The 50th Anniversary of the Ankara Agreement: Economic Achievements of the EU-Turkey Relationship to Date and Future Perspectives

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Introduction

On 12 September 1963 Turkey and the European Economic Community (EEC) signed the Ankara Agreement setting out their ambitious aim of closer economic and political cooperation. The initial declared aim of this association agreement was to integrate Turkey into the internal European market. From the outset signatory countries considered the Ankara Agreement as an intermediate step on Turkey's pathway to an emancipated and full membership of the European community of states. Retrospectively, the Ankara Agreement represents the institutional cornerstone for bilateral economic relations. After several contractual extensions in the last phase of the association agreement, Turkey became a member of the European Customs Union in 1996. Its membership resulted in significant structural consequences for Turkey's international trade pattern and trade policy.

The agreement covers all industrial and processed agricultural goods that are traded between the EU and Turkey. Coal, steel, agricultural products, services and public procurement are excluded from the agreement. In addition to the elimination of tariffs and quantitative import restrictions, the agreement defines rules for Turkey's foreign trade policy towards third counties. Accordingly, Turkey is obliged to tax imported goods from third countries at the general external EU trade tariff rates. In addition, the Turkish Republic has to accept any existing and future free trade agreements (FTA) between the EU and third countries.

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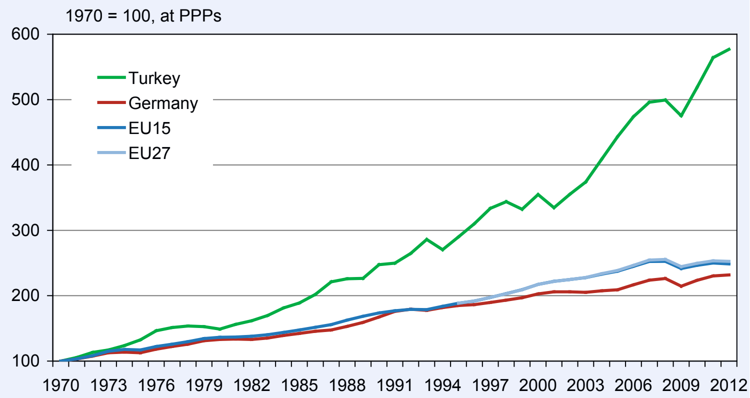
Economic developments between the EU and Turkey

The economic stimulus resulting from the Ankara Agreement has been very strong, particularly from Turkey's perspective. More specifically, customs union membership has dramatically favoured the country's economic transition from an agricultural economy to an industry and service oriented one that is increasingly export oriented. Over the last 50 years Turkey has experienced a significantly higher average economic growth rate than all EU member states. Turkish GDP, for example, has increased six fold since 1970. Over the last 10 years GDP grew by 5 percent year on year on average, while the EU's GDP increased by an average of 1.2 percent (Figure 1).

Although the average per-capita income of all member states in the EU is 2.7 times higher than in Turkey, in the case of unchanged growth conditions between

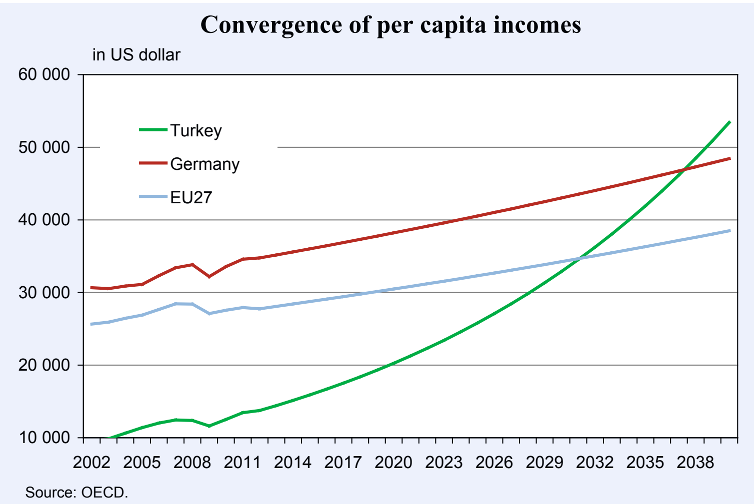
Figure 1

Evolution of gross domestic product in Turkey, Germany and in the European Union



Source: OECD.

Figure 2



the two regions, Turkish per-capita income is predicted to reach the average European level in the next two decades. Apart from the strong economic convergence observed, it is worth mentioning that Turkey's economy is significantly more volatile than that of the EU. Over the past five decades there have been repeated dramatic setbacks in growth, sometimes higher than 10 percentage points. The EU and Turkey are nevertheless experiencing a high degree of convergence in their economic performance, which is favoured by Turkey's strong growth on the one hand and by a stagnant European economy on the other (Figure 2).

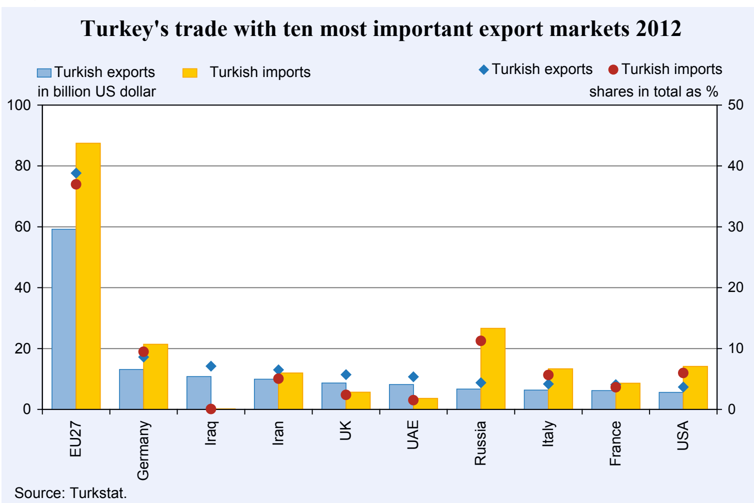
Its strong economic performance puts Turkey among the leading emerging economies. Alongside the BRIC countries (Brazil, Russia, India and China) it is today considered as one of the most economically dynamic countries in the world. Turkey is characterized by a young population with a rising level of professional qualification. Population growth is predicted to be stable in the years ahead, accompanied by steady growth in domestic consumption. Turkey's geographical proximity to the EU and its declared ambition to join the European political union, however, set it apart from the BRIC countries.

In fact, with Turkey the EU has an emerging economy right on her doorstep. Trade relations between the two regions are unsurprisingly very close as a result: in 2012 the EU exported goods worth 88 billion US dollars to Turkey. This volume corresponds to approximately 4.5 percent of total EU exports. Turkey therefore proved to be a more significant market for EU exports than Brazil, India or South Korea, to which European countries exported goods worth around 59 billion US dollars respectively. Currently Turkey represents the fifth most important export market for EU sales, after the United States, China, Switzerland and Russia.

From Turkey's perspective, the EU represents its largest trading partner. In 2012 the Turkish Republic exported goods worth 59 billion US dollars to EU countries, corresponding to 39 percent of Turkey's total exports. Germany was its leading trading partner with 13 billion US dollars of exports, representing a 9 percent share of Turkish EU sales. Germany therefore represents by far the most important market for Turkish exporters, as shown in Figure 3.

Among the EU28 countries and in addition to Germany, the British market has proven particularly attractive to Turkish exporters (5.7 percent of total exports). Together with Italy, these countries receive one fifth of Turkey's total exports. In general, the volume of trade between neighbouring countries turns out to be higher than that with other states. In the case of Turkey, this rule does not apply to Greece (1.5 per-

Figure 3



cent) and Cyprus (0.7 percent).2 This exception is due to the historical tensions between the countries.

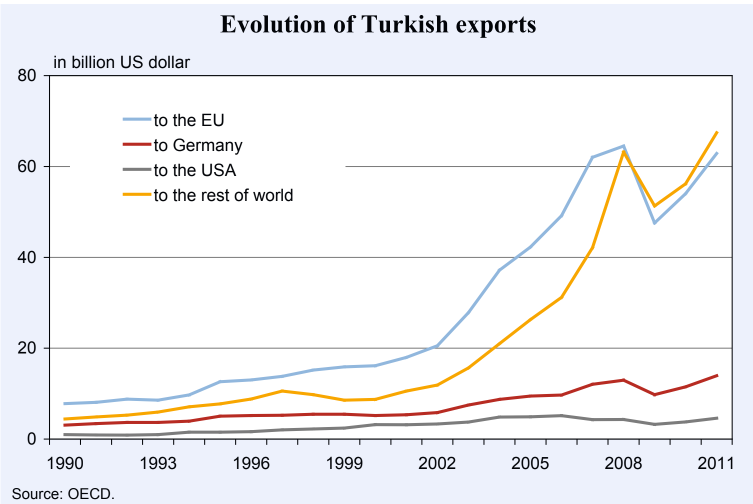
When Turkish exports to the EU are compared with those to Russia (4.4 percent), the United States (3.7 percent) and China (1.8 percent), the relative depth in the Turkish-European trade relationship becomes very clear. With the initiation of the Association Agreement, bilateral trade between the EU and Turkey settled at a stable level. In the years that followed Turkey's membership of the European Customs Union, it started to increase significantly. After Turkey's successfully emergence from its last economic recession between 1999 and 2001, the importance of the EU as an export market has increased steadily.

The share of Turkish exports to the EU only declined slightly with the outbreak of the recent global crises in 2008/09, in the course of which world trade as a whole suffered and aggregate demand from most of the EU countries plummeted. This trade diversion away from Europe was mainly redirected towards the Asian markets, while the amount of Turkish exports to Germany continued to rise. Exports to the United States, by contrast, have been stagnating for years (see Figure 4).

In the case of imported goods, the trend in Turkey was similar. In 2011, 38 percent of merchandise imports to Turkey worth a total of 91 billion US dollars came from the EU; and a quarter of those imports came from Germany. In recent years, Germany has represented the second most important source market for Turkey, accounting for a share of around 9 percent of its total imports. Turkey's imports from Russia amount to 10 percent, from China to 9 percent, and from the United States to 7 percent.

[2] In 2005, in line with the eastern enlargement process, the EU and Turkey signed the so-called Ankara-Protocol. It represents an Additional Protocol to the Association Agreement of 1963, which formulates the rules of the Customs Union between Turkey and the new EU member countries. In this contract Turkey has excluded Cyprus, as the Republic of Cyprus would otherwise be legally recognized as a state.

Figure 4



Tripling Turkish exports by 2023

Like almost all emerging economies, a key feature in Turkish trade data is the presence of long lasting external trade deficits (imports > exports). As long as higher imports are mainly due to necessary investments, and suggest higher value creation in the future, this development is generally in line with Turkey's stage of economic developments. Figure 3 illustrates that among the major trading partners, except in trade with Iraq, Britain and the United Arab Emirates, Turkey does not experience a bilateral trade surplus. In 2012, for example, the overall deficit amounted to 84 billion US dollars, which was equivalent to about 8 percent of Turkey's GDP. One third of the deficit is attributable to trade with the EU. In recent years, Germany has experienced an average annual trade deficit with Turkey amounting to around 9 billion US dollars in merchandised trade. However, in the service sector, Turkey has a trade surplus with Germany, which is mainly due to the tourism sector. Overall, Germany has mostly had an annual trade surplus with Turkey in recent years.

The Turkish government has launched political initiatives to reverse this development by initiating public support programs for local exporters to increase export flows to a level, for example, that exceeds imports. While the country exported goods worth 135 billion US dollars in 2011, Turkey's declared aim by 2023 – the republic's 100th anniversary – is to reach an export volume of 500 billion US dollars. For the years ahead this would imply an average annual export growth rate of around 11.5 percent.

German Turkish trade relationship

German exports to Turkey mainly consist of manufactured industry goods (see Figure 5). Components for the automotive industry

(30 percent) account for a large share of these exports. This pattern is similar to that of products from the machinery sector. Chemical products for the plastic and pharmaceutical industry follow with a share of 22 percent of total German exports. At 0.6 percent of total exports, agricultural products play a minor role in German sales to Turkey, as almost all trade is performed in the manufacturing industry (about 98 percent of German exports and 96 percent of imports). Turkish textiles still play an important role in Germany's imports: with 32.5 percent of Turkish exports represented by textiles, leather goods and shoes. A major share of textile exports (about 90 percent of the textile products) are final goods destined for final distribution that are not processed further. At the same time, the textile sector exhibits Germany's largest bilateral trade deficit with Turkey. In 2011 Germany imported goods in this category worth 4.2 billion US dollars more than it exported. The few remaining industries with a negative trade balance in Germany are the coke and refined petroleum industry, the food industry and agriculture and mining.

Table 1

Share of unfinished goods in total trade (four selected industries)

Industry	German exports to Turkey	Turkish exports to Germany
Motor vehicles	31.79%	58.48%
Mechanical products	32.61%	57.92%
Chemical products	81.63%	88.84%
Metal products	89.84%	86.48%
All industries	51.01%	41.31%

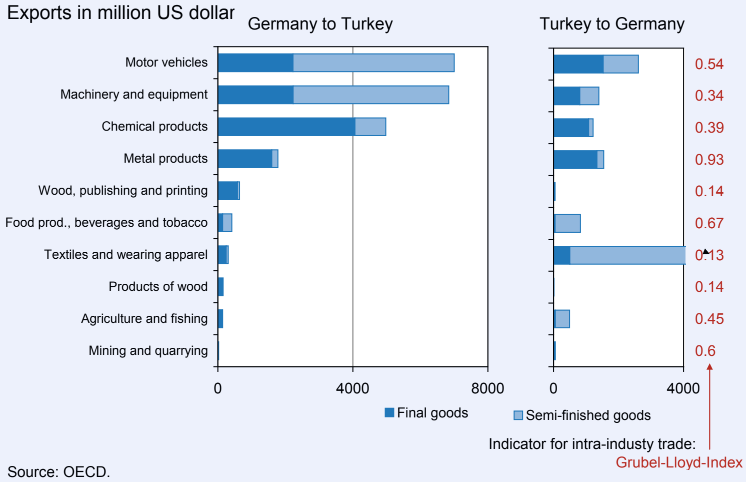
Source: OECD

Manufactured vehicles occupy second place in the ranking of Turkish exports and account for 19 percent of Germany's imports from Turkey. With a share of 58 percent, this sector comprises an above-average export share of semi-finished goods. A significant proportion of Turkey's exports consist of German motor vehicle parts and components that are shipped back to Germany for further processing. Turkish enterprises realize 11 percent of their exports to Germany in the metal industry, 10 percent in the machine building industry; while the production of semi-finished goods once again stands out as accounting for an above-average share of traded sales.

One way to quantify the extent of trade within the same industry (intra-industry trade) is offered by the Grubel-Lloyd (GL) index. This index can illustrate whether a trading partner is specialized in the underlying industry. For German-Turkish trade in the textile industry the GL-index in 2012 is 0.13, and hence very low. Thus, Germany imported more goods in this industry from Turkey than *vice versa*. A high GL-index, by contrast, points to more balanced trade between the two countries. Therefore, with a GL-index value of 0.93, the metal industry is characterised by intra-industry trade. Trade flows in such industries are therefore more balanced and neither Turkey nor Germany can claim a comparative advantage in the production of iron, steel and other metal products. Additionally, high GL-values suggest that those industries are predominantly characterized by intra-industry trade, especially if the illustrated high intermediate goods trade is taken into consideration. This finding particularly applies to the machinery, chemical and automotive components industries.

Figure 5

Bilateral exports of Turkey and Germany 2011



Source: OECD.

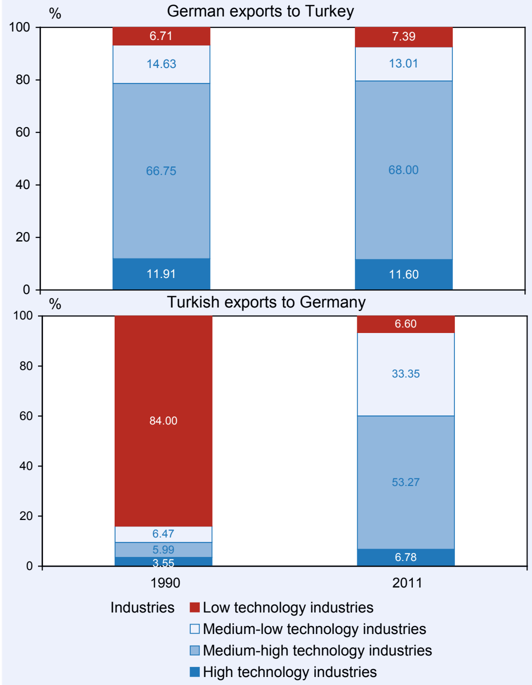
In other words, a substantial share of the former industries' exports stems from Turkish enterprises, which are deeply integrated into the cross-linked global value-chain creation of German companies. Cost-efficient intermediate goods are incorporated into final German products and ultimately sold on the world market. One indication for this cross-border production linkage can be inferred from the fact that the share of semi-finished products in technologically advanced industries is much higher in Turkish exports than in equivalent German goods. However, almost half of Germany's foreign trade sales resulted from semi-finished products exports across all industries. In Turkey this figure has increased steadily, reaching 41 percent in recent years. Ten years ago, by comparison, the share of intermediate exports was around 24 percent, and twenty years ago it stood at just 18 percent.

Increasing trade with more complex products

The Turkish manufacturing industry has experienced significant changes in its export structure, particularly in the wake of European Customs Union membership. Figure 6 illustrates the changes in import and export compositions in terms of technological complexity. Accordingly, German exports to Turkey have shown almost no change in their technological composition over the last twenty years. Three quarters of German exports are represented by technologically complex products like motor vehicles and electronic devices, which can partly be explained by the country's innovation activities and capital endowment. Turkey, on the other hand, experienced a strong change in its export portfolio with respect to its technological complexity. The share of more complex goods in exports has increased steadily in recent decades. In 1990, over 90 percent of Turkish exports were classified as goods with low or very low technological requirements. At that time 3.5 percent of these exports came from high-tech industries (compared to 11.9 percent of German exports), and 6 percent of all exports exhibited a high degree of technological complexity. About 65 percent of export sales were generated in the textile industry. Within 20 years, the Turkish manufacturing industry has succeeded in increasing its share of exports in the lower and medium range of technological complexity by a substantial amount. One of the drivers behind this development was the increasing inflow of foreign capital, which was invested in know-how and innovation-oriented projects in Turkey. As one result of this transformation process, 60 percent of Turkish exports now consist of more technology-intensive products (see Figure 6). In recent years, the share of textile products has fallen to at 32.5 percent, which is just half of the figure seen two decades ago. However, the fact that the textile industry is also increasingly dependent on innovative technologies needs to be taken into account.

Figure 6

Technology capacity of bilaterally traded goods between Turkey and Germany 1990 and 2011

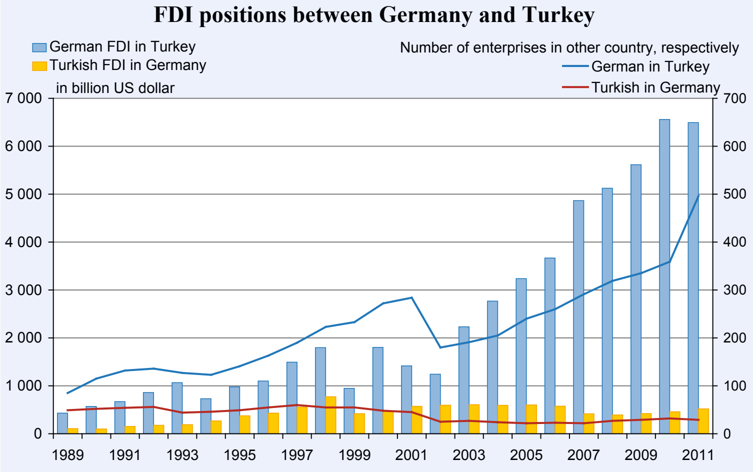


Source: OECD.

Major drivers of this transition process have been the automotive industry (today 18.4 percent of Turkey's exports), the metal processing industry (11 percent), and the engineering industry (10 percent). Turkey defined the aim of its trade policy as to maintain the present dynamics in its technological progress, which is reflected in exports with greater technological complexity. By 2023, the country aims to become the world's fifth largest machinery exporter by doubling the number of technology centers within the next ten years and increasing its spending on research and development from 1 percent to 3 percent of gross domestic product. Figure 6 illustrates the convergence between the German and Turkish export structure, which is also explained by the high degree of intra-industry trade between the two regions at the same time.

Accordingly, the economic integration of the Turkish manufacturing industry into the EU has not led to a specialization in specific industries in one region or the other, but has instead resulted in a strong adaption to European industry structure in Turkey. These adjustments in Turkish industries are reflected by increasing competition in the technology-intensive industries associated with high firm dynamics (firm entry and exit). As a result, Turkey has achieved a highly level of productivity growth over the past twenty years and is developing from a single-industry dominated export structure (dominated by the textile industry) towards an ever more diversified export nation. The increasing share of products with high technology requirements in the production process of exports, which usually results in higher domestic value added, has given Turkey's economic growth additional momentum.

Figure 7



Source: Deutsche Bundesbank.

Economic growth through foreign direct investment

The driving forces behind the dynamics outlined in Turkey's export structure are manifold and complex, but can generally be associated with three important developments, which have improved Turkey's export structure:

a) The inflow of capital goods from industrialized countries
b) The elimination of barriers to trade, particularly through the European Customs Union, and
c) The inflow of foreign direct investment (FDI).

Besides these macro-economic adjustments, multinational enterprises (MNEs) have a growing role to play in shaping Turkey's integration, particularly into the European market. In recent years the economic interdependence between Turkey and the EU, and Germany in particular, has intensified steadily, predominantly at the corporate level. In 1989 only 89 German companies were involved in a Turkish business with local representation (these figures refer to German affiliate companies with a minimum investment value of 3 million euros). In 1999, when the customs union came into force, the number of German firms in Turkey jumped to 233. After a sharp decline during the Turkish economic crises, in which around one third of German enterprises retreated from the Turkish market, there was a significant revival in FDI inflows starting in early 2000 and which is still on-going. By 2011 the number of German enterprises in Turkey had increased to 496 (see Figure 7), which can partly be explained by liberal investment laws in recent years. The investment volume by German companies in Turkey amounted to 6.5 billion euros by 2010. After a ten year upward trend, this value decreased slightly for the first time in 2011, due to financial uncertainties in the eurozone. Despite temporary economic stagnation, average turnover by German MNEs in 2011 is still at a very high level: it corresponds to 21.4 billion euros, which represents over three times the amount of invested foreign capital. Despite the current volatility in European economies, Turkey remains an attractive location and destination for direct investments from the EU, and particularly from Germany. On the other hand, it is still rare that Turkish companies acquire German enterprises, merge with them or start a new project in Germany. For years now the number of Turkish firms with a sizeable investment volume (over 3 million euros) in Germany has fluctuated at a low level (30 registered firms).

Looking at aggregate FDI in Turkey, a very dynamic pattern also emerges. The Turkish service sector in particular has attracted foreign investors' interest in recent years. In 2004, for the first time, more FDI flowed into the Turkish service than into the manufacturing sector. Over the past ten years foreign direct investment has grown by an average of 21 percent, and now accounts for over 58 percent of all foreign investment positions in Turkey. One quarter of all FDI flows into the financial, insurance and pension industry. Recently, equally high growth rates have been observed in the telecommunications and energy sectors, with above average growth of 30 percent per year. Interestingly, the agricultural sector has started attracting increasing volumes of FDI lately; with annual increases of up to 46 percent. This surge in foreign investment in the primary sector is mainly due to the fact that the prevailing production technologies are outdated and open up the possibility of substantial productivity gains. However, with a share of 2.2 per-

Table 2

FDI stock positions and average growth rates for the last 10 years in the ten most important industries

Industry	FDI stock 2011		Growth per year 2001–2011
	Million US dollars	%	
Tertiary sector	81,788	*67.11%*	26.46%
Financial intermediation	26,863	22.04%	26.28%
Post and telecommunication	23,284	19.11%	24.91%
Trade and repairs	11,528	9.46%	17.55%
Insurance	4,823	3.96%	44.20%*
Secondary sector	37,019	*30.38%*	13.67%
Electricity, gas and water	16,537	13.57%	20.71%
Food products, beverages, tobacco	8,405	6.9%	11.38%
Motor vehicles and parts	6,472	5.31%	10.61%
Machinery and equipment	5,087	4.17%	16.32%
Chemistry	4,677	3.84%	18.44%
Fabricated metal products	3,767	3.09%	13.98%
Primary sector	3,063	*2.51%*	40.12%

* Since 2004.

Source: Deutsche Bundesbank.

cent of total FDI, investment in the primary sector remains at a low level.

EU's new free trade agreements with negative externalities for Turkey

While cross-border trade and investment between the EU and Turkey developed very positively after their signature of the Ankara Agreement – and particularly after Turkey's inclusion in the customs union – the EU has recently initiated new economic policy strategies that may prove problematic for Turkey. In the wake of the latest financial crisis, the EU initiated a number of new free trade agreement negotiations with third countries, including Japan and the United States. One major reason for the increased trade liberalization activity of the European Union can be traced back to the fact that member countries' governments no longer have the financial leeway to implement large scale national stimulus programs in order to revive their stagnant economies. Since free trade agreements actually draw any direct costs for the public budget, but can lead to sizeable welfare gains by increasing international trade, the EU's euphoria for new trade agreements can be seen in this light. Political leaders believe that they can achieve significant economic growth with additional new jobs, both in Europe and in respective third countries. The largest planned new agreement within these policy initiatives is that between the EU and the United States, referred to as the Transatlantic Trade and Investment Partnership (TTIP). The agreement's announced aim is to not only to eliminate existing tariff barriers between these two economic entities – which together are responsible for nearly 50 percent of global output – but also to reduce so-called non-tariff measures (NTM) such as country-specific technical and sanitary regulations.

Most importantly, besides the elimination of trade restrictions, Turkey's membership of the customs union obliges the republic to adopt the EU common customs tariffs against third-country imports, as well as all existing and following preferential trade agreements of the European Union. *De facto,* this means that Turkey has to open its market to any country that signs a free trade agreement with the EU. Interestingly, the Ankara protocol does not envisage any compulsory participation of Turkey in free trade agreement negotiations between the EU and new third countries. The prevailing regulation implies that every time the EU concludes a free trade agreement with another party, Turkey has to negotiate a similar agreement with the same party separately. This point is clearly underlined in the Article 16 Association Council Decision No 1/95 (see Box 1).

Due to the legal framework mentioned above, Turkey automatically becomes a one-sided party of FTAs that are signed by the EU with third countries and has to open her market up to them. The opposite, however, is not the case, since Turkey is not a member country of the EU.

In this process the success of Turkey's subsequent bilateral negotiations with new EU free trade partners is

Box 1

Decision No 1/95 of the EC-Turkey Association Council of 22 December 1995 on implementing the final phase of the Customs Union:

With a view to harmonizing its commercial policy with that of the Community, Turkey shall align itself progressively with the preferential customs regime of the Community within five years as from the date of entry into force of this Decision. This alignment will concern both the autonomous regimes and preferential agreements with third countries. To this end, Turkey will take the necessary measures and negotiate agreements on a mutually advantageous basis with the countries concerned. The Association Council shall periodically review the progress made.

highly uncertain and completely independent of third parties' benefits from a free access to the European customs union, including Turkey. On the contrary, given the access granted for third countries into Turkey's market *via* the European customs union, the incentives for third parties to sign comprehensive free trade agreements with Turkey are considerably reduced, weakening the republic's bargaining position. As a result of this very special EU-Turkey bilateral trade agreement, the Republic of Turkey has pursued active trade diplomacy in recent years both to harmonize its commercial policy with the ever changing policies of the EU and to maintain its competitive advantage *vis à vis* the third countries that the EU has signed FTAs with.

In practice this means that each time the EU starts negotiations with one country, Turkey also proposes a bilateral agreement to the same state. In this context, Turkey has signed FTAs with Israel, EFTA (European Free Trade Association), Croatia, Macedonia, Bosnia-Herzegovina, Serbia, Montenegro, Palestine, Tunisia, Egypt, Syria etc. in line with the EU's agreement schedule. Besides these successful bilateral FTAs, there have also been countries that have created problems for Turkey by signing new trade accords after an agreement has been reached with the EU.

As a result of the delineated contractual duties that arise from the Ankara Agreement, Turkey finds itself in an asymmetric negotiation position with third countries, which tends to result in economically disadvantageous outcomes. In the case of TTIP, for instance, it seems very unlikely that Turkey will be able to negotiate the same trade barrier reductions in the United States as the EU will achieve for European exporters. The reason for this is obvious: since US companies will already have free access to Asia Minor after a successful TTIP independent of a US-Turkish free trade agreement; any concessions made by the United States in a separate free trade agreement with Turkey have to be seen as 'goodwill' behaviour.

In general terms, free trade agreements are always associated with negative economic effects in countries that are not part of the liberalization process. This phenomenon is well known and was described in Jacob Viner's seminal analysis of customs union effects in 1950.

In the case of TTIP, a broad range of studies predict that bilateral trade between the EU and the United States could increase on average by up to 80 percent after a comprehensive elimination of tariff and non-tariff barriers. Ostensibly, higher export growth in the EU should initially also benefit Turkish trade, as exports of unfinished products from Turkey are sold to the United States *via* European final goods exports. On the other hand, US companies will gain easier access to the European single market. Due to the resulting higher sales of US firms in the European Union, American firms will become more productive, which will lead to increased competition with Turkish companies present in the same market. The overlap of trade between the EU with both of these countries is large, particularly in the manufacturing industry. Turkish firms will be exposed to fiercer competition in the customs union as a result, but at the same time, due to their lack of equivalent free access to the US market, they will have no opportunity to increase cost-effectiveness by boosting their sales in the United States. Turkish companies are therefore predicted to experience a significant reduction in their relative productivity compared to US and EU companies. Turkish exporters will basically be forced to look for new sales markets.

With a concentration of Turkish exports to the EU of around 39 percent, such a trade diversion and the economic adjustments that it entails should not be underestimated. As one of Turkey's most important trading partners Germany, for example, would stand to increase its imports from the United States by around 93 percent after a successful comprehensive trade liberalization, which would boost American companies' productivity by a predicted 1.14 percent. Thus, over time US companies' exports should displace Turkish products in the EU. Related economic studies predict that after the signature of a successful TTIP, Turkey should experience a decline in its GDP amounting to 2.5 percent in the long run. In absolute terms, this decline corresponds to 20 billion US dollars.[3]

[3] Felbermayr, G., M. Larch, L. Flach, E. Yalcin and S. Benz (2013), *Dimensionen und Auswirkungen eines Freihandelsabkommens zwischen der EU und den USA*, ifo Forschungsberichte 62, Munich: Ifo Institute.

In addition, Turkish companies are confronted with a direct negative effect after the EU signs trade agreements with third parties. With each new trade agreement signed by the EU Turkish companies – particularly in the manufacturing industry – are faced with an increasing intensification of competition in their domestic market. Simultaneously, if the Turkish Republic fails to sign an equivalent agreement with the respective third countries in a timely manner, Turkey will experience an ever growing trade deficit, which is already on a very high level (see above).

In fact, most of Turkey's recent free trade agreements were not negotiated and motivated by regional economic integration efforts, but tend to represent a routine response to EU negotiations. One example of such a response is the recent free trade agreement with South Korea. Negotiations on bilateral trade liberalization between the EU and South Korea began in May 2007 and were successfully completed in 2011. Turkey, with an import volume of 6.3 billion US dollars from South Korea, but exports of goods worth just 0.5 billion US dollars, also started negotiations with the Republic of Korea in June 2008. An agreement between the two countries has been in force since 2013.

Therefore it is only a matter of time before Turkey will try to start comprehensive free trade agreement negotiations with Canada and Japan, as the EU has just set out a detailed free trade agreement framework with Canada. Negotiations with Japan are already advanced and bound to a very tight timeline.

At first sight from Turkey's perspective, the Ankara Association Agreement appears to be irrational in its current form because of the delineated asymmetry arising from new FTAs between the EU and other countries. However, the initial customs union agreement has to be seen in the context of Turkey's planned EU full membership, which is still a proclaimed objective of the European Union and Turkey. The customs union was initially viewed as an instrument to accomplish Turkey's ambition to join the EU. Hence, in the mid-term a successful accomplishment of Turkey's full membership in the EU would remove the described contractual asymmetry.

Turkey at the crossroads: customs union or free trade agreement

The Ankara Agreement between Turkey and the EU has been an economic success story to date. However, recent developments in the EU's international trade policy have confronted Turkey with economic challenges, which are not easy to solve within the established legal framework between the two economies. Should Turkey consider remaining a member of the European customs union and temporarily accept the delineated asymmetrical liberalization policy until it has achieved full political membership of the EU?

In the current political debate such an approach appears to be unlikely. Instead, Turkish business associations and Turkish politicians are increasingly trying to exert pressure on both the European commission and the United States. The announced aim: Turkey should always be actively involved in the negotiation of new free trade agreements with third countries and should represent the Republic's interests adequately and fairly. In fact, the Ankara Agreement could be extended by granting Turkey an observer status in free trade negotiations. In the case of potential conflicts of interests within such negotiations, Turkey could only communicate critical changes in line with its interests to the EU. By doing so, Turkey would be indirectly represented in free trade agreement negotiations. Such a simple extension of the Ankara Agreement could be seen as a minimum concession for Turkey. A more ambitious adjustment of the bilateral Turkish-European agreement could go so far as to have the EU effectively negotiate the same accession conditions for Turkey as a member of the customs union as for itself. Even though, Turkey is not a full member in the European Union, such an extended Ankara Agreement would put Turkey into a *par inter pares* relationship within the customs union, without requiring it to become a full EU member. The implementation of a reciprocity principle for Turkish access to the EU's new free trade agreements can be seen as a further deepening of Turkey's economic integration into the EU, which simultaneously eliminates the existing misalignments of the current Ankara Agreement.

A further publicly discussed alternative is to convert Turkey's membership of the customs union into a free trade agreement with the EU. Turkey would maintain the established EU border tariff rates for all existing trading partners. However, as far as any future free trade agreements between the EU and third countries are concerned, Turkey can decide on whether its market is also to be liberalized or not. In theory, such a step back in the bilateral trade relationship would have the advantage that Turkey could basically conclude free trade agreements with EU's third countries and at the same time only account for its national economic and export interests without considering EU interests. However, such a revision would have drastic economic costs both for the EU and Turkey, since companies would have to submit certificates of origin for all goods scheduled for exports between the two regions. It would be necessary to arrange special *'rules of origins'* regulations for any EU-Turkey trade relationship that does not jeopardize existing value-chain networks between the two regions. Such a special clause is hard to imagine under the current WTO statutes.

The outlined problem arising from the Ankara Agreement in its current form highlights the pressing need to fundamentally review the economic and political relationship between the EU and Turkey. From an EU perspective, this raises the question of whether Turkey can still be left out of large European trade policy decisions, which would run the risk of losing the country as an economic and geo-strategic partner of the West. The Turkish Republic has not only historically committed itself to the West, but is increasingly integrating into the European single market. Integrating this emerging economy with its predicted high economic growth perspective and young population into that of the stagnant EU28 economies is not only in the interest of the European Union.

At the same time, the EU must acknowledge that not all countries can be integrated into the EU to the same extent in the current political situation. This concerns not only Turkey, but also countries that are already members of the EU. In recent years the EU has repeatedly suffered the painful consequences of premature policy measures such as the acceptance of countries into the monetary union without any binding regulation of budget policy or the relaxation of free movement for EU citizens without any adjustment of the social security systems in Northern countries. The problem with the Ankara Agreement outlined above has to be ranked into the former category of premature European policy measures. It once again demonstrates that only a European Union at different speeds – *multi vitesse* – can best meet the needs of a common Europe.