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Global partnership quests: new contentious dynamics in trade and prospects for Turkey in an age of TPP and TTIP

by Bozkurt Aran

The brief looks at how the necessity to maintain and develop the current trading system has led to new quests, namely the *Transpacific Partnership* (TPP); and *Trans-Atlantic Trade and Investment Partnership* (TTIP). Both of the initiatives are complementary and should be treated as integral parts of a coherent international strategy, spearheaded by the United States. Believing that as one of the emerging economies, the manner in which Turkey positions herself in the new era is crucial, the brief asks the following crucial questions: Is Turkey prepared to engage in a battle to be integrated in the quests for new partnerships initiatives by making the hard policy decisions required for the wide-ranging transformation? Or, will she be content with her newly acquired emerging country status? The answers to these questions will likely determine Turkey's place in the emerging trade regime whose parameters will be set by the TPP and TTIP.

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The perpetual quest to liberalize the multilateral trading system through the Breton Woods agencies of the post-Second World War, dedicated to monitoring and streamlining global trade, has stopped yielding results as of the last decade. The unending negotiations at the World Trade Organization (WTO) and particularly the ones regarding the completion of the Doha Development Agenda (DDA) launched in 2001 have recently been depicted to be a "futile" exercise by many. Major stakeholders in global trade have waited for nearly 18 years since the conclusion of the Uruguay Round for a substantive liberalization process to be completed. Hence the necessity to maintain and develop the current trading system has become more vital than ever. The synergy between the United States and the European Union has not been sufficient to bring about the new rules necessary to address and liberalize the complexities inherent in today's trade environment. The most significant new challenge is the rise of "emerging economies" as the new actors in the global trade arena.

The report of the U.S. National Intelligence Council, titled "Global Trends 2030," highlights this phenomenon: "Asia will have surpassed North America and Europe combined in terms of global power, based upon GDP, population size, military spending, and technological investment… In a tectonic shift, the health of the global economy increasingly will be linked to how well the developing world does – more so than the traditional West." The report further states that "The empowerment of individuals and diffusion of power among states to informal networks will have a dramatic impact, largely reversing the historic rise of the West since 1750."[1]

In a similar development, according to UNCTAD, global foreign direct investment (FDI) fell by 18 per cent to 1.35 trillion US Dollars in 2012 while the developing countries took the lead in FDI inflows. "In 2012 - for the first time developing countries absorbed more FDI than developed countries, accounting for 52 per cent of global flows."[2] The IMF's report on World Economic Outlook April 2013 states that the "global economic prospects have improved again but the road to recovery in the advanced economies will remain bumpy." What was until now a two-speed recovery, strong in emerging market and developing economies but weaker in advanced economies, is becoming a three-speed recovery.

Emerging markets and developing economies still show strong performance, but in advanced economies there appears to be a growing bifurcation, between the United States on one hand and the Euro area on the other.[3] According to the OECD's estimates, the Euro zone will shrink by 0.6% this year, thus widening Europe's gap with faster-growing economies such as the US and Japan.[4] The Paris-based organization further notes that "prolonged weakness in Europe could damage the global economy." According to the WTO, "the volume of world merchandise trade registered an increase of just 2% in 2012. Shipments from developed countries grew more slowly than the world average at 1.0%, while exports of developing economies grew faster at 3.3%. On the import side, developed economies dropped 0.1% last year, while developing economies grew at a 4.6% pace."[5]

Therefore, it has become apparent that the financial crisis of 2008 has accelerated the diffusion of power among countries and the overriding trends inducing change has gained momentum. Since the industrial revolution, the current share of developing economies in the global economic pie is at an all time high. While the affluence of the developed world remains a reality, crucially the gap between advanced and developing countries is narrowing. In other words, the "transatlantic markets are shifting from a position of preeminence to one of predominance – still considerable, but less overwhelming than in the past."[6]

Global trading markets have the built-in quality to foretell how the balance of power among major stakeholders will manifest itself in the near future. In other words, global trade precedes other spheres of international relations, giving clues on the upcoming balance of power among nations. There are signs that a shift has begun to emerge more rapidly than expected, with developing countries and especially emerging economies being on the rise. According to the above mentioned report titled Global Trends 2030, "in addition to China, India, and Brazil, regional players such as Colombia, Indonesia, Nigeria, South Africa, and Turkey will become especially important to the global economy."[7]

Therefore, all indications suggest that it is safe to assume that the impact of the U.S. and other developed economies on the multilateral system of the global trade is waning. However, today's most pressing question is as follows: Are the advanced economies prepared to roll over and let the gloomy forecast take its toll at this juncture? The short answer is: probably not!

As one of the emerging economies, the manner in which Turkey positions herself in the new era is crucial. Is Turkey prepared to engage in an uphill battle to be integrated in the quests for new partnerships initiatives by making the hard policy decisions required for the wide-ranging transformation? Or, will she be content with her newly acquired emerging country status? The answers to these questions will likely determine Turkey's place in the emerging trade regime whose parameters will be set by two parallel yet complementary initiatives.

New Initiatives: TPP AND TTIP

In the aftermath of the 2008 global financial crisis, the developed countries spearheaded by the U.S. have swiftly started to undertake two major initiatives to counter the weight of the emerging East: the *Transpacific Partnership* (TPP); and the recently announced *Trans-Atlantic Trade and Investment Partnership* (TTIP). Both of the initiatives are complementary and should be treated as integral parts of a coherent international strategy.

For its part, the TPP will have ramifications far beyond the Pacific region. The TPP is labeled as a regional trade partnership negotiated among major stakeholders such as the United States, Canada, Mexico, Australia, New Zealand, Singapore, Vietnam, Malaysia, Brunei, Peru and Chile. Recently, Japan has been accepted after some effort in the negotiating group on the caveat that she will mainly go along with the understanding reached so far in the course of negotiations. With the inclusion of Japan, the nature of the deal now extends beyond an ordinary regional trade agreement. TPP has now acquired potential for making serious dents in the multilateral trading system. The gross domestic product (GDP) of 12 TPP countries is US$27.5 tr., or 37.4 % of global output, with total exports of US$5.4 tr. In fact, the US is the single most important member country, commanding nearly 22 percent of global GDP.

In little more than the past two years, the TPP initiative undertaken by the U.S. has made substantial progress. Having completed 18 rounds of negotiations, the TPP's chances of being finalized by the end of the year look realistic. It appears that the technical work carried out by negotiators has reached its boundaries and the remaining difficulties on some sensitive

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issues are expected to be sorted out at the political level during the Asia Pacific Economic Cooperation (APEC) ministerial meeting scheduled to take place during the second half of 2013.

Consequently, many rounds conducted so far have brought the negotiations to an advanced stage. The new U.S. Trade Representative (USTR) and President Barack Obama are in direct contact with their counterparts to chart the course for concluding the deal this year. The political will to complete the agreement in time is considered a shared goal of all of the stakeholders. The negotiating process so far has covered major areas such as services, government procurement, sanitary and phytosanitary standards (SPS), trade remedies, labor and dispute settlement issues. Though conducted intensively, not much information regarding the particulars of the negotiations is made available to the public. In resolving market access issues however, sensitive areas such as agriculture appear to be rather thorny. In addition, difficult issues such as intellectual property rights, the environment, and state owned enterprises will also be on the agenda of the ministers.

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The progress achieved on the TPP negotiations might have stimulated the *Trans-Atlantic Trade and Investment Partnership (TTIP)* agenda as well. Interestingly, it has remained on the agenda of many former U.S. administrations. On this occasion, however, both the U.S. and the E.U. have expressed their intentions to launch negotiations quickly and to stimulate their stagnant economies, which have been suffering since the 2008 global financial crisis. The Euro zone is expected to contract slightly this year whereas the U.S. is set to grow by 2 percent.[8]

The fact sheet circulated by the White House right after the meeting of President Obama with European Commission President Barroso on June 17, 2013 clearly identifies the priority areas of the two parties. It highlighted the strengthening of investments, eliminating all tariffs on trade, tackling costly "behind the border" non-tariff barriers with a special emphasis on agricultural goods, improving market access in trade in services and reducing differences in regulations and standards.[9] The references to develop rules and new modes of cooperation of global concern including IPR and state-owned enterprise are also revealing.

In the same vein, the European Commission in a memo summarized the main elements in three categories.[10] First, a market access section includes tariffs, rules of origin, dialogue on anti-dumping and anti-subsidy measures, services, investment and public procurement. Second, regulatory issues are enumerated as "behind-the-border" issues (safety and environmental standards, SPS measures, convergence in financial services) and it is emphasized that the highest potential economic benefit is expected in this area. Last, due to the size and impact of the agreement, an anticipated contribution will be in the strengthening of the multilateral trading system.

Together, the U.S. and E.U. account for 47 percent of the world GDP and over 30 percent of global trade flows. Two-way FDI amounts to roughly US$3.7 tr. The mutual FDI in both entities dwarfs trade and investments, forming the backbone of the transatlantic economy. Together, they account for 57 percent of the inward stock of FDI and a whopping 71 percent of outward stock of FDI.[11] Similarly, the U.S. and Europe are the two leading service economies in the world. Europe accounted for 38.4 percent of US services exports and for a 41 percent total of U.S. services imports. U.S. services exports to the E.U. amount to US$225 billion.[12]

The depth of the partnership also brings to the forefront the difficulties the parties will encounter during the course of negotiations. The TTIP is expected to go beyond merchandise trade and take up sensitive issues such as agriculture and services. On the other hand, domestic regulations dealing with investments, standards, maritime restrictions, data flows across the borders, status of private-state investments, restrictive implementations of work-visa systems, and audio visual services of the parties will have to be brought to a greater level of alignment. Negotiations related to bringing more coherence to agriculture trade will be challenging due to differing perspectives between the parties regarding genetically modified products. In particular, European consumers have demonstrated significant concerns regarding GM foods.

What to expect?

The TPP, even though claimed to be at the last stages of negotiations, has not been concluded yet. The negotiations on the substance of the TTIP have not started and the ways the issues will be tackled by parties during the actual process have not been revealed. Hence the possible counter action of the third parties to these two major undertakings cannot be gauged precisely at this time. Nevertheless, it is safe to assume that both the TPP and TTIP will introduce new contentious issues to the latent multilateral trading system.

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A byproduct of these two initiatives could be the surfacing of a legitimate apprehension among non-participant countries that these mega undertakings might cause adverse effects to the existing trading system in the long run. At the same time, it carries another risk for the system: the rest of the developing and emerging countries could perceive the process as a means to pressure them into implementing "new trade rules" molded in their absence.

The most controversial feature of both initiatives is their capacity to forge new rules that could be applied universally, without seeking the involvement or consent of the other stakeholders. In addition to developing a comprehensive "new rule book," a substantial upgrading of existing rules is expected as well. As some of the issues have never been addressed in a comprehensive manner during the WTO Doha Development Agenda negotiations, the process could easily turn into a rule making or rule upgrading exercise for the multilateral trading system, mainly due to the size of the participating countries.

In other words, the major gain for the participants is expected to be in the "rule-making" capacity of the deal. The elimination of bureaucratic duplication, greater regulatory alignment on trade facilitation, competition policy, and labor and environment issues are to be settled among a group of developed countries representing roughly 60 percent of the world GDP and 45 percent of world trade. It will therefore have a decisive impact on the multilateral system.

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Neither the TPP nor the TTIP should be regarded as conventional free trade agreements (FTA) where the focus would be to eliminate or lower the existing tariffs particularly on industrial goods. In fact, around 70 percent of the tariff lines in the U.S. and E.U. on industrial products are at zero level. It appears that the elimination or substantial reduction on the remaining lines and dealing with the sensitive sectors will be the least difficult issue. Both of the new initiatives go beyond tariff reduction and cover complex areas such as agriculture and services, as well as rule making. The market access negotiations are expected to be arduous and the reconciliation of the interests (particularly among the 27 countries of the E.U.) will be extremely demanding and time consuming. The ambitious objectives and conflicting sensitivities, especially on agriculture and services as well as on IPRs and cultural issues, should be considered with special attention.

Meanwhile, the recent allegations that the U.S. government spied on European diplomats created ripples in European capitals, especially since personal data is regarded as a highly sensitive issue by the European public. France's government said it wanted to delay the start of the U.S.-E.U. trade talks whereas a German official suggested that citizens there stop using American internet companies if they are concerned about their privacy. However, prudence eventually prevailed and the process has since been initiated as originally planned. The initial round of negotiations took place in July 2013.

Overall, these mega negotiations are the signs for the start of a new era in today's global trade environment. The challenge to mold a liberalization process by the monopoly of the advanced countries could be immensely intriguing. The possible reactions of third parties to these initiatives could differ depending mostly on the degree of discomfort they will be exposed to. There is another strategic aspect of this new grouping: containing China seems to be one of the vested interests voiced frequently in the international arena. Of course, the perception of China *vis-à-vis* these initiatives will mostly determine the magnitude of the reaction of the international community. The implications at this stage are not yet clear.

Nowadays, in the Asia-Pacific area, we are witnessing a newly mandated proposal to foster a *Regional Comprehensive Economic Partnership* (RCEP) which includes ASEAN countries, Australia, Japan, Korea, New Zealand, India and China, excluding the US. It is too early to assess how the initiative will evolve over time.

In short, the TPP and the TTIP initiatives are expected to be "game changers" not only for the multilateral trading system but also for strategic international relations spanning the entire world. However, if pushed to the extremes, the new global trade dynamics have the potential of leading us to "trade wars," an outcome that should be avoided at all costs.

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Turkey and the recent developments in the global trade regime

As an integral part of the global economy, Turkey will be undoubtedly affected by the changes instigated by the two partnership quests. In other words, to be isolated from the processes of new-rule making will be more costly to Turkey in the medium to long term. A logical approach for Ankara will therefore be to explore the possibilities from both sides. Turkey should draw on its existing ties with the E.U., via its *Customs Union* and the U.S., owing to the *strategic partnership* with this global power.

Turkey, as a country aspiring to be a full member of the E.U. for half a century and enjoying a fully functioning Customs Union with the E.U., needs to develop a policy for getting included in these new partnerships. As it stands now, Turkey is in a challenging position as it has no influence on the formulation of the E.U. trade policy. The current situation reduces Turkey's role to an "E.U. satellite" regarding the E.U.'s FTA initiative.[13] This 'satellite' status is due to Turkey's obligation to adopt the E.U.'s free trade agreements without being a party to the decision-making and negotiation processes.

Therefore, the first step will be to preserve Turkish interests through better utilization of the established mechanisms between the E.U. and Turkey. Furthermore, the institutional mechanism under the Customs Union must be mandated to reflect Turkey's sensitivities and positions. Certain existing consultation mechanisms could be employed in a more extensive manner before decisive negotiations begin to take place. For this purpose, the *Customs Union Joint Committee* will be the primary mechanism that is mandated to immediately respond to Turkey's expectations. In the deliberations of the Joint Committee, it could be additionally mandated to include Turkey in the impact assessment analysis regarding the negotiation process. This potential enhancement of existing consultative mechanisms should be tapped immediately.

Yet another possible and more effective arrangement is to include a representative from Turkey to the E.U.'s *Trade Policy Committee* on an "ad hoc" basis at the special meetings related to TTIP. Though the Committee's decisions are non-binding, a deliberate decision to include Turkey will be considered a manifestation of commitment from the E.U. This is likely to provide a tremendous boost to the existing level of the relations.

It is worth recalling that the mega partnership initiatives appeared at a point in time where the sensitivities between Turkey and E.U. have swelled, and relations are far from their best state. However, both sides have reasons to develop and intensify the level of the existing relationship. In the absence of an effective coordination mechanism, even the sustainability of the Customs Union could be jeopardized[14] due to growing criticism from political and business circles.

Additionally, some alternative modes of Turkey's inclusion in the negotiations have been proposed. One perspective is that the best way forward is to coordinate effectively with the E.U. before negotiations commence, and then the Union will carry out the negotiations with Turkey's interests in mind. Others believe Turkey should initiate parallel negotiations with the sides to create a tripartite trade negotiation process. However, even a cursory glance at these options does not seem to be practical as two major stakeholders have not shown enthusiasm to further complicate the already complex negotiation process by taking Turkey onboard at this very early stage. Obviously the difficulties to be surmounted in both approaches are immense. In fact, some of the indications leaked to the media from the E.U. side are not very promising.

The American approach is somewhat more encouraging. During Prime Minister Erdogan's recent visit to Washington, the decision to set up a committee on this issue was agreed upon with President Obama. Despite the expression of this high level interest, premature optimism would be counterproductive. In the U.S., trade policy decisions go through a complex domestic process where several agencies such as the Department of Commerce and the U.S. Trade Representative Office take part. More importantly, the Congress has the final political say to start and finalize any trade arrangement with a third country. This process is time-consuming and costly. Besides state-to-state relations, the involvement of business is essential to lobby for the initiative. Intensive and steady interaction between the U.S. and Turkish business circles is crucial. The Turkish Union of Chambers of Commerce and Commodity Exchange (TOBB), Turkish Association of Businessmen and Industrialist (TÜSİAD), Turkish Exporters' Association (TIM), Turkish American Business Association (TABA) and Turkish-American Business Council and others should take the lead to lobby with their American counterparts. In addition, the services of professional lobbying firms could also be obtained for this purpose.

The American business community also has motivations to support

Turkey's quest. Turkey's increasing influence as an emerging economy and its strong links with neighboring countries in its region will motivate the American business community to work towards keeping Turkey in the ambit of its strategic partnership. Simply put, the idea will be to integrate Turkey into the TTIP initiative as a part of an overall U.S. trade strategy.

Finally, the process imposes several challenges on Turkey. The so-called 'new generation of trade agreements' of today are not confined to traditional industrial goods, but involve diverse issues such as agriculture, trade in services, technical regulations, intellectual property rights, investment policy and so on. It should therefore be kept in mind that the transformation required to comply with the mega partnership agreements that heavily embodies these new elements will be challenging for the Turkish economy. Turkey should tackle these sensitive issues in a comprehensive manner and devise policies to address the challenges emanating from the "tectonic shifts" happening in the contemporary world. In other words, for the Turkish economy to surmount the challenges inherent in the existing multilateral trading system, a new transformation is required.

Here, it is worth recalling a similar process of adjustment Turkey has gone through. The Customs Union with the EU covering mainly industrial products has been an anchor for the Turkish industry that provided a chance for it to prove its resilience and it also furnished the industry with a highly competitive edge. For example, during the formation of the Customs Union with the E.U., the car industry was the most resistant to further liberalization. Time has proved the dynamics of the Customs Union was most beneficial to the Turkish car industry which increased its export capacity from less than US$1 billion to over US$15 billion, making it the flagship of Turkey's exports. This transformation was manifested due to the political will of the governments combined with the adaptive capacity of the Turkish private sector.

In agriculture and services, the hurdles lying ahead are evident yet surmountable. The segments of society which earn their livelihood from farming comprise 24 percent of the population. Many agricultural products are protected with high tariffs. Turkey is also in the process of aligning its policy with the E.U.'s highly-debated Common Agricultural Policy. On the other hand, liberalization of trade in services requires an extensive domestic regulation which is not yet complete in Turkey. However, the TTIP could be the new anchor for the transformation of Turkish agriculture and services sectors and other areas as was the case with industrial policy when the Customs Union was established with the EU. An early adaptation to the "new rules" in global trade will also induce growth and set Turkey at a new stratum of development.

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