the TTIP in 2013, many countries have adapted their strategies. For instance, Japan has decided to join TPP and has started negotiating a bilateral agreement with the EU. They are thus in direct talks with the two parties. The TTIP has also direct consequence on the relations with China and with Russia.

Indeed, as we have discussed previously, the TTIP can be seen as a method to confront and isolate China out of the global economy. However we can also consider that by implementing new common “international” rules, the TTIP, and other related trade agreements, will help to create a new dynamic to open market and strengthen global rules in the future.

It's clear that initially the TTIP will strengthen Western economic and social cohesion and reinforce US commitment to the EU (and vice versa). It will also boost the transatlantic energy connection and increase Western attractiveness. The rise of transatlantic energy cooperation will have a direct impact on Russia. It will also reinforce the resilience of Central and East European economies and attract more US investment. It will help those Eastern countries to counter the Russian encroachment. This Agreement will especially resonate in Ukraine, Belarus, Armenia, Albania and Turkey. For the Kremlin, the TTIP represents a huge challenge because it offers something that they cannot do. Indeed, Russia is putting efforts to divide Europeans from Americans. According to Hormats (2014), it represents *“a transparent, mutually beneficial agreement that will create a new rules-based framework for international cooperation”*. It will be very complicated for Russia to develop its Eurasian Economic Union after the Agreement. On the top of that, thanks to better EU-US cooperation, it will also reduce the EU energy dependency.

In this region, Armenia has been unable to resist Russian pressures. Indeed, they have been forced to suspend negotiations with the EU and have joined the customs union with Russia. Georgia and Moldavia have, up until now, avoided a similar fate and taken important dispositions to improve their integration with the EU standards. In the summer of 2014, they signed an association agreement with the EU.

The Middle East is also an important source of geopolitical tensions. Just after the Arab Spring in 2010, many specialists were expecting that the Arab world would have “finally” taken a more democratic and liberal path. With the (possible) exception of Tunisia, this is sadly not the case yet. Instead, the Arab world has fallen into deep economic and political instability. The economic influence of the EU and the US in this region is nowadays limited, uncertain and contested by Russia and Iran.

One of the reasons why so many third countries are interested in the TTIP is that it represents a new sort of “transatlantic form of governance”. And special “inclusion” arrangements might be needed for countries that already have specific agreements with the EU and the US. For instance Turkey has a customs union with the EU but nothing similar with the US; the European Free Trade Association (EFTA), an intergovernmental organization set up to the benefit of its four Member States countries: Switzerland, Norway, Iceland and Liechtenstein that have specific arrangement with the EU; NAFTA between Canada, Mexico and the US. But it also resonates in countries that have already signed Deep and Comprehensive Free Trade Agreements like Ukraine, Moldova and Georgia and that are looking for more stability and prosperity with the West (Hamilton, 2014).

4. Countervailing measures at national level for third parties

First of all, third countries should take this challenge as an opportunity to undertake new reforms at home. Indeed, TTIP can be seen as a great way to open their markets more, reduce administrative trade costs and other sorts of

domestic regulatory reforms needed to make their economies more competitive. Thanks to these reforms, it will be easier for them to adapt to new standards in the two major export markets.

Obviously, another option would be to counter the agreement by intensifying cooperation with other third countries. This would divide our world in two. Last but not least, countries could also work towards the WTO's revitalising. This option might be very challenging. Indeed, it would first take hard work to repair, reform and update the WTO. Secondly, even if there were less secrecy in the negotiations, more dialogue and more integrated approaches, the result at the end might be very similar to the TTIP as the two major decision-makers at the WTO remain the US and the EU. This might be unacceptable for a large group of third countries.

5. Conclusion

Recently, international trade cooperation has become increasingly harsh with geopolitical rivalry among major economic powers and in particular between the US and China. In this context, the TTIP can be seen as an attempt by the US and the EU to impose new trade rules for the 21st century.

According to the third parties, it is better to have mutual recognition than harmonisation if it means that convergence will occur to the least rigorous pre-existing standard. At a minimum, they could expect that standards will be more open and flexible. With a full harmonisation, the risk would be the rising of all standards. This would consequently make the agreement less inclusive. Indeed, it might be very costly for some developing countries to reach these new standards. However, if harmonisation could be implemented, it would also benefit firms from third countries. Indeed, they would have to comply with only one set of requirements (François, Hoekman, Nelson, 2015).

Discrimination is inherent to the “market access” objective of the TTIP. This agreement might have a far-reaching impact on third parties due to its strong

link with many economies. Obviously the consequences for the developing countries will depend on the result of the negotiation about the global value chain, the nature of pre-existing preferential arrangement between the US, the EU and third parties and the abilities for these third countries to adapt with TTIP's regulatory standards. Many specialists see the TTIP as a path that will lead to global standards (Aichele, Felbermayr, 2015).

The first immediate impact for firms located in third countries will be the tariff trade. Indeed, companies located in countries that have no trade agreement or preferential access to both the EU and the US will directly face an increase of competition from the US firms in the EU markets and vice versa. Countries that already have specific agreements like duty-free and quota-free access to the US or/and EU market will also suffer from preference erosion. But, in reality, many countries have already those sorts of agreements.

The second impact will happen due to non-tariff barriers (NTBs). This will depend firstly on the ambitious level of agreement achieved by the US and the EU and then, how costly will it be, for each country to adjust its own legislation to the new regulation measures (François and al., 2015).

Discrimination might also be present in certain other aspect of mutual market opening such as many aspects of service trade like the recognition of professional degrees, but also public procurement and investment liberalisation.

If in the future, every country adopts, the same standards as the US and the EU then, they will become global and countries will effectively reduce their trade costs. However compliance costs might be relatively expensive for some countries, compared to the value of exports. This is why; in the short run, some countries might find it better to stop exporting (instead of adopting the new standards). This would give an extra advantage to rich industrialised countries (Aichele and al., 2015).

But once again, this will depend on if the Commission goes to harmonisation instead of mutual recognition agreements (MRAs). In latest case, standards will remain and the question would be: “how will the recognition be extended to third countries”? Are MRAs only to be limited to products produced in the US and the EU or are they going to apply to all goods imported regardless the producing country? If they are, which institution is going to carry out the conformity assessments and how are they going to do it?

V. Impact on Turkey

How to achieve a non-discriminatory agreement?

In a normal customs union (CU), the economic impact of such an agreement depends on the level at which the harmonised standards are defined. By contrast with a CU, standard harmonisation creates a real market integration effect that induces scale-economy advantages. It's then a win-win situation for both the firms inside and firm from third countries.

However, according to Aaditya Matto (2015): *"the impact on firms will depend on how the cost of meeting new harmonised standards will be profitable compared with the benefits from economies of scale in integrated markets"*. For instance, if a firm from one country has higher variable costs to meet new harmonised standards and reach fewer scale-economy benefits in integrated markets than another firm from another country, then undoubtedly as a result, the first one will suffer more from a decline of its exports in a new integrated market.

With FTA, the economic impact of a mutual recognition agreement is less obvious and will depend on the rules of origin. For insiders, mutual-recognition agreements can be seen as a downward harmonisation of standards due to the fact that firms are now allowed to meet the least costly of initial standards. Incidentally, this is surely one of the most audible criticisms made by the opponents of TTIP. However, third countries will react differently. If they are denied the benefits of a mutual recognition agreement and must continue to meet the original standard in each market, then they will face an unchanged situation but they will suffer from a decrease in competitiveness. Concretely, it will reduce third countries' exports. Conversely, if outsiders are also allowed to access the entire market by meeting the same least costly standard, then they will also enjoy all the benefits of this new agreement.

Aaditya Mattoo (2015) and Chen discovered that mutual-recognition agreements encourage trade both within the region and with the rest of the world but only

when there are no rules of origin (RoO). If a FTA encloses binding RoOs, then intra-regional trade will increase while expense of trade and exports for other third countries will diminish.

In a nutshell, in order to reduce discrimination for firms from third countries, the EU and the US should on the one hand, promote mutual recognition and agree not to impose restrictive rules of origin and on the other hand, where they do choose harmonisation, they should opt for the less binding standards; in other words, go for a downward harmonisation.

Alternatively, Baldwin (2014) concluded recently an assessment of the potential for discrimination in the non-tariff provisions of RTAs: “ *A key lesson (...) is that discrimination is difficult with regard to many 21st century trade disciplines - rules of origin either make no sense, or are “leaky” since nationality is difficult to pin down when it comes to services, companies and capital. This “leakiness” of the rules of origin dilutes the discriminatory effect of RTA provisions*”. Broadly speaking, Baldwin rejects the idea of “discrimination” agreement.

Studies (Hamilton, Pelkmans, 2015) show that spillover benefits can compensate trade diversion and preference erosion. In general equilibrium analyses, third countries have two reasons to gain from implementation of TTIP through the suppression of cost-increasing trade measures between the EU and the US. Firstly thanks to regulatory convergence, it creates a direct spillover effect that benefits both the insiders and the outsiders. Indeed they enjoy less divergent conditions in the US and the EU markets.

Secondly, third countries may benefit from indirect spillover if they decide to adopt harmonised TTIP standards (François, 2013; European Commission, 2013). However, this argument is challenged by Felbermayra et al. (2014).

1. Introduction

Turkey sits in the middle of two contested regions: the Middle East and the East of Europe (Ukraine, Moldavia, Russia, Armenia...). For years Turkey has been a great ally of the West. It has always been a loyal Member of the North Atlantic Treaty Organization (NATO) and one of the founders of many international (Western) institutions such as the GATT, the IMF, World Bank, the OECD and the Council of Europe. And even if scepticism has been raised about Turkey's domestic and foreign policy, since 2005, the country is also moving forward in the accession negotiation progress to join the EU.

In 2013, 44% of Turkey's foreign trade was with the EU and the US and more than two thirds of FDI in Turkey came from the EU and the US while 66% of Turkish capital was invested there⁷. In later years, Turkey has grown sharply, joining the top 20 of the largest world economies. This swift rise gave hope and confidence to the Turkish government and businesses in its struggle to access TTIP discussion. However, so far, the question of its inclusion remains unresolved, not to say, off-topic.

Already in 2013, the Turkish former Prime Minister Recep Tayyip Erdogan, today President, wrote a personal letter to President Obama to request participation in the TTIP negotiations (Kirisici, 2014).

2. Customs union with Turkey

In 1987, Turkey applied to join what was at that time the European Economic Community (EEC) and 10 years after, the customs union (CU) was established between the EU and Turkey (European Commission, 2015). In 1997, Turkey was declared eligible to join the EU. They started the accession negotiation in 2005. The appendix n°3 describes the accession agenda with each sector and open-date of the negotiation. The last area that has been opened is the economic and

⁷ Data calculated from the Turkish Statistical Institute (TUIK) and the Turkish Central Bank.

monetary policy in December 2015. However, it doesn't mean that many people still believe in the Turkey's adhesion.

The EU is the Turkey's biggest trading partner. Approximately 40% of Turkish trade occurs with the EU and over the recent years, around 70% of the FDI in Turkey comes from the EU. In 2013, exports to the EU totalled 48.3 billion euro while imports from the EU to Turkey came to 70.9 billion euro. The EU is also providing key support to different sectors in Turkey. Of a total of 4.5 billion euro provided for the period 2014-2020 by the EU, 35.5% will be allocated for the reforms in preparation for Union membership (Justice, Home Affairs and Fundamental rights), 24.3% for the environment and climate action, energy competitiveness and innovation, 20.5% for agriculture and rural development, 0.8% for employment, social policies, education, promotion of gender quality and human resources development; the last 9.9% going to transport (European Commission, s.d.). Thanks to this fund, Turkey is drawing closer to EU standards in different levels. The objectives are to strengthen fundamental rights, the rule of law, Justice and Democracy; reform public administration; support governance and active citizenship; improve transport and energy connections; and work towards a cleaner environment and safer food.

In 1963, an Association Agreement called the Ankara Agreement was signed between the EEC and Turkey, whereby for the first time, they agreed to create a customs union. After many years of discussion, on 1 January 1996, they established the CU that is still in application. In substance, it eliminates customs duties and quantitative restrictions for products that are wholly produced in the EU or goods that are put in free circulation in the EU or Turkey after being imported from third countries. Turkey must also align itself with EU's common customs tariff that includes preferential arrangements, and commercial policy measure harmonisation (EC-Turkey Association Council, 2006).

Nowadays, this rule seems out-dated and international trade commonplace. Goods are produced from all around the world and the various components that make up one single product can be sourced from many different countries. The

“global value chain” has become a common rule. This rule of the “100% produced in one country” sounds pretty unrealistic given the recent proliferation of the EU bilateral trade agreements and the expansion of the EU itself; from 15 Member States in January 1995 to 28 in July 2013 (Foreign Trade Association, 2015).

With the accession process that started in 2005, the trade-related issues are being dealt with at two levels: at the CU for market access, tariffs, customs legislation, trade policy and related alignment and, as bilateral trade agreements for agricultural products and FTA on coal and steel (and within many relevant economic topics about the accession process, mainly regarding the legislative alignment) (European Commission, 2015).

But as we have said, after 20 years, this bilateral trade relation has become outdated. Indeed, it is a CU limited to goods alone (industrial and certain processed agricultural products) with some additional alignment on economic legislation and preferential concessions. In the past, Turkey has always linked the strengthening of the bilateral trade relation with the accession process. But after the failure of negotiations on services and public procurement in the early 2000s, Turkey’s position has not evolved until recently in 2013-2014. This alteration concerns Turkey’s positions both regarding FTA’s concluded by the EU with third countries and the absence of an efficient and operational dispute settlement mechanism between the EU and Turkey.

3. The current economic situation between the EU and Turkey

In twenty years, the EU-Turkey trade relation has been overtaken by an important number of deeper and more comprehensive trade agreements and by the enlargement of the European Union. This evolution has created and increased preference erosion for Turkey inside the EU market.

However, a report published by the World Bank in March 2014 indicates a fourfold increase of bilateral trade between the EU and Turkey during the last 20 years. In 2014, the amount of money for trade represents 120 billion euro. Clearly, this shows a significant economic and industrial integration between the two parties. Turkish companies have been deeply integrated in European production networks and in global value chains (World Bank, 2014).

If for Turkey, EU is the biggest trading partner, for the EU, Turkey is the 6th biggest partner, just before Japan and Brazil but behind Norway and Switzerland (Kirisci, 2014).

The two following tables indicate country-by-country exports and imports by partners. Concretely, in the top five countries importing goods “Made in Turkey”, we have four European countries (Germany, the United Kingdom, Italy and France) accountable for as much as 25% of total Turkish exports. Regarding the Turkish imports, we notice that EU countries are significantly fewer in the top five. Indeed, except for Germany, we observe that emerging countries such as Russia and China represent more than 20%. This can be easily explained by the fact that Turkey does not have any gas or oil reserves and must import them from countries such as Russia and Iran. However, if we analyse carefully the tables we can still identify many European countries.

Figure 3: Turkey, export by Partner

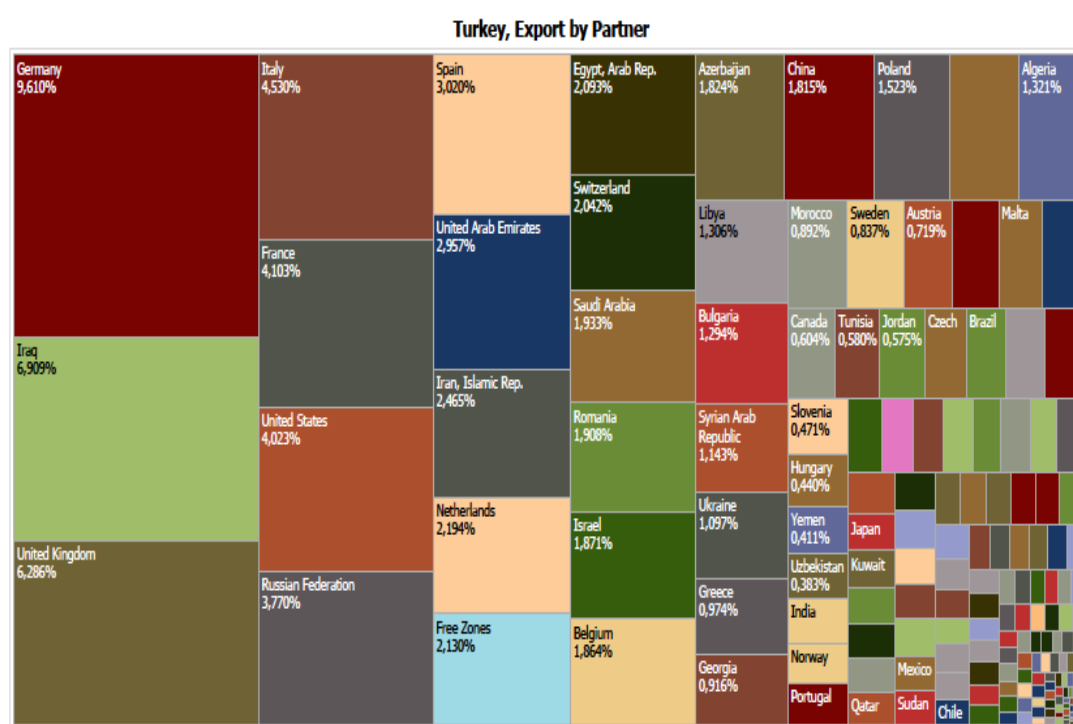
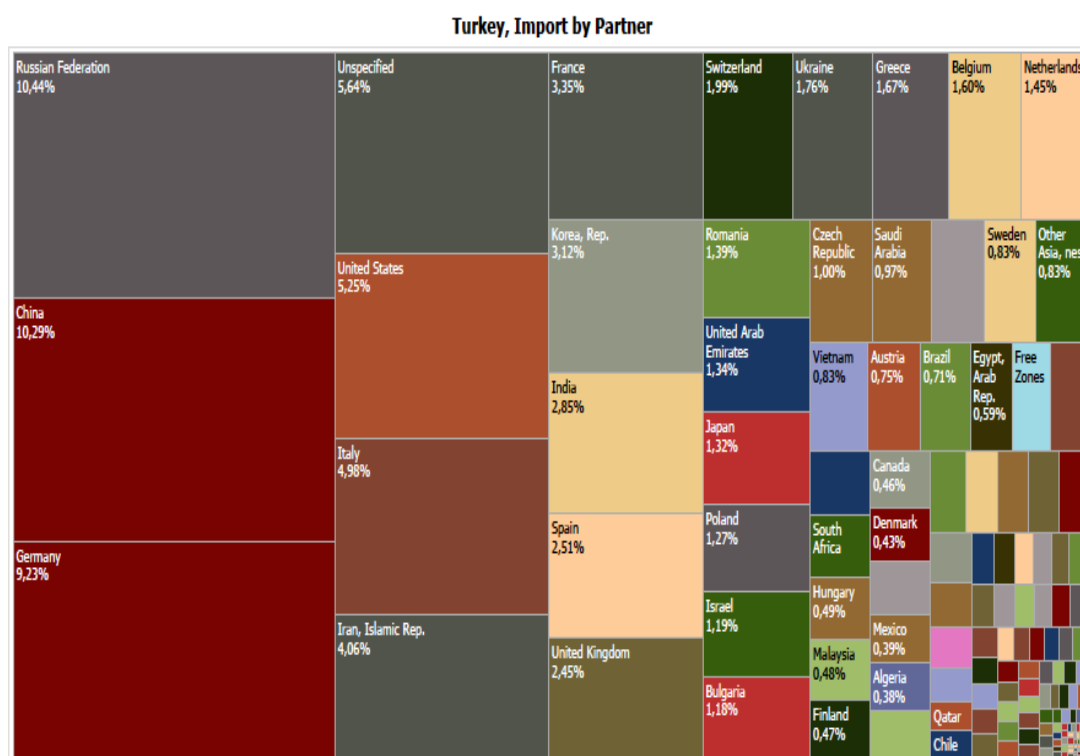
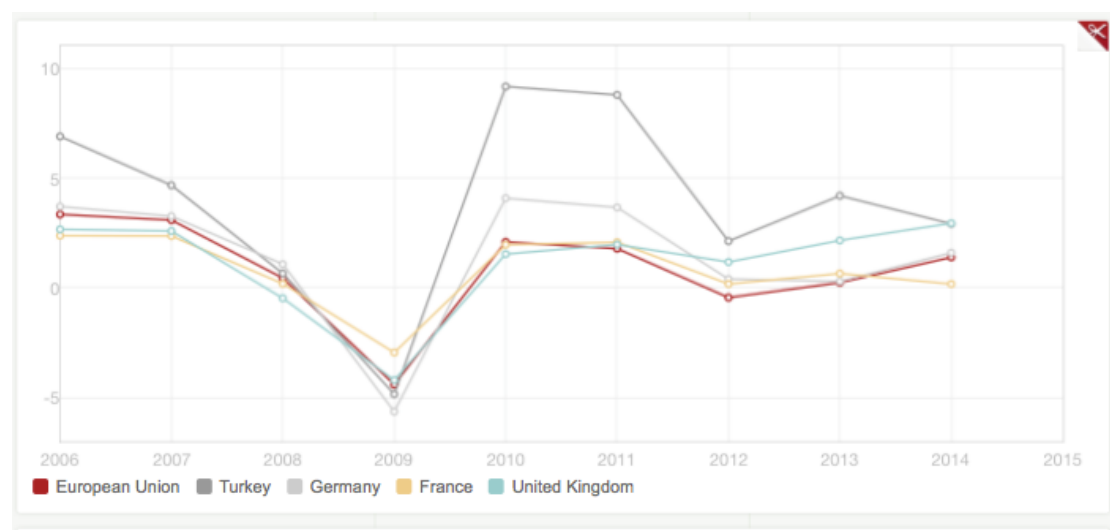


Figure 4 : Turkey, Import by Partner



Now, if we focus on the growth of gross domestic product of the EU, Turkey and three specific EU countries (Germany, France and the UK) we can observe that Turkey is above the average. Indeed, although we see that during the crisis in 2008, they suffered a huge decrease, as did the others, they have nonetheless recovered much faster than average in the EU. As a whole, we notice that the gross domestic production evolution of all the countries follows the same trend over the years, even if Turkey is clearly above until 2014.

Figure 5: GDP Growth of the EU, Turkey and three specific EU countries



From: <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG/countries/EU-TR-DE-FR-GB?display=graph>

The level of integration between the Turkish and the EU economies is very interrelated. There are more than 16.000 companies in Turkey owned by European capital and some of them are used to trade with neighbouring countries in the region. In fact, Turkey remains so far one of the most stable countries in the region (European Commission, 2015).

EU and Turkey economic integration is irreversible. However, it is still limited and needs to be revitalized in order to improve the market access in agricultural and public procurement markets. The investment in the services sectors should be also stimulated. A better-integrated economy will benefit both parties and

particularly Turkey which wants to remain anchored to the European economy (European Commission, 2015).

4. Does the Customs Union still work?

The CU is more than 20 years old and does not take into account the new global international trade rules. Indeed, the proliferation of EU bilateral agreements has had negative impacts on Turkey. One of the major criticisms is that the EU doesn't have to include Turkey in negotiations for such bilateral agreements but Turkey is obliged to comply with them.

This means that each time the EU negotiates and ratifies a new FTA with a third country, Turkey is also bound by this agreement and has to open its market to the country. But it's not reciprocal. So every time Turkey has to launch a similar agreement with the same third country in order to achieve similar market access and avoid trade diversion. Turkey has no right to sit at the table of the negotiation between the EU and the third country or influence the agreement. This situation has been underlined many times by the World Bank (World Bank, 2014). It is clearly forcing Turkey *"to align itself progressively with the preferential customs regime of the Community i.e. the autonomous regimes and preferential agreements with third countries"* (Official Journal of the European Communities, 1996).

Concretely, it means that for the last 20 years, Turkey has been obliged to open its market to exported goods from other countries while not being sure they will have reciprocal preferential market access for Turkish goods. This is surely the major prejudice of the CU because they risk possible trade diversion, especially when those third countries refuse to sign a parallel free trade agreement with Turkey. It has already been the case in the early 2000s with States such as Algeria, Mexico, and South Africa (Kirisici, 2014).

At the same time, some countries are not inclined to start negotiations with Turkey whilst they are already in the process of negotiating their respective FTA

with the EU. This is the case with India, Canada, Vietnam and Japan. This situation is frustrating for Turkish politicians and causes public resentment against the CU and the EU. Plus, Turkey does not have the right to make FTAs with third countries independent from the EU.

In addition, there are some other burning issues such as visas. To be able to travel in the EU, Turkish citizens have to apply for visa weeks beforehand and provide various documentations proving that they are eligible. This represents a form of non-tariff barrier for Turkey. Paradoxically, goods of Turkish companies can circulate freely in the European internal market. It adds to this frustration that some European citizens (from Germany for example) don't even need an electronic visa to come to Turkey.

As a response to counter this discrimination, Turkey has imposed protectionist measures to alleviate these effects. For instance, Turkey has introduced duties on footwear imports of up to 50% in 2014. These duties are a burden for the customs union but still in agreement with it.

Many other barriers exist that contradict the CU, such as some measures imposed on beef, alcoholic spirits, textiles and apparel, second-hand goods, pharmaceuticals and metal hand tools. As a result, this is causing excessive sampling and testing controls, many delays and increasing several costs such as that of storage (Foreign Trade Association, 2015).

Indeed, regarding Article 14 of the CU, the EU has the obligation, when they have negotiations for PTA to amend the common customs tariff with third countries, to first consult Turkey: *"...prior consultations shall be held within the Customs Union Joint Committee for this purpose"* (Foreign Trade Association, 2015).

If both Turkey and the EU decide to renegotiate the CU, they should first re-open the negotiation about the fact that Turkey has to align itself to the EU's trade

policy (customs, common external tariff, General Scheme of Preference⁸ (GSP) and preferential agreements) without being consulted. This creates asymmetry to the detriment of Turkey. Even the European Commission (2014) stated that a better consideration and participation in the consultative negotiation should be envisaged. This distortion creates problems of market access and issues of compliance with some provisions of the CU like the common external tariff, non-tariffs barriers, export and import restrictions. Moreover, as we have said previously, a dispute settlement mechanism should also be established to ensure the follow-up and the respect of the rules.

This modernisation of the CU does not depend on the Member States of the EU; it falls under the exclusive competence of the EU according to Article 207 of the Treaty on the Functioning of the European Union (TFEU). Indeed, it concerns trade policy directly and the negotiation of international trade agreements (including market access in agriculture, service and public procurement). In other words, in this case, the principle of subsidiarity⁹¹⁰ doesn't apply.

According to the Commission (2015), there exist five different options regarding the modernisation of the current EU-Turkey customs union: the first option would be to remain as it is at present. But as we have demonstrated, it is not working properly anymore. The second option would be to modernise the current CU: make it more operational and balanced and improve its functioning but with no additional areas included. The third option would be to strengthen the bilateral trade relations to a level comparable to the more ambitious FTAs concluded recently by the EU. New areas will thus be covered. This will require a full treaty making procedure pursuant to TFEU Articles 217 and 218. The penultimate option would be to combine the second and third options i.e.

⁸ "The EU's "Generalised Scheme of Preferences" (GSP) allows developing countries to pay less or no duties on their exports to the EU. This gives them vital access to EU markets and contributes to their economic growth" (EC, s.d.).

⁹ "In areas which do not fall within the Union's exclusive competence, the principle of subsidiarity laid down in the Treaty on European Union, defines the circumstances in which it is preferable for action to be taken by the Union, rather than the Member States" (EC, s.d.)

modernise the CU and deepen trade relations. Last but not least, the fifth option would be to replace the CU with a new comprehensive FTA (like TTIP) covering areas such as industrial goods, agriculture, service, and public procurement. This would represent a major shift in EU-Turkey relations and imply substantial transformation to the Association Agreement ¹¹.

If the negotiation of a new comprehensive FTA goes too far in NTBs, the Commission estimates that there is a risk of a possible deterioration of the overall economic and trade relation between the EU and Turkey. Indeed, the Commission think that it might lose more than the CU currently offers. Deciding a new agreement presents very challenging risks. This is why the Commission favours the second option for the moment. Indeed, the modernisation of the current CU provides an acceptable level of gain for both sides.

This upgrade will have a positive impact on trade and investment flows and it is supposed it will benefit to both parties' and also the private sector, including SME's and micro-enterprises, particularly in the agricultural sector.

However, the impact of the modernisation of the CU will depend on the willingness of the two protagonists. They still have to agree on the level of trade liberalisation and the degree of preferential market access they want to reach in areas such as public procurement, services and agriculture. It will also depend, for example, on the liberalisation of the tariff and non-tariff protection of Turkish agriculture, the limited access to both sides' procurement markets as well as the regulatory and market access limitation on services. By improving the preferential access to procurement and services markets, they will have a positive leverage effect on trade in goods. A better agricultural access will also help to boost trade integration and have positive spillover effects on economic growth (European Commission, 2015).

¹¹"Association Agreements are international agreements that the European Community / European Union has concluded with third countries with the aim of setting up an all-embracing framework to conduct bilateral relations. These agreements normally provide for the progressive liberalisation of trade (to various degrees: Free Trade Area, Customs Union...). In certain cases, they prepare for future membership of the European Union." (European Union External Action, s.d)

This modification should also impact positively on the level of employment in some sectors such as agriculture and some services. Conversely, they might suffer more from competition. It will reduce the administrative burden on trade and services and harmonize sanitary and phytosanitary rules (SPS).

It will also impact positively small and medium enterprises (SMEs). Companies will enjoy market access both in services and market procurement, benefit from new internationalisation opportunities, and increase competitiveness as well as the exportation of goods and services. It will also improve the connectivity of businesses.

Moreover, the extension of the bilateral trade relation will have an impact at the international level. Better integration means more international investors in the liberalised sectors and a consolidation of business partnership. In summary, the objective of an updated CU will be to counter the erosion of Turkish trade in the CU due to recent new and more comprehensive FTAs signed with major other trading partners (European Commission, 2015).

5. Geopolitical impacts

Turkey has a prospering economy. During the last two to three decades, its economy has changed dynamically. It has moved from an agriculture and import substitution industry to a services and export-oriented manufacturing trade sector. One of the more visible features of this transformation is the importance of foreign trade in Turkey's GDP compared to before. In 1995, foreign trade represented about only 9% of Turkey's GDP (around \$6.1billion) whilst in 2012 it had increased to a huge 50% (\$403 billion in 2013). Turkey is nowadays deeply involved in the global economy, especially with the EU and its closest neighbours. Indeed, as we have analysed previously, Turkey is the sixth largest trading partner of the EU. Without any doubt, Turkey, as a trading partner, contributes to economic growth and employment in the transatlantic trade alliance.

As we have mentioned above, the EU-Turkish customs union is more than a traditional free trade agreement. It implies a significant level of alignment of rules and independent regulatory bodies with the EU institutions. Undoubtedly, the agricultural sector has further to go in the transformation process, however, regarding other sectors and especially services, they are already very pro-active. Turkey has already liberalized many services. As a result, foreigners already have major stakes in mobile telephone services, banking, telecommunications, retail chains, insurance, etc. However there is still some work to do regarding legislation and uniformity in regulatory application.

Besides the fact that the TTIP should strengthen the economic performance of both the US and the EU and create a new economic momentum, it is also seen as a project that would revitalize the geostrategic weight of Western countries in world affairs. Indeed, it comes at a moment where it is common to talk about the “weakened West” against the Rest (Kirisci, 2014). Such an agreement would bolster the geopolitical advantage of the West against the more authoritarian form of governance represented by countries such as Iran, Russia and China.

As we have previously said, the gain for the Parties is predicted to be very positive even if it will depend on the nature of the final negotiations. According to the Centre for Economic Policy Research in London (2013), the gains from a comprehensive liberalization of trade would be around €119 billion for the US and €95 billion for the EU per year. Another study by the IFO Institute in Germany (2013), in cooperation with the Bertelsmann Foundation, predicts an important creation of jobs for the US and the EU. Conversely, countries with FTAs with both of them would lose a lot: Australia, Canada, Mexico and Turkey are seen to be the major losers of TTIP.

Indeed, when the terms of the customs union were negotiated, the context was seen like a transitional arrangement before the possible full EU membership and, in the meantime, a help to the Turkish economy. Undeniably, the CU has contributed greatly to develop Turkey’s international economic competitiveness,

thanks to the adoption of EU regulatory standards and the preferential access to EU markets. According to the IMF (2014), the GDP of Turkey grew from \$227.6 billion in 1995 to \$827.2 billion in 2013. This represents a boost of \$600 billion in 18 years; a significantly higher growth rate compared to countries in the Eurozone. But in return, Turkey has complied with the EU's common commercial policy.

However, regarding the current trade diversion and the TTIP negotiations, it is not surprising to hear that some Turkish officials are very critical about the CU and the EU. Many ministers and former ministers of the Turkish government have expressed their frustrations and raised publicly the possibility of leaving the CU (Today's Zaman, 2013 ; Hurriyet Daily News, 2013). If we add to this the growing disillusionment regarding the EU accession process, we can easily understand why the former Prime Minister Recep Tayyip Erdogan stated in 2013 that he was ready to withdraw its bid for EU membership and already asked the Russian President, Vladimir Putin, to help Turkey to join the Shanghai Cooperation Organization (Kirisici, 2014).

Would Turkey, realistically speaking, try to move away from the EU accession and the customs union? This seems no longer on the agenda. Indeed, with the opening of a new chapter in EU-Turkish accession negotiations followed by the Erdogan visit to Brussels and Washington in 2014, it suggests more a convergence of Western and Turkish positions, at least economically speaking.

The prospects of exclusion from the TTIP considerably increase tensions and worsen Turkey-West relations. Beyond unilateral U.S. access to Turkish markets, Turkish companies would suffer from serious discrimination by US businesses because they would enjoy a better access to the EU market. Besides the expected loss of income and employment in Turkey, this would increase dissatisfaction of anger against the West and the feeling of being rejected. And Turkish politicians might exploit this exasperation in a very populist manner because they know they could suffer a sort of backlash from populist criticism by adopting new rules without being able to negotiate them.

However, large business interest groups, such as the Independent Industrialists' and Businessmen's Association (MUSIAD), the Turkish Union of Chambers and Commodity Exchanges (TOBB), the Turkish Industrialists' and Businessmen's Association (TUSIAD) and the Turkish Confederation of Businessmen and Industrialists (TUKSON) have already taken position for the "remain". The Turkish business circle has on numerous occasions publicly supported their commitment to the CU, the EU adhesion and the TTIP inclusion. In 2014, the chairman of TUSIAD, a prestigious conglomeration of top Turkish companies, stated that they "consider Brussels to be the second capital of Turkey" (Daily News, 2014). They support the importance of Turkey's Western orientation and their economic relations with the EU and continue to defend the idea that the customs union is better for the Turkish economy than nothing. A survey made by the Istanbul-based Center for Economic and Foreign Policy Studies (2013) mentioned that when a panel of 202 experts was questioned about EU-Turkish relations, almost 87% encouraged the idea that Turkey should remain and pursue its EU membership.

Turkish economists and big business groups such as those mentioned before are also aware that if Turkey becomes part of the TTIP, it would imply important technical costs associated with the implementation of new regulatory standards. However, they also agree that the cost of being left outside the TTIP would harm them even more both economically and politically. This was already mentioned in a report (Bozkurt, 2013) made by the Economic Policy Research Foundation of Turkey (TEPAV).

Furthermore, were the US and the EU to include Turkey in the TTIP, it would give a boost to the growth of the country's economy, which would in turn have a knock-on effect on its immediate neighbours. In increasing its growth and employment, Turkey will increase imports of goods and services from neighbouring countries. The exports of goods to Turkey will then increase. This will be positive for economic growth and employment in the region.

During the last two decades, the biggest gains in foreign trade came from Turkey's immediate neighbours. Trade grew from about \$4 billion to \$92.8 billion. This represents a 23-fold increase compared to a nine-fold increase with the EU and a six-fold one with the US during the same period (Kirisci, 2013).

Actually, if we take into account individual Turks and major Turkish companies present in neighbouring countries such as Bulgaria, Romania, Russia, Georgia and Iraq, we observe a huge increase of business presence and investments. These include restaurants and bakeries as well as manufacturing plants. Turkish Central Bank figures suggest that Turkish foreign direct investment (FDI) stock in direct neighbouring countries grew from about \$900 million in 2001 to 6.5 billion in 2012 (Kirisci, 2013). This clearly illustrates the argument that Turkey is already contributing a great deal to the economic development of the region through investment. The inclusion of Turkey in the TTIP will definitely continue to boost this contribution.

In addition, even if we don't have any literature about that topic, we can assume that the economic development of Turkey's neighbouring countries could indirectly benefit the US and the EU. It would surely increase the demand in goods, services and investments in this region. As proven, we can observe the growing number of companies from both the US and the EU that are establishing their regional subsidiary in Turkey. Turkey's inclusion in the TTIP will strengthen this direct and indirect effect for both parties.

Moreover, Turkey's engagement could also contribute to achieve some other strategic and geopolitical objectives by facilitating the inclusion of some Eastern countries into the Western liberal economic order. Indeed, the liberal Turkish economy propagates the rules and values associated with the liberal model of the West. For instance, due to the fact that Turkish commercial companies operate according to the EU rules and standards dictated by the customs union this means that the countries in question are already used to such "EU values".

Turkey, at its modest level, also contributes to alleviate the dependence of the Eastern economies on Russia and has become something of a “counterweight” to Russian hegemony in this region. Turkey’s inclusion within the West’s liberal economic order clearly differentiates it from its principal neighbours, Russia and Iran. The integration of Turkey in the TTIP will not only reinforce Turkey’s involvement in this liberal order but also strengthen and increase its role in the East of Europe.

Turkey could help to reduce the EU’s energy dependency on Russia. After the annexation of the Crimea, the relations between Russia and the EU have become very tense and EU is looking for solutions to reduce its energy dependency. Even though Turkey is also massively dependant on Russian gas, in recent years they have been trying to diversify energy sources, especially since they have discovered natural gas in the Mediterranean, between Cyprus and Israel¹². If the resulting projects are successfully achieved, this could clearly reduce the dependence on Russia both for the EU and Turkey.

Last but not least, the inclusion of Turkey in the TTIP might also help to strengthen democratic governance in Turkey. Indeed, for decades the EU has played a critical role in the Turkey’s democratisation. However, since 2013, Turkey’s democracy is facing many challenges. Since the first protest after the Gezi Park in 2013, we have observed a deterioration in the relationship between the EU and Turkey. The economic growth of a liberal market has helped to develop a considerable middle class that is now fighting for a more democratic society. In the absence of the prospect of EU membership, Turkey’s inclusion in the TTIP would give a boost to the middle class’s demands.

¹² Conference on the future of Cyprus and the possible scenarios on the exploitation of gas in the region. Organized by the Atlantic Council and the Sabanci University on the 18th of March 2016.

5. The consequence of including Turkey in the TTIP

5.1 Study from the Central Bank of the Republic of Turkey

By using the Global Trade Analysis Project (GTAP) database and a general equilibrium model, members of the Central Bank of the Republic of Turkey have analysed that if their country is included in the TTIP, their economy could gain 35 billion USD, an increase its GDP up to 4,6%. It would also have a positive influence on the GDP growth rates of the US and the EU (Mavus, Oduncu, Gunes, 2013).

The GTAP network and its related models are commonly used in studies to analyse the impacts of FTAs on partner countries and third countries. It is a quantitative analysis of change in international trade as regards policy development. Among analyses using GTAP, Kinnman and Hagberg¹³ (2012) have analysed in 2013 the EU-US FTA and estimated that the nation's incomes will increase in the range of 0.02% to 0.22% in the EU and 0.02% to 0.51% in the US. In another study realised by François and Pinduyk¹⁴ (2013), growth in GDPs is estimated in the range of 0.10% to 0.48% for the EU and 0.04% to 0.39% for the US.

A. Methodology

In order to analyse the impacts of the FTA on Turkey, the EU, the US, the GTAP network and Standard GTAP General Equilibrium Model set have been used according to two main assumptions: perfect competition and constant returns to scale. The database set for the general equilibrium model has been acquired by the GTAP-7 database covering 113 regions and 57 sectors and also related bilateral trade information, transport and protection linkages with reference to 2004. They have aggregated four "regions"- the US, the EU, Turkey and the rest of the world -, three sectors – agriculture, manufacture and services –, and five

¹³ Analyses realised by the Sweden Board of Trade. Result for Sweden: (and 0.01% to 0.18%).

¹⁴ Study realised by the Research Centre International Economics (FIW) of Austria. Result for Austria: 5.5 billion US dollar increase in Austrian GDP.

inputs – land, skilled and unskilled labour, capital and natural resources- to build the analysis.

Two scenarios have been developed based on the assumptions of Turkey's inclusion and exclusion. Warning: Turkey's inclusion means either Turkey's involvement in the EU-US FTA or the ratification of an independent FTA with the US.

Due to the complexity of the study, we have decided not to spend much time on the explanation of the methodology but to focus on its results. For more information on the methodology, we invite the reader to go on the MPRA website or follow the link in the bibliography.

B. Impacts on the EU and the US ... if exclusion of Turkey

Firstly, the analyses concern the impact of four specific shocks on the US and the EU, where is Turkey excluded from the TTIP. The results are indisputably positive. If we remove only the tariff barriers (first shock), the real GDP increases by 0.009% in the EU and by 0.004% in the US. But the TTIP will not only cover the customs tariff but also non-tariff barriers in the sectors of food, services and manufacture. As to the second shock, they have reduced by 5% the non-tariff barriers in services and 2% respectively in the two other sectors. Then on the next line they have harmonized the reduction of the non-tariff barriers to 5% for all the three sectors.

In the figure n°6, we observe that the more they remove the non-tariff barriers the more the real GDP increases. Finally, you also take into account the direct spillover effects; in the most comprehensive case we observe that the real GDP will increase by 0.264% for the EU and by 0.3% for the US.

As we have already mentioned, due to the fact that the custom tariffs between the US and the EU are already low, the most important effects are expected to occur from the reduction of the non-tariff barriers. The more liberalization in

trade provided by the US-EU agreement is achieved, these countries will stand to gain.

Figure 6: The impacts on the EU and the US if Turkey was excluded

Applied Shocks	Real GDP (% Change)	
	EU	US
Removal of tariffs	0.009	0.004
Removal of tariffs and limited reduction in non-tariff barriers	0.092	0.105
Removal of tariffs and reduction in non-tariff barriers	0.151	0.185
Removal of tariffs, reduction in non-tariff barriers, and direct spill-over effects	0.264	0.300

From: Mavus, M., Oduncu, A., Gunes, D. (2013). *The possible Effects of Transatlantic Trade and Investment Partnership (TTIP) on Turkish Economy*. Central Bank of the Republic of Turkey, MPRA Paper No. 51900. Online: <http://mpra.ub.uni-muenchen.de/51900/> retrieved on the 16th of June 2016.

C. Impacts on the EU and the US... if inclusion of Turkey

The second scenario is based on the inclusion of Turkey in the TTIP. By applying the same shocks, we observe that the real GDP gains for the EU and the US are even better than where Turkey is excluded. Even when we include the spillover effect, both the US and the EU real GDP gains 0.016% and 0.004% respectively. In all scenarios Turkey's inclusion is better for the US and the EU growth rates.

Figure 7: The impacts on the EU and the US if Turkey was included

Applied Shocks	Real GDP (% Change)	
	EU	US
Removal of tariffs	0.009	0.006
Removal of tariffs and limited reduction in non-tariff barriers	0.102	0.108
Removal of tariffs and reduction in non-tariff barriers	0.171	0.190
Removal of tariffs, reduction in non-tariff barriers, and direct spill-over effects	0.280	0.304

From: Mavus, M., Oduncu, A., Gunes, D. (2013). *The possible Effects of Transatlantic Trade and Investment Partnership (TTIP) on Turkish Economy*. Central Bank of the Republic of Turkey, MPRA Paper No. 51900. Online: <http://mpra.ub.uni-muenchen.de/51900/> retrieved on the 16th of June 2016.

D. Impacts on Turkey

Following the same Global Trade Analysis Project (GTAP) database, we analyse on the basis of Turkey's exclusion from and inclusion in the TTIP. We apply the same shocks mentioned above.

If exclusion, we clearly observe that Turkey will be impacted negatively. If the US and the EU remove all custom tariffs and quotas between them, the Turkey's GDP will decrease by 0.132% and up to 0.561%, if is included the reduction of 5% of the NTB in the sectors of food, services and manufacture. With the spillover effect, we see that the reduction appear to be much less important. This is mainly due to the gain of GDP for the US and the EU.

Figure 8: The impacts on Turkey if Turkey was excluded

Applied Shock	GDP (% change)	Export (% change)
Removal of tariffs	-0.132	-0.114
Removal of tariffs and limited reduction in non-tariff barriers	-0.359	-0.268
Removal of tariffs and reduction in non-tariff barriers	-0.561	-0.450
Removal of tariffs, reduction in non-tariff barriers, and direct spill-over effects	-0.191	0.129

From: Mavus, M., Oduncu, A., Gunes, D. (2013). *The possible Effects of Transatlantic Trade and Investment Partnership (TTIP) on Turkish Economy*. Central Bank of the Republic of Turkey, MPRA Paper No. 51900. Online: <http://mpa.ub.uni-muenchen.de/51900/> retrieved on the 16th of June 2016.

In the second scenario, based on Turkey's inclusion, the gain in GDP and export is colossal. The GDP and exports increase massively depending on the depth of this agreement: from 0.46% to 4% for the GDP and from 1.3% to 6.97% for the export

Figure 9: The impacts on Turkey if Turkey was included

Applied Shock	GDP (% change)	Export (% change)
Removal of tariffs	0.460	1.303
Removal of tariffs and limited reduction in non-tariff barriers	2.046	3.809
Removal of tariffs and reduction in non-tariff barriers	4.001	6.974
Removal of tariffs, reduction in non-tariff barriers, and direct spill-over effects	3.793	6.846

From: Mavus, M., Oduncu, A., Gunes, D. (2013). *The possible Effects of Transatlantic Trade and Investment Partnership (TTIP) on Turkish Economy*. Central Bank of the Republic of Turkey, MPRA Paper No. 51900. Online: <http://mpra.ub.uni-muenchen.de/51900/> retrieved on the 16th of June 2016.

According to the obtained results, Turkey's inclusion in the TTIP creates an important economic gain not only for Turkey, but also for the EU and the US. The growth in the EU's GDP will reach 0.280% instead of 0.264% and the US's GDP 0.304% instead of 0.300%.

5.2 Study from European Commission

The Sustainable Impact Assessment (SIA) has been conducted by the Dutch agency ECORYS for the European Commission in order to provide an in-depth analysis of the potential economic, social, human rights and environmental impacts of a TTIP. Even though the report is not yet finalized, we have already analysed the draft inception report published in March 2014 (ECORYS, 2014) and the draft interim technical report published in May 2016 (ECORYS, 2016). Thanks to these two documents we can have significant insight on the effect of the TTIP on Turkey. Since this Trade SIAs are different from the standard TSIA in some aspects, the description of the general approach and the conceptual framework is kept simple. But for the same reason as the other study, we have

decided not to spend too much time on the explanation of the methodology but focus rather on the result. For more information on the methodology, we invite the reader to download the overall study from the Internet.

A. Methodology

The two phases already reported in the inception report and the interim technical report (see appendix n°5) are “inception” (Phase 0) and “overall analysis” (Phase 1). The final report will provide a sectoral analysis (phase 2) and policy recommendations (Phase 3). The approach is based on two methodological elements of a TSIA being: 1) essentially economic, environmental and social assessments and 2) stakeholder consultations. The three phases (from 1 to 3) are characterised by both quantitative and qualitative analyses. The impact of trade policy takes into account economic terms, but also social and environmental terms. By contrast to the CEPR study in 2013 (François, 2013) regarding exclusively the economic impacts of the TTIP, this study is conducted with a specific emphasis on impacts on competitiveness in Turkey. For our analysis, we will only focus on the TTIP effects on Turkey. All the project landscape is in the appendix n°6.

In this study, compared to the one of Joseph François (2013), they have split Turkey from the aggregated set of third countries due to its specific CU with the EU.

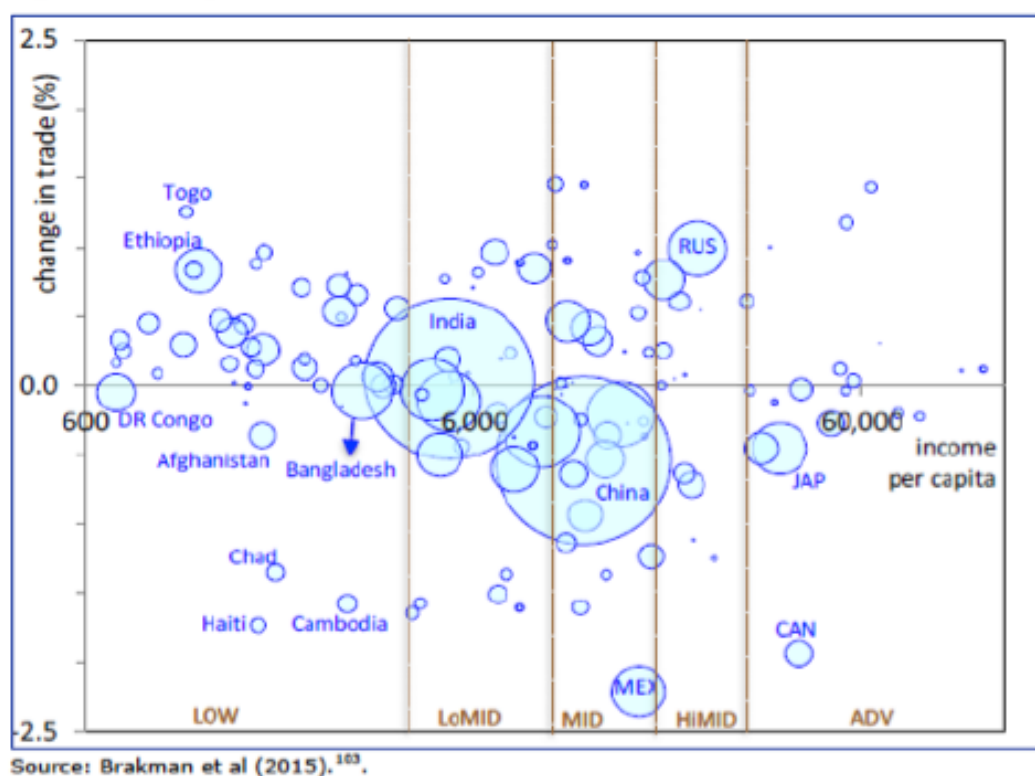
B. Impacts

In the appendix n°7 and n°8, we observe respectively the changes in global real per capita income, with deep liberalisation and the changes in global real per capita income, with tariff scenario. Those are the expected changes for all the countries.

In the figure n°10, we observe that third countries face a decrease in their total trade flows of about 0.2%. This negative evolution is not only the result of change in trade costs, as they are not directly affected by TTIP, but they will experience substitution effects as result of trade diversion, and income changes.

However, “LOW” (low countries) and “HiMID” (high and middle countries) countries are most likely to observe an increase in their total trade. African countries who will benefit more from increased demand. They will see their exports grow as a consequence of trade creation between the two protagonists, the US and the EU. They are not alone. According to this study, Russia (even after the EU sanctions) and Turkey (next to RUS in the figure), with strong trade links with the EU, should enjoy an increase in their total trade. Indeed, it should boost their incomes and improve their supply chain’s positions regarding EU producers. In contrast, Mexico and Canada would suffer from trade diversion. The US will import more from the EU instead of from these NAFTA and TPP partners. Mexico, Brazil and China are the countries who risk the most negative consequences from the TTIP; they will face strong trade diversion. It is important to note that neither China nor Brazil have FTAs with the US and the EU.

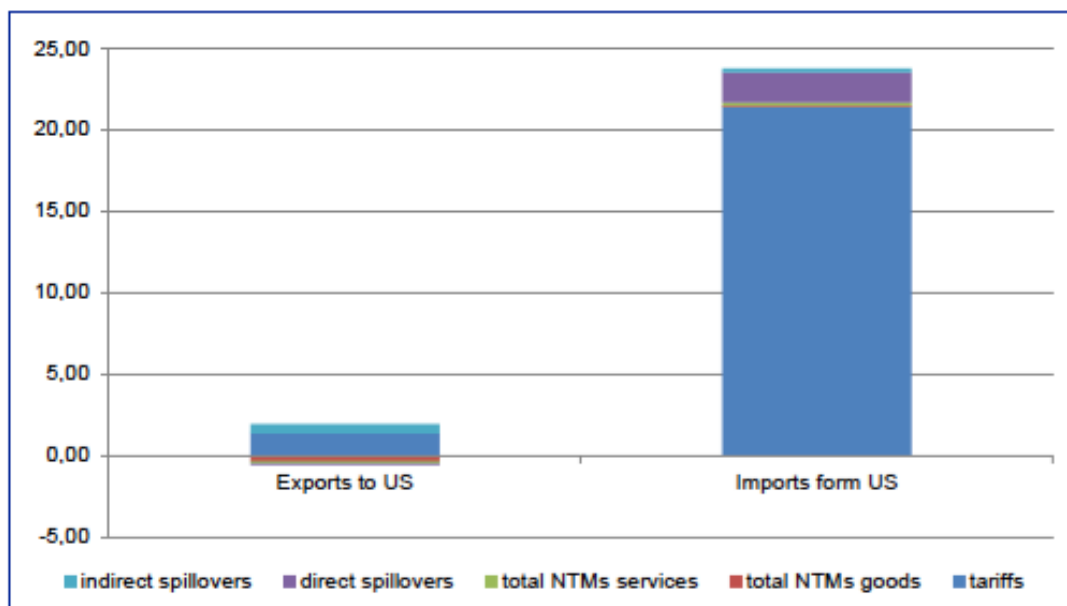
Figure 10: Impact of TTIP on trade flows



Regarding this report, the potential effect of the TTIP on Turkey is positive even if very limited in terms of GDP, national income and wages (around 0.1%).

Turkey's total exports are expected to grow by 2.0% and imports by 1.4%. As we have previously said, due to the customs union with the EU, Turkey will have to adapt its tariffs in line with any change to the EU's common external tariff. Concretely, this would mean that Turkey will have reduced or even removed all its tariffs on US exports under the TTIP's negotiation in accordance with the EU's new norms. However, Turkey would not enjoy the same access to the US market since they don't have any free trade agreement. In the following graph we can observe the potential results of this distortion. In the ambitious scenario, we can see that the imports from the US to Turkey increase massively (+ 23.7%) while exports to the US grow only by 1.3%.

Figure 11: Di-section of Turkey-US bilateral exports, ambitious scenario



ECORYS. (2016). *Trade SIA on the Transatlantic Trade and Investment Partnership (TTIP) between the EU and the USA*. Client: European Commission – DG trade.

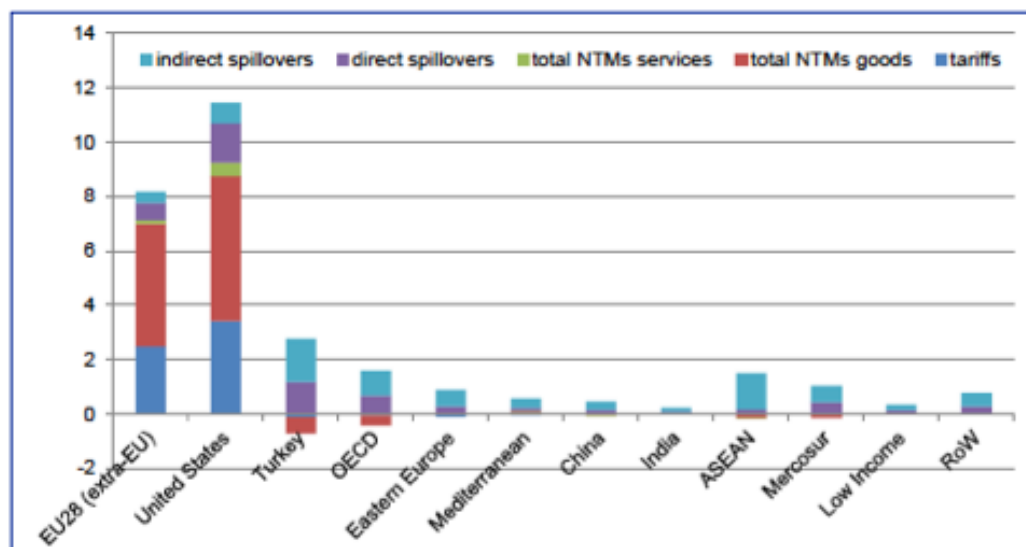
We observe a difference between the two studies that can be explained by the fact that the analyse made by the Central Bank of the Republic of Turkey takes the rules of origin clauses for granted. It means goods and services from the EU and Turkey won't face the same treatment in the US market. If there is no differential treatment between the EU and Turkish goods in terms of access to

the US market, then regarding ECORYS, the corresponding figure in the first study should increase respectively by 3.8% of GDP and 6.9% of export.

According the Computable General Equilibrium (CGE) model which takes into account the spillover effect, they confirm that Turkey would gain in terms of GDP by 0.1%, and that the exports and imports will increase by 2.0% and 1.4% respectively. However, the net effect on the trade balance is expected to be negative.

Following the ambitious scenario, we observe that the indirect spillover¹⁵ should benefit Turkey as it allows production to only meet one single system of standards and norms.

Figure 12: Decomposition of total export effects for third countries (percentage change)



Source: Updated CEPR (2013) results.

François, J. (2013). *Reducing Transatlantic Barriers to Trade and Investment: An Economic Assessment, Final Project*. London, CEPR. Report prepared under implementing Framework Contract. TRADE10/A2/A16.

¹⁵ An increase in trade between other third countries and Turkey thanks to the adoption of the EU/US system of standards and norms is positive for Turkey

6. Reflexion on how to Engage Turkey in the TTIP

As we have observed, there aren't many options and we should not be blind. Now that the discussions have already started, including Turkey at the negotiation table and envisaging "trilateral negotiations" with the US and the EU does not seem realistic and its feasibility is close to zero. The TTIP negotiation has already reached a "mature" level and it seems that there isn't and would not be any opportunity for a third country to participate at the moment.

From the beginning, Turkish officials and business people have lobbied actively with the European Commission, various EU governments and even the US government to get Turkey involved in the TTIP, in vain. All the efforts were rejected on the basis that Turkey is not a EU member (yet). The best assurance they obtained, up to now, is that they would be informed regularly on the progress of the negotiations. Indeed, the inclusion of Turkey in impact studies commanded by the EU Commission was a first and encouraging step (ECORYS, 2016).

Mrs. Pinar Ersen Rousk, the chief commercial counselor of the permanent delegation of Turkey to the EU (see appendix n°9 for the interview guide), and other specialists believe that Turkey will be included at the end of the final agreement on the grounds of the customs union and the EU membership adhesion. Mrs Ersen Rousk assures Turkey is the first country on the list to join the TTIP once it is concluded.

However, up until now, no guarantee has been granted on this. And even if it were the case, the Turkish government has no certainty that it would have anything to say on the new regulation standards or have the possibility to renegotiate any rules. In other words, it means that they might have to accept all the terms of the agreement as they stand.

During a phone interview with Ms. Renita Bhaskar (See appendix n°10 for the interview guide), a member of Trade Affairs and Coordination for bilateral trade

relations with the United States at the Directorate General for Trade of the European Commission, she explained that the TTIP should be seen as a future “open platform agreement” where any countries would be encouraged to join. According to Ms Bhaskar, once the TTIP is concluded, the US and the EU will determine a common set of rules that would be non-negotiable and others where they both agree to make some concessions.

Known as “docking”, it is a provision already included in the context of the TPP negotiations by the United States that allows third parties to join the agreements during or after the process (in our case it will be after). For this to be considered as a valid option the US and the EU should include the required clause within the agreement and Turkey should directly apply for it. In order to make it work, the Congress as well as the EU Commission (or each state) should first approve the request. But similarly, this would mean that they have to accept all or nearly all the terms of the agreement without having the possibility to negotiate.

According to Bozkurt Aran (2015), Turkey must remember that in the beginning, the Customs Union in the 1990s was also very challenging for the Turkish economy. Turkey successfully fulfilled all its domestic regulatory rules, from food safety, to technical barriers to trade, consumer protection, intellectual property rights, trade policy measures, environment legislation, customs legislation as well as the implementation of independent regulatory bodies. These changes were massive at that time and the outcomes very significant. A World Bank report in 2014 said that *“the Customs Union has been a major instrument of integration for the Turkish economy into both European and global markets”*

Bozkurt Aran also stressed the idea that Turkey should not be afraid of trade diversion. Indeed, Turkey’s economic integration into the Western economy through the CU has helped Turkey to improve its relations with the US. A trust relation with the EU, but also the US will be of benefit to Turkey in engaging itself in a profound economic and political transformation process. Turkey should see

these potential new reforms as a stimulus to innovate, transform its industry and its economy and reallocate inefficient resources to efficient sectors and firms¹⁶.

Warning: regarding the EU accession process time (begun in 1984 and concretized in 2005), it is very important for the EU-Turkey's relation that this "docking" option does not turn into a new "crossing of the desert". We can expect that Turkey will not stand for another thirty years of accession process. This would be seen as affront by the Turkish population and would be a disaster in Turkey's relation with its transatlantic allies. We should never lose sight of the importance of Turkey's political integration with the EU.

The second option would be to include a personalized "clause" allowing Turkey to have an automatic access for Turkish exports under the customs union with the EU to the latter's FTA partners, included in the TTIP. But technically, this clause would be limited to manufactured goods and will then not cover obligations included in new Comprehensive agreement (Bozkurt, 2015).

The last opportunity would be to start direct negotiations with the US by signing a new independent FTA. This new agreement would expand the economic relations between the two countries. This is not a new proposition. Back in 2001, Madeleine Albright, the former US secretary of the United States and Steven Hadley, the former US National Security advisor, proposed to create: "*a new Turkish-American Partnership that would include the TPP's emphasis on market access, regulatory compatibility, business facilitation, assistance for small and medium-sized enterprises, and promotion of trade in cutting-edge technologies*" (Albright, Hadley, 2012). But the idea has never been seriously taken into account because of the CU restrictions. Indeed, as we have already mentioned before, Turkey had no right to conduct a FTA if the EU had not already ratified one with this same third country, in this case the United States of America.

¹⁶ From a conference (13 February 2016) on new economic diplomacy: rise of free trade agreements in the world and TTIP negotiations organized by Erdal Bahçivan, the chairman of the Istanbul Chamber of industry.

However, now that TTIP is being negotiated, this constraint is no longer applicable. But if the aim is to create a new comprehensive agreement such as the TTIP, the US and Turkey would inevitably cover sectors that are not included yet in the CU. This will mean that Turkey should undeniably undertake legislative changes in many challenging areas such as their market access for the US firms in telecommunications, legal, audio-visual, postal and financial services. And this list is not exhaustive. Turkey should also open calls for the public procurement market; discuss investor-state dispute settlement procedures, bio-safety rules, sanitary and phytosanitary measures, genetically modified organisms (GMOs), high tariffs for fruit, vegetables and meat products and the protection of intellectual property rights (mainly regarding counterfeit goods) (Akman, 2014).

Obviously, meeting all these standards will have an important cost as Mr Bozkurt, the director of the Center for Multilateral Trade Studies, States. But at the same time these transformations are vital in the new trading world. Plus, these challenges can be turned into a win-win situation for Turkey if they manage regulatory convergence and succeed in mobilising domestic forces to improve standards and common business practices. Undoubtedly, if they succeed in meeting these standards with the US, they won't have any problem revitalizing the CU with the EU.

In 2013, during former Prime Minister Erdogan's visit in Washington DC, the Turkish administration energetically encouraged the idea of a new free trade agreement with the US. Even if their hope has not materialized, they both agreed on the establishment of a High Level Committee, with the ambition of continuing to strengthen economic relations and liberalize trade as well as analyse the TTIP's impact on Turkey (the White House Office of the Press Secretary, 2013). Turkey accepted this in the expectation that the committee would recommend that the US include them in the negotiation, a hope which has so far proven vain.

This new FTA between the US and Turkey would lead to a very curious situation in that this agreement with the US would go beyond that with the EU, thus

perhaps creating complications in the EU-Turkish relationship and leading to some legal challenges between these two comprehensive agreements. But it would also mean that if Turkey can align its standards with the US, they could do the same with the EU.

However, during the “off the record” interview with Mrs P. Ersen Rousk, she indicated the United States are for the moment not willing to start negotiations with Turkey and that they prefer to wait until the end of the TTIP negotiation before committing themselves to a new FTA or Comprehensive Agreement.

VI. Conclusion

These “mega” deals are going to have a lasting impact on the international economic order. The Western liberal order that was put into place at the end of the Second World War has in recent years faced numerous challenges from emerging countries. The TTIP aims to revitalize this order by designing a new generation of regulatory standards that should and will be open to third countries willing to participate in this new order.

On the one hand, some detractors are saying that the TTIP includes so many issues that are deeply entrenched in the European “way of life” that it will create such deep resistance that it will never be reached. On the other hand, others are arguing that this deal is already “too small” since many specialists were expecting an agreement based on harmonisation instead of mutual recognition.

Throughout our research, from the first conference at Istanbul Chamber of Industry to last interviews with the Turkish delegation and the European Commission, we have deliberately decided not to comment on the content of the TTIP negotiation. During our research we have met people from the CNDC-11.11.11 (Centre national de coopération au développement), a Belgian non-governmental organization for international solidarity, to discuss the TTIP, but we have consciously decided not to include their arguments because they are not directly related to our subject.

At the same time, we had to limit our studies to the European point of view. Indeed, while any information from the American institutions is completely confidential, the European Commission has decided, recently, under public pressure, to declassify many documents related to the TTIP negotiation. However, the subject remains very sensitive and the two interviews realised with the permanent delegation of Turkey to the EU and with the deputy head of unit of the DG trade for the European Commission had to be “off the record” and “limited” regarding the questions we asked.

In addition to that, due to the recent events in Turkey, it has been very difficult to obtain any information. The recent speeches and acts of Recep Tayyip Erdogan have surely plunged Turkey in a period of great instability. Even if the economic institutions seek to be reassuring, the evolution of the relation between the West and Turkey might be affected. But due to an obvious lack of objectivity and perspective we have also decided not to take it into account.

During the past thirty years, Turkey has intensively evolved both politically and economically. And even if Turkey has become, since the Gezi Park protests, a controversial ally, it remains an important actor for the US and the EU in this explosive region.

As we have analysed in the two studies from the Central Bank of the Republic of Turkey and from the European Commission, both the EU and the US as well as Turkey will gain from Turkish involvement. Turkish participation will also create an international dynamic that will echo in the entire region. Such an agreement will reinforce “western values” such as the rule of law, democracy and human rights. And the risk of excluding Turkey from the negotiation is to push the country into the arms of those who want to challenge and harm the Western world.

Even if it seems pretty clear according to our two privileged speakers from the Permanent Delegation of Turkey and from the European Commission that Turkey will join the TTIP as soon as it is concluded, up to now, no guarantee has been granted. In addition, we still don’t understand why the EU and Turkey have decided to re-open discussions regarding the customs union or why Turkey has tried to engage in negotiations with the US. Indeed, if they all three agree that Turkey will join the TTIP what is the purpose of starting negotiating with both of them individually?

From the Turkish point of view, we can easily understand that they want to change the binding rule that forces them to open their market to third countries once a FTA is concluded with the EU. If we also consider visas as a NTB, we could

think that Turkey could also use this argument to remove them definitely. Last but not least, any revitalization of the CU in some areas such as services would concretely reduce trade diversion on Turkish economy.

However, many sectors, such as agriculture, remain very controversial. Indeed, this sector is one of the least efficient in Turkey, with very low productivity. However, since February 2016, reforms are under way. Deputy Prime Minister Lütfi Alvan announced the modification of Turkey's public procurement law in accordance with the EU standards. And the government has also released a draft on a new intellectual property law, set to bring the country's patent law close to the EU and the WTO standards. It seems important to mention that these reforms have already generated much opposition amongst Turkish lobbies and the population.

Pascal Lamy, the former Director-General of the World Trade Organization, and many specialists think that both the US and the EU have undermined the TTIP negotiation and assume it could take years before to achieve it. Others believe that due to the fierce and the passionate opposition of the European civil society, the European Commission will never reach an agreement. Maybe these arguments are the main reasons why Turkey has started to renegotiate the CU and intensify its diplomacy to reach a new FTA with the US.

VII. TTIP's prospects and Personal Reflexion

Writing a master's thesis doesn't mean reporting and commenting on the latest news. However, it is obvious that we cannot, at the same time, ignore the recent events inside and outside the borders of the EU, even if we will need more time to provide a critical analyse of the situation.

Since June 24, and the UK's vote in favour of the Brexit, there have been many concerns voiced about the future of the TTIP negotiations. Indeed, without the UK inside the single market, the EU has lost part of its credibility, attractiveness and strength. Concretely, according to Geethanjali (2016), the EU's market for US products is likely to be reduced by about 16%. Indeed, the UK and the US have always been interdependent trading partners. There is therefore a fear that Britain's exit will profoundly affect the negotiation. In addition, if before the end of the TTIP negotiations, Britain triggers Article 50 to leave the EU, it's pretty sure that the Commission will do better preserving the single market than working on the TTIP.

However, this might only be the tip of the iceberg. The president of the European Council, Donald Tusk, has reiterated that the Commission received the mandate from all the member states to negotiate this Agreement and that it will be concluded by the end of this year (Geethanjali, 2016). But, if it is unlikely to be, the Brexit won't be the worst obstacle anymore. With the future elections in the US, in France and in Germany, the TTIP might not survive at all.

Indeed, elections in France and Germany will take place both in 2017. François Hollande has already said that France *"will never accept questioning essential principles for our agriculture, our culture and for the reciprocity of access to public [procurement] markets"* (Politico, 2016). In Germany, the newspaper RT (2016) reported that 70% of the Germans are opposed to the TTIP agreement. This will

put political leaders and the Commission in a very bad posture. On the top of that the perspective of US Presidential elections by the end of 2016 (November 8th) is a powerful argument to question the deadline of the TTIP negotiation.

However, if we take for granted that the TTIP negotiations will succeed without the UK, then it seems interesting to shortly analyse the situation. If the UK triggers Article 50 before the end of the negotiation, the UK will be in the same position as Turkey, just another country willing to join the single market and the TTIP without being an EU member. In a way, these two countries have some similarities. In Turkey, we have observed, in the recent years, the emergence of a President, Recep Tayyip Erdogan, who will never be inclined to give any power to European Institution; one of the main rules to join the EU. In the UK, after many years inside the EU, they have decided to leave it in order to “regain their sovereignty”. They no longer want a political union but they wish intensely to remain within the single market and the TTIP. In other words, they reject a political union whilst being ardently in favour of the continuation of an economic union.

Sooner or later, and sooner than expected, the EU will have to choose. If the EU (and the US) includes Turkey and the UK (and other countries) in the TTIP, it will strongly reinforce the Western economic order. It will create a sort of new economic union and by doing so reduce the discriminatory effects of such an agreement. It will also strengthen the power of the West, internationalise the Agreement and keep its allies closer to the “Western sphere” of influence. But if they do so, it will consequently reduce the attraction for accession to the EU.

Indeed, neighbouring countries will be enjoying all the benefits of an economic union without having to fulfil any of the EU conditions. Being part of the EU means a binding deal more than an economic union based on “mutual recognition”. It’s about the respect of rules on environment, the principle of free movement of persons, human rights (no death penalty, freedom of speech, etc.) and obviously economic rules such as the public debt below 60%. At the same time, by not including Turkey, the EU might lose an ally that could quickly join

other competing alliances such as the one with Russia. Conversely, excluding the UK, could give a new impulse to the EU to go for more harmonisation and federalization.

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IX. Table of appendix

Appendix 1: Comparing regulatory cooperation in CETA and the EU TTIP proposal

CETA on	Specifications in CETA	Specifications in EU TTIP proposal
Scope (Art. 1)	Development, review, and methodological aspects of regulatory measures of the Parties; reference to WTO SPS and TBT, plus GATT and GATS ; and to six chapters in the draft treaty, including environment and labour	Art. 3: applies to regulatory acts at central level on goods and services; with 'significant impact'; and regulatory acts concerning specific or sectorial provisions (to be determined later). The type of regulatory acts at central level are precisely defined in Art. 2, a and b for resp. the EU and the US] [note, that the first EU draft will be completed with provisions on regulatory acts at sub-central level][reference to WTO elsewhere in CETA]
Principles (Art. 2)	Quite detailed. Their cooperation is to be open to other trading parties; should 'enhance the climate for competitiveness and innovation, including through pursuing regulatory compatibility, recognition of equivalence and convergence'; promote regulatory processes that better ... fulfil the mandates of regulatory bodies... [and] 'enhanced use of best practices'	Art. 1.3 : 'the Parties reaffirm their shared commitment to good regulatory principles and practices, as laid down in the OECD Recommendation of 22 March 2012 on Regulatory Policy and Governance'

Objectives (Art. 3)	Four very detailed objectives, i.e. contributing to SHIEC objectives (by leveraging international resources and helping risk assessment), building trust and deepening mutual understanding of regulatory governance (in seven ways, typical 'good regulatory practices' items, including transparency and predictability), facilitating bilateral trade and investment (e.g. by reducing unnecessary regulatory differences), and contributing to competitiveness and efficiency of industry (by e.g. minimizing administrative costs and reducing duplicative regulatory requirements, plus pursuing compatible regulatory approaches e.g. recognition of equivalence or the promotion of convergence)	Art.1.1 comprises four objectives: a. 'to reinforce regulatory cooperation thereby facilitating trade and investment.... to stimulate growth and jobs while pursuing a high level of protection..' in SHEIC but also working conditions, personal data, cybersecurity, cultural diversity or preserving financial stability; b. 'reduce unnecessarily burdensome, duplicative or divergent regulatory requirements.... by promoting ... compatibility of... EU and US... acts' c. 'promote an effective, pro-competitive environment... transparent and predictable ' d. 'to further... international instruments ... to strive towards consistent regulatory outcomes'
Regulatory cooperation activities (Art. 4)	A very wide and ambitious set of provisions on 19 (!) regulatory cooperation activities, many of those on sharing / exchange of information on a host of areas, examining opportunities to minimise unnecessary divergences, cooperation on developing international standards and guides, data collection, cooperative research agendas, conducting post-implementation reviews, reducing adverse trade effects by e.g. greater	In the draft EU proposal, many (not all) regulatory cooperation activities, as they are called in CETA, are found in different articles: Art. 5 (on early and public information on planned acts) and Art. 6 (on stakeholder consultations) are under a subsection 'transparency', whereas the first (early information) is in Art. 26.4 of CETA, that is not the case for stakeholder participation (except for a very open clause in Art. 26.8, CETA).

	convergence, mutual recognition, minimising the use of trade-distorting instruments, and the use of international standards, etc.	Provisions on impact assessment (in CETA Art. 26.4, item 6b) are in Art. 7 in the EU proposal. Some of what CETA calls 'activities' are the subject of 'regulatory exchanges' in the EU proposal (art. 9 and 10), the essential difference being a greater precision in procedures and timing. (For the CETA provision on post-implementation reviews, there is a weak counterpart in the EU draft, in Art. 7.3c) On the other hand, CETA has no explicit provision on promoting international regulatory cooperation, as in Art. 13 of the EU draft.)
Compatibility of regulations (Art. 5)	'With a view to enhancing convergence and compatibility between regulatory measures of the Parties, each Party shall, when appropriate, consider the regulatory measures or initiatives of the other Party on the same or related topics...'	Compatibility is in Art. 8.1 as well as in Art. 11, following from (in some cases) so-called 'regulatory exchanges', specifying mutual recognition of equivalence (of regulatory acts or outcomes), harmonization or simplification; goes further than CETA via a proposal for joint examination.
Role and Composition of the Regulatory Cooperation Forum (Art. 6)	'...to facilitate and promote regulatory cooperation between the Parties'; functions: i) a setting for discussion of regulatory policy issues of mutual interest, ii) assist individual regulators (identifying partners; model confidentiality agreements); iii) reviews of whether regulatory initiatives	The TTIP Regulatory Cooperation Body will have seven functions (Art. 14): i) Annual Regulatory Cooperation Programme; ii) monitoring of the implementation and reporting; iii) technical preparation of new or added sectoral provisions; iv) considering new proposals for regulatory cooperation,

	'provide potential for cooperation'; iv) encourage bilateral regulatory cooperation activities (as the 19 types in Art. 4) and review sectorial initiatives. The RCF reports to the CETA trade Council	including on compatibility; v) preparation of joint proposals of international regulatory instruments; vi) ensuring transparency; vii) open clause on relevant 'other issue'
Further cooperation of the Parties (Art. 7)	Is about monitoring forthcoming regulatory projects, as well as exchange of information on a host of issues, e.g. standardisation, market surveillance, risk assessment methods and product recalls and early warnings. Endorsement of other initiatives are encouraged too.	Not explicit but probably subsumed in Art. 14; presumably, market surveillance, risk assessment and product recalls may require more specific provisions
Consultations (Art. 8)	'In order to gain non-governmental perspectives, the Parties may jointly or separately consult' all kinds of private entities	Much more detailed and forthcoming or encouraging on consultation in Art. 15 of EU proposal
Contact points (Art. 9)	Specified for both Parties	Not (yet) specified

From: Hamilton, D., Pelkmans, J. (2015). *Rules-Makers or Rule-Takers? Exploring the Transatlantic Trade and Investment Partnership*. Brussels, Centre for European Policy Studies. ISBN: 978-1-78348-711-0

Appendix n°2: Goods trade of EU countries with US

Member state	Exports		Imports		Balance	
	(bn Euro)	in % of GDP	(bn Euro)	in % of GDP	(bn Euro)	in % of GDP
AUSTRIA	8.65	2.63 %	3.38	1.03 %	5.27	1.60 %
BELGIUM	21.21	5.29 %	28.60	7.14 %	-7.39	-1.84 %
BULGARIA	0.37	0.88 %	0.24	0.56 %	0.14	0.32 %
CROATIA	0.25	0.58 %	0.16	0.37 %	0.09	0.21 %
CYPRUS	0.03	0.16 %	0.04	0.24 %	-0.01	-0.08 %
CZECH REPUBLIC	3.35	2.17 %	1.86	1.20 %	1.49	0.96 %
DENMARK	6.92	2.66 %	1.97	0.76 %	4.95	1.90 %
ESTONIA	0.39	1.93 %	0.18	0.89 %	0.21	1.04 %
FINLAND	3.97	1.93 %	1.36	0.66 %	2.60	1.27 %
FRANCE	32.23	1.51 %	27.72	1.30 %	4.51	0.21 %
GERMANY	112.73	3.87 %	43.12	1.48 %	69.61	2.39 %
GREECE	1.16	0.65 %	0.69	0.39 %	0.46	0.26 %
HUNGARY	2.33	2.24 %	1.53	1.47 %	0.80	0.76 %
IRELAND	24.18	12.79 %	7.41	3.92 %	16.77	8.87 %
ITALY	35.17	2.18 %	14.02	0.87 %	21.15	1.31 %
LATVIA	0.15	0.62 %	0.09	0.38 %	0.06	0.25 %
LITHUANIA	0.95	2.59 %	0.37	1.01 %	0.58	1.58 %
LUXEMBOURG	0.38	0.77 %	1.79	3.66 %	-1.41	-2.89 %
MALTA	0.14	1.67 %	0.20	2.41 %	-0.06	-0.75 %
NETHERLANDS	19.16	2.89 %	35.82	5.41 %	-16.66	-2.51 %
POLAND	4.00	0.97 %	3.22	0.78 %	0.77	0.19 %
PORTUGAL	2.54	1.47 %	0.98	0.56 %	1.57	0.90 %
ROMANIA	1.08	0.72 %	0.71	0.48 %	0.36	0.24 %
SLOVAKIA	1.45	1.92 %	0.38	0.50 %	1.07	1.42 %
SLOVENIA	0.49	1.30 %	0.38	1.02 %	0.11	0.28 %
SPAIN	11.51	1.11 %	9.93	0.95 %	1.58	0.15 %
SWEDEN	9.24	2.14 %	3.41	0.79 %	5.82	1.35 %
UNITED KINGDOM	59.83	2.65 %	51.11	2.27 %	8.71	0.39 %
EU28	363.83	2.61 %	240.68	1.72 %	123.15	0.88 %

Source: Eurostat Comext, author's calculations.

(From November 2014 to October 2015)

From : Felbermayr, F., Maxi (2016). *Policy department, Economic and scientific policy: Employment and Social Affairs*. Munich: European Parliament's Committee on Employment and Social Affairs. PE 578.984 IP/A/EMPL/2015-07

Appendix n°3: Accession agenda with each sector and open-date of the negotiation.

TURKEY	15	1
state of play: 08 January 2016	negotiations opened	negotiations closed
1 – free movement of goods		
2 – freedom of movement of workers		
3 – right of est. & freedom to provide services		
4 – free movement of capital	19 December 2008	
5 – public procurement		
6 – company law	17 June 2008	
7 – intellectual property rights	17 June 2008	
8 – competition policy		
9 – financial services		
10 – information society and media	19 December 2008	
11 – agriculture and rural development		
12 – food safety, vet. & phytosanitary policy	30 June 2010	
13 – fisheries		
14 – transport policy		
15 – energy		
16 – taxation	30 June 2009	
17 – economic and monetary policy	14 December 2015	
18 – statistics	26 June 2007	
19 – social policy and employment		
20 – enterprise and industrial policy	29 March 2007	
21 – Trans-European networks	19 Dec 2007	
22 – Regional pol. & coord. of structural instr.	5 November 2013	
23 – judiciary and fundamental rights		
24 – justice, freedom and security		
25 – science and research	12 June 2006	12 June 2006
26 – education and culture		
27 – environment	21 December 2009	
28 – consumer and health protection	19 Dec 2007	
29 – customs union		
30 – external relations		
31 – foreign, security and defence policy		
32 – financial control	26 June 2007	
33 – financial and budgetary provisions		
34 – institutions		
35 – other issues		

From : http://ec.europa.eu/enlargement/pdf/turkey/20160108-overview_negotiations_turkey.pdf

Appendix 4: Trade cost reductions in TTIP scenario

	AVE % cost reductions		Tariffs	
	EU NTBs	US NTBs	EU tariffs	US tariffs
GOODS	6.2	6.2	2.1	1.3
Primary agriculture	23.2	23.2	3.3	2.2
Primary energy	0.0	0.0	0.0	0.1
Processed foods	6.4	6.4	15.8	5.0
Beverages and tobacco	22.6	22.6	5.9	0.8
Petrochemicals	0.0	0.0	1.8	1.6
Chemicals, pharmaceuticals	11.3	11.3	2.1	1.3
Metals, fabricated metals	0.0	0.0	1.8	1.2
Motor vehicles	19.7	19.7	7.9	1.1
Electrical machinery	0.0	0.0	0.6	0.3
Other machinery	7.8	7.8	1.2	0.7
Other manufactures	0.0	0.0	1.7	2.9
	AVE % cost reductions		OATS, best RTA	
	EU NTBs	US NTBs	EU	US
SERVICES	9.9	6.7	55.3, 64.4	55.4, 55.4
Construction	4.6	2.5	70.8, 83.3	83.3, 83.3
Air transport	12.5	5.5	66.3, 72.5	5.0, 28.8
Maritime transport	0.9	6.5	47.6, 63.1	0.0, 44
Other transport	14.9	0.0	57.1, 71.4	42.9, 64.3
Distribution	0.7	0.0	71.9, 87.5	100, 100
Communications	0.6	1.8	75.0, 78.1	78.3, 78.3
Banking	0.0	0.0	42.7, 42.7	29.2, 33.3
Insurance	0.0	0.0	57.5, 57.5	40.0, 50.0
Professional and business	17.7	21.0	58.8, 62.5	57.5, 62.5
Personal, recreational	4.4	2.5	47.6, 50.9	91.5, 91.5
Public services	*	*	32.5, 36.7	19.2, 31.7

Source: Combines parts of Tables 3-3 and 3-5 from Egger et al. (2014).

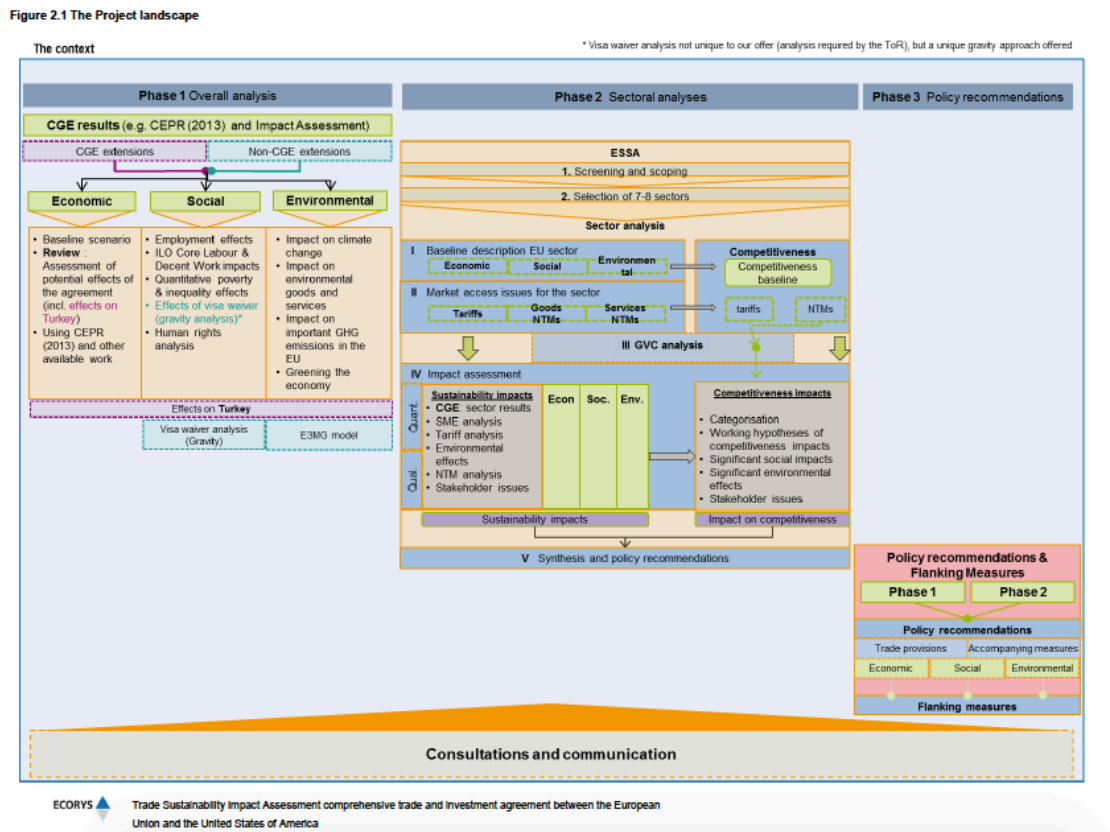
1. Egger, P., Francois, J., Manchin M., Nelson, F. (2014). *Non-Tariff Barriers, Integration, and the Trans-Atlantic Economy*. Rome; paper prepared for the 60th Economic Policy panel meeting.

Appendix 5: Study phases and reporting

Phase	Deliverable
Phase 0 Inception	Inception Report
Phase 1 Overall analysis	Interim Technical Report
Phase 2 Sectoral analyses	Final report
Phase 3 Policy recommendations and flanking measures	

ECORYS. (2016). *Trade SIA on the Transatlantic Trade and Investment Partnership (TTIP) between the EU and the USA*. Client: European Commission – DG trade.

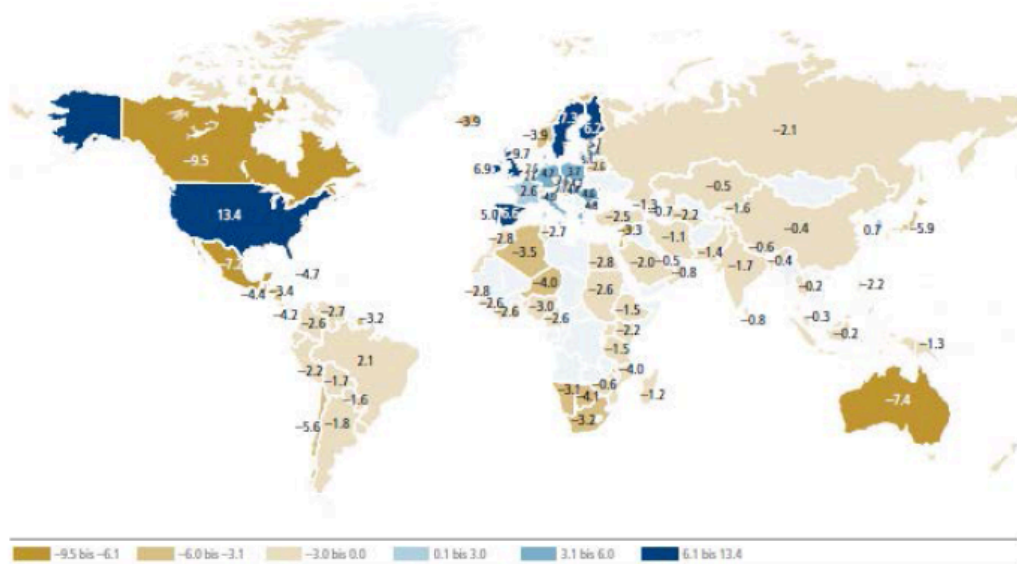
Appendix 6: The project landscape



ECORYS. (2016). *Trade SIA on the Transatlantic Trade and Investment Partnership (TTIP) between the EU and the USA*. Client: European Commission – DG trade.

Appendix 7: Changes in global real per capita income, with deep liberalisation

Figure 7: Changes in global real per capita income, deep liberalisation (Felbermayr et al., 2013)

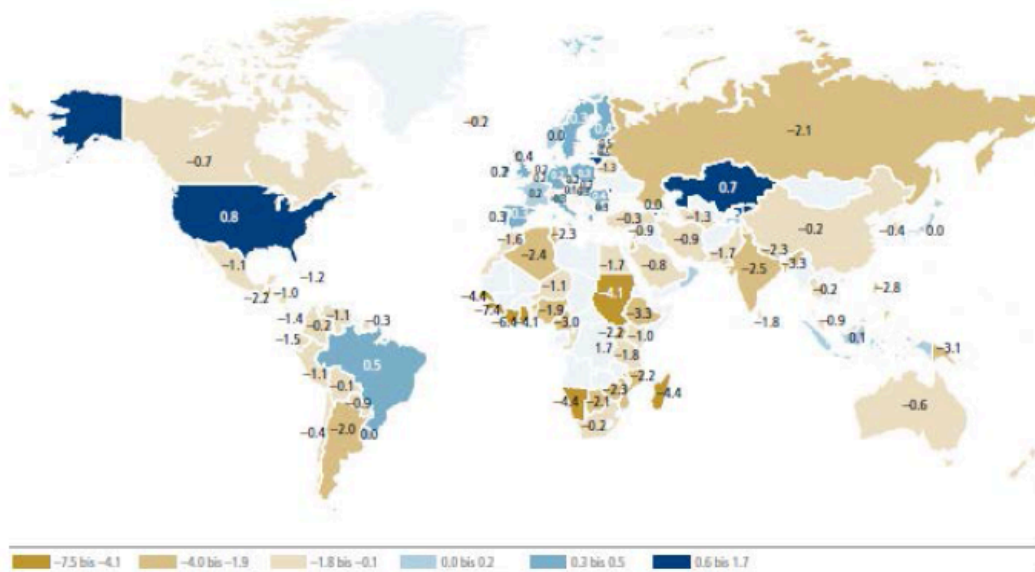


Ifo Institut – Felbermayr, G., et al. (2013). *Dimensions and Effects of a Transatlantic Free Trade Agreement Between the EU and the US*. Munich, German Federal Ministry of Economics and Technology.

Appendix 8: Changes in global real per capita income, tariff scenario

OF INTERNATIONAL AFFAIRS

Figure 6: Changes in global real per capita income, tariff scenario (Felbermayr et al., 2013)



Ifo Institut – Felbermayr, G., et al. (2013). *Dimensions and Effects of a Transatlantic Free Trade Agreement Between the EU and the US*. Munich, German Federal Ministry of Economics and Technology.

Appendix 9: Mrs. Pinar Ersen Rousk. The chief commercial counsellor of the permanent delegation of Turkey to the EU

Due to confidentiality of the interview, we couldn't write anything during the interview. And in reality, she never really answers any of my questions. That is the main reason why we didn't really use this interview during our argumentation.

Open interview

1. What are the expected impacts of TTIP on the Turkish economy?
2. What have Turkey already done, diplomatically, to join the TTIP negotiations?
3. Are you planning to renegotiate the CU with the EU?
4. Due to the CU rules, Is Turkey going to negotiate with the US to start a new FTA agreement with them?
5. Is Turkey planning to work more closely with other economies in order to counter the TTIP consequences?
6. Is the Turkish government ready to join the TTIP after the negotiations, even if they have nothing to say about the new regulations?

Appendix 10: Interview guide with Ms. Renita Bhaskar. A member of Trade Affairs and Coordination for bilateral trade relations with the United States at the Directorate General for Trade of the European Commission.

Confidential phone interview. I just wrote the information I could use in the master's thesis.

Open interview

1. At the beginning of the negotiations in 2013, what which were the reason not to include Turkey
2. Is the Commission keeping Turkey updated about the status of TTIP negotiation?
3. Based on the idea that Turkey will not join TTIP before the end of the negotiations, what will be the options for Turkey to join TTIP after?
4. Due to CU between Turkey and the EU, Turkey will be forced to open his market to the US good and services but should negotiate a new FTA with the US if they want to have the same. Is it correct