

Now Is the Time for a U.S.-Turkey Free Trade Agreement

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Brief Analysis

Washington, Brussels, and Ankara could reap numerous economic and strategic benefits from a bilateral U.S.-Turkey FTA, but they will need to act quickly to ensure that their efforts mesh with the U.S.-EU trade talks already in progress.

On July 12, the United States and the European Union concluded their first round of talks regarding the Transatlantic Trade and Investment Partnership (TTIP), with the eventual goal of concluding a free trade agreement. If successful, the negotiations would create the world's largest free trade area. The outcome of the talks will also have a significant impact on Turkey's trade ties with America and Europe -- although Ankara is not yet an EU member, it has maintained a customs union with Brussels for nearly two decades. Accordingly, the TTIP negotiations raise the question of whether to seek a free trade agreement between Turkey and the United States (TURUS FTA) in order to complement the Turkish-EU-U.S. trade relationship. Such an agreement would be a win-win-win situation for Washington, Ankara, and Brussels; in fact, a framework for this sort of triangular FTA relationship already exists between the United States, the EU, and the Republic of Korea.

BACKGROUND

Calls for a TURUS FTA are nothing new. Last year, a Council on Foreign Relations task force chaired by former secretary of state Madeleine Albright and former national security advisor Stephen Hadley encouraged the pursuit of such an agreement or, failing that, a partnership emphasizing "market access, regulatory compatibility, business facilitation, assistance for small and medium-sized enterprises, and promotion of trade in cutting-edge technologies." More recently, the Obama administration has shown interest in an agreement with Ankara that parallels the TTIP negotiations with Brussels. In April, Secretary of State John Kerry specifically hinted at this "very real" possibility during an embassy staff meeting in Brussels. Then, during a May summit in Washington, President Obama and Turkish Prime Minister Recep Tayyip Erdogan reached a consensus on working toward an FTA, a development announced by Vice President Biden.

Washington may have geopolitical reasons for showing interest in a trade agreement now, such as rewarding Ankara for cooperating on Iran sanctions, supporting the Syrian opposition, and seeking rapprochement with Israel. Turkey is a big player in the region, and its role is only growing, so Washington and the EU have a clear interest in keeping Ankara close.

Even so, Turkey's economic maturity is the main driver behind calls for an FTA. The figures speak for themselves. According to the International Monetary Fund, Turkey had a gross domestic product of \$794 billion as of last year, making it the seventeenth-largest economy in the world. Similarly, per capita income rose to approximately \$10,600, about 50 percent higher than a decade ago when adjusted for inflation. Meanwhile, the longstanding U.S.

trade surplus with Turkey reached \$6.2 billion last year and is projected to continue this year.

INCENTIVES FOR AN FTA

Ankara, Washington, and Brussels have several compelling reasons for encouraging a TURUS FTA. First, of course, is the economic factor. The United States and Europe are still in the process of emerging from the recession, and Turkey's domestic economic growth is slowing despite the positive indicators cited above. For example, its GDP growth rate fell from previous highs (9.2 percent in 2010, 8.5 percent in 2011) to a much more modest 3 percent in 2012. A TURUS FTA would open new markets and spur direct and indirect growth in Turkey, the United States, and the EU. In particular, the requisite reduction of trade barriers would make it easier and cheaper for Turkish and American companies to export their products and services, thereby increasing trade and investment. Although a bilateral investment treaty (1990) and Trade and Investment Framework Agreement (1999) set the basic terms for the flow of foreign direct investment between the two countries, changing times demand that the relationship be upgraded. The solution is a comprehensive, high-standard FTA, which would take trade and economic relations to a new level.

Second, there are strategic considerations. Turkey is a NATO ally that supports Western pressure on the Iranian and Syrian regimes; a TURUS FTA would likely strengthen Ankara's role on both issues, which is in Washington and Europe's interest. A trade agreement would also add a new dimension to U.S.-Turkish relations, moving them beyond a political-military alliance to something deeper. Additionally, America is projected to become an exporter of liquefied natural gas, for which Turkey is massively reliant on imports. The U.S. Natural Gas Act allows all countries that have an FTA with Washington to bypass most of the complicated impediments to importing American gas -- a factor that could prove especially reassuring to Ankara at a time when Washington is pressing it to reduce reliance on Iranian gas.

A TURUS FTA might also promote domestic reform in Turkey. Although not as comprehensive as the EU's membership requirements, U.S. FTAs typically address human rights, labor rights, and environmental concerns. In fact, one of the stated goals of such agreements is to enhance rule of law in partner countries. For example, Congress hesitated to approve the recent U.S.-Colombia FTA until the Colombian government addressed human and labor rights issues and made assurances that are still being closely monitored. Turkey can expect similar treatment, which could have positive consequences for issues highlighted during the country's recent mass demonstrations, including the environment, women's rights, due process, and press freedom.

FORGING AN AGREEMENT

The first step toward a TURUS FTA has already been taken. During Erdogan's Washington visit in May, the two countries announced that they would establish a high-level committee led by Turkey's Ministry of Economy and the Office of the U.S. Trade Representative (USTR), "with the ultimate objective of continuing to deepen our economic relations and liberalize trade." The Obama administration should spearhead this effort, utilizing the USTR while also encouraging participation at other levels of government.

Washington and Ankara already have a template for FTA talks: their recent trade agreements with Korea. Seoul's separate FTAs with Turkey (which went into effect this May), the United States (March 2012), and the EU (July 2011) are considered "twenty-first-century agreements" that include the most cutting-edge issues and provisions, thus providing a sound framework and common denominator that can be used as precedent for U.S.-Turkish negotiations.

The Turkish government and business community also understand that if TTIP succeeds and Ankara does not have an FTA with Washington by that point, Turkey's overlapping exports to the United States and EU will suffer. Ankara is unlikely to join TTIP itself, since that would require the consent of every EU member state -- a very tall order given

that Turkey's recent demonstrations have heightened tensions with Germany and other key countries. Accordingly, Brussels should encourage a comprehensive TURUS FTA.

LIMITED WINDOW OF OPPORTUNITY

The wheels have already begun turning on both sides of the Atlantic, so now is the time to encourage further action with the aim of opening negotiations as soon as possible. All parties stand to gain from a TURUS FTA, which would generate economic rewards, foster closer ties between important allies, contribute to regional peace and security, and provide an aegis for domestic reform in Turkey. Washington, Ankara, and Brussels should therefore give their full support to the newly formed high-level committee. Perhaps most important, they should keep in mind that the window of opportunity will close if the United States and Turkey do not begin FTA talks before the EU-U.S. negotiations are complete. The TTIP negotiations were formally launched last month, so the clock is ticking.

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