

UK-Turkey Trade Partnership Post-Brexit: Limits and Prospects

This is the summary of the online event which was held on 9 of February 2022.

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On the **9th of February 2022**, Contemporary Turkish Studies at the LSE European Institute hosted an online event on the **trade relations between the United Kingdom and Turkey** in the context of Brexit and the UK-Turkey trade deal signed in 2020. The event was entitled: "UK-Turkey Trade Partnership Post-Brexit: Limits and Prospects."

The speakers included **Dr Pinar Artiran**, WTO Chairholder and Director of the Research Center for International Trade Law and Arbitration at Istanbul Bilgi University; **Christopher Gaunt OBE**, Chairman of the British Chamber of Commerce Turkey; **Dr Mustafa Kutlay**, Senior Lecturer in the Department of International Politics at the City University of London, and **Lord Robin Janvrin**, independent crossbench member of the House of Lords.

Prof Yaprak Gürsoy, Chair of Contemporary Turkish Studies at LSE, European Institute, chaired the event. In her introduction, Prof Yaprak Gürsoy welcomed the participants and speakers and introduced them to the audience.

The context of global trade, wider economic trends and alliances

As the first speaker, **Dr Mustafa Kutlay** underlined that in the heyday of the globalization process during the 1990s and early 2000s, trade was mainly considered as a powerful tie that bound countries together. However, over the last decade or so, trade has become increasingly politicized. Dr Kutlay pointed out that the share of non-western powers in global production and trade significantly increased in the last decades, and supply chains became more complicated. He emphasized that today several countries are trying to expand economic networks by becoming part of regional integration schemes or by signing free trade agreements.

Turkey's foreign economic policies can be assessed within this broader context in line with the shifting global political economy. As a result, in response to the growing importance of new markets in the global economy, particularly in Asia and Africa, Turkish businesses have been looking for new ways to expand trade and investment links. In this regard, Dr Kutlay stated that a certain degree of diversification is taking place in Turkey's foreign economic relations, but he added that the European Union is still the most important trade and investment partner for Turkey.

Dr Kutlay highlighted that from the EU's point of view, Turkey constitutes a major market and economic hub for hundreds of European firms, especially in the face of a growing challenge that comes from dynamic emerging powers. In this direction, it was a welcome development for Turkish policymakers and the business community to sign a free trade agreement with the United Kingdom after Brexit because it helped protect existing robust commercial ties between the two countries.

Dr Kutlay highlighted that both Turkish and British policymakers have expressed their interest in expanding the current free trade agreement into new areas and coming up with a more profound and comprehensive deal. Yet he remarked that apart from both parties' willingness, the future of Turkey's trade relations with the European Union will also be quite essential and should be taken into account due to Turkey's Customs Union deal with the EU. Dr Kutlay concluded that the future of the UK-Turkey trade relationship boils down to the question of whether or how Turkey and the EU would be able to devise a new working relationship as membership does not seem a likely scenario, at least for the foreseeable future.

Lessons from the UK-Turkey Agreement in rethinking and renegotiating Turkey's Customs Union

Dr Pinar Artiran began her comments by pointing out that, in general, bilateral and regional trade agreements are examined within the framework of the World Trade Organization (WTO), in particular when the contracting parties to the agreement are members of the WTO. She emphasised that if countries wanted to pursue closer trade relations than the basic trade liberalisation provided by the WTO Agreements, then they could benefit from one of the "exception" clauses laid down in the GATT, i.e. Article XXIV of the GATT that allows the formation of regional trade agreements, i.e. customs unions and free trade areas, as a departure from the essential non-discrimination principle. Dr Artiran expressed that both the EU and UK trade agreements with Turkey can be contextualized from this perspective.

Dr Artiran pointed out that Turkey considers it crucial to modernise the existing customs union arrangement with the EU since Turkey currently has to follow the EU's lead in third-country deals, which means the EU will always be the first to conclude a trade agreement with a third country. According to Decision 1/95 of the Association Council establishing a Customs Union between Turkey and the EU, Turkey can only conclude an agreement with a third country once the EU has completed its own trade deal with that country. Therefore, Turkey had to wait to sign the Free Trade Agreement (FTA) with the UK until after the EU signed its own Trade and Cooperation Agreement (TCA).

Dr Artiran remarked that in this asymmetrical relationship, when the European Union signs an agreement with a third country, such as the United Kingdom, if Turkey does not have a parallel deal that has been in the making until the EU concludes one, then all of the products of these countries have free access to the Turkish market due to the free circulation principle stemming from the customs union arrangement between Turkey and the EU. However, the same opportunity is not valid for Turkish products since, unlike a customs union, a free trade agreement that the EU concludes with a third country typically does not provide such free circulation, i.e. free access to those markets. Therefore, Turkey has become concerned about its obligation to essentially follow the EU's commercial policy with third countries without legal means to convince the EU's Free FTA partners to conclude an FTA with Turkey. This situation also limits Turkey's ability to negotiate and obtain access to the markets of certain EU FTA partners.

Dr Artiran emphasized that for the successful administration of an FTA, it is needed to have an enhanced institutional framework, an inclusive decision-making structure, and a sound dispute settlement mechanism. According to Dr Artiran, the fact that these features do not exist in the existing Turkey-EU Customs Union framework dated 1995 but are carefully incorporated in the

UK-EU TCA of 2020 may also act as a testimony, among others, to lessons to be drawn from Turkey's experience with the shortcomings of the existing bilateral preferential trade framework.

Dr Artiran concluded by predicting that, similarly to the UK's experience with the EU in its TCA negotiations, one of the challenging items for Turkey within the framework of the modernisation of the Turkey-EU Customs Union in the coming years may prove to be the negotiations to be held on trade and sustainable development chapter that became a crucial part of the EU's new generation trade agreements. In this context, Dr Artiran ended her remarks by emphasising the importance for decision-makers, politicians, and academics in Turkey, of carefully studying the TCA signed between the UK and EU to have a better understanding of the challenges ahead in relation to future potential negotiations for the modernisation of Turkey-EU Customs Union.

UK's approach to bilateral trade relations with Turkey and prospects for the future

Lord Robin Janvrin started his speech by pointing out that trade, commerce, and investment are long-term plays, and in long-term plays, what matters most is the fundamentals. He indicated that fundamentals underlining the UK-Turkey commercial relationship are powerful but under-recognized in the UK. Lord Janvrin drew attention to the long trade history between Turkey and the UK and added that both countries are outward-looking countries with a robust entrepreneurial culture. He expressed that even though the negotiations were not easy, both sides eventually realized that it was essential to get the rollover agreement.

Regarding the under-recognition of the Turkey-UK relationship in the UK, Lord Janvrin argued that there had been more focus on Brexit and the relationship with the EU, and what Global Britain means in the last years. However, Lord Janvrin also stated that Global Britain precisely means improving trading relationships with countries like Turkey, where the fundamentals are strong, and both sides are willing to look to the future.

Lord Janvrin listed financial services, healthcare, and clean energy as areas where the UK and Turkey should focus on working together. Additionally, there are opportunities for third-country collaboration with the combination of different strengths of both countries, such as Turkish strengths in construction and engineering and British strengths in finance, professional services, and consultancy. Lord Janvrin concluded his remarks by saying that the Department of International Trade is having to focus on many countries at the same time, but it was important to ensure that Turkey is high on the agenda.

Christopher Gaunt, OBE underlined that the British Chamber of Commerce in Turkey is the second oldest British Chamber overseas, and this is a perfect example of how strong the trading relationship between the two countries is. Mr Gaunt expressed that the FTA went through some difficult periods, but at the last minute, on the 29th of December, it was signed. He also said that the other European chambers based in Turkey are pushing very hard to get the customs union agreement renegotiated and enhanced to satisfy modern-day expectations.

Mr Gaunt argued that Turkey should not be seen as just a domestic market opportunity but also should be considered as a regional hub in terms of developing trade across the region with a base in Turkey. In this spirit, he remarked that Turkey is not a short-term sprint by any means and instead is a long-term commitment, given Turkey has long-term growth potential.

Mr Gaunt pointed out that the UK and Turkey will renegotiate the existing free trade agreement that will bring new sectors into the deal over the next two years. Further, he emphasized that once the negotiations that will start around September 2022 are over, it is anticipated that bilateral trade will be doubled within ten years. Mr Gaunt also highlighted that Turkey being the closest high-growth emerging market geographically, offers the greatest potential for UK exporters. In this regard, he stated that Turkey has to be high on the agenda in the UK. Mr Gaunt concluded by stating that the Department for International Trade should work on putting everything in place to ensure that the UK and Turkey have long-term sustainable bilateral relations.