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The political economy of Turkey-EU customs union after the treaty of Lisbon: A Reappraisal

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This work stems from a research-period spent in the Summer 2010 at the International Strategic Research Organization (USAK) in Ankara, Turkey. Along with Dr. Mustafa Kutlay, the author took part to a research-project aiming at evaluating the impact of the Treaty of Lisbon on the overall relations between Turkey and the European Union (EU). The analysis outlined in this research-work and the preliminary results presented are the outcome of a series of round-tables with major Turkish political economy experts and policy-makers as regards the current status and future sustainability of Turkey's Custums Union (CU) with the EU.

Abstract

This article analyses the European Union's (EU) trade policy highlighting the gradual shift towards a more penetrating EU Free Trade Agreements (FTAs) policy and institutional changes brought about by the Treaty of Lisbon and their impact on trade policy's functioning. Emphasizing Turkey's changing trade patterns and stressing the growing salience of non-EU trade partners, the article opens up a debate on the rationale of current Customs Union. The analysis brings to the understanding of the on-going cases of trade deflection negatively affecting Turkish economy and the drawbacks arisen from the EU's changing FTA policy. Finally, the political and technical aspects of Turkey's accession process are discussed to shed further light on the current and future meaning behind today's Customs Union.

Introduction

The goal behind the present work is two-fold: on the one hand, it points at investigating the possible effects that the Treaty of Lisbon might have on Turkey-EU trade relations, while on the other hand it aims to stimulate a theoretical debate on a topic lacking sufficient attention, especially in Turkey's academia. In fact the aim of the discussions held at USAK from May to July 2010, was to give a preliminary, and by no means exhaustive, answer to the following question: "How the new commercial policy shaped by the Treaty of Lisbon (ToL) would affect the CU established in 1996 between the EU and Turkey ?"

In order to articulate a coherent argument and summarize the diverse positions arisen during the round-tables, this article tackles three relevant aspects concerning the status of Turkey-EU trade relations. Firstly, the paper shows how the ToL modifies and affects current EU trade policy. Given the high level of technicality surrounding the topic, the article offers a short, but clear and detailed explanation of the institutional novelties introduced by the ToL to the EU's trade policy. Secondly, the focus shifts to the existing institutional arrangement binding Turkey to the EU trade policy. The nature of and the constraints posed by the CU are outlined in order to understand how the CU affects economic relations between EU and Turkey. Finally, the author articulates the main points emerged throughout the research-project to discuss different claims and perspectives on the evaluation of the impact of the EU's new trade policy on the existing CU.

The article develops through the following structure. In the first section, the changing nature of the EU's trade policy is analyzed, stressing the gradual shift towards a more bilateral and Free Trade Agreements-based (FTAs) approach, to contextualize the nature of

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the institutional changes brought about by the ToL. The second section provides a brief but detailed description of the funcgtioning of the EU's trade policy, and afterwards focuses on the novelties introduced by the ToL and their impact on EU commercial policy. In the third section the CU's origin, economic achievements and structural weaknesses are pointed out in order to outline the overall framework of Turkey-EU trade relations. In the fourth and final section the tentative conclusions from the round-tables on the possible benefits and drawbacks of the EU's new trade policy vis-à-vis the existing CU are dicussed. This part is originally thought to open possibilities for further researche among Turkish scholars to deepen the analysis of the current rationale behind the CU and to stimulate public debate on the topic. In a similar fashion this paper endeavours to draw the attention of the European scholarship on a less-known area, in particular for those interested in the EU's relations with Turkey.

EU's Trade Policy Strategy before the Treaty of Lisbon

Until 2006 the EU has thoroughly championed a multilateral approach in dealing with international economic matters. However, the year 2006 marked a profound change in attitude, in line with the reconfiguration of trade politics at global level. The shift experienced by the EU towards the use of bi- and plurilateral agreements, and the benefits arising from this change in paradigm, might be better understood by taking into account several factors. The rise in the economic and bargaining strength of fast-growing emerging markets has gradually altered power dynamics within multi-lateral trade fora, especially in the World Trade Organization (WTO). As an evidence, in the Doha Development Round's (DDR) outcome, the effort paid by the EU to include in multilateral negotiations such topics as competition and investments, has been promptly halted by developing countries' opposition. In open contrast with the commitment to multilateralism promoted by former Trade Commissioner Pascal Lamy (1999 – 2004), under the chairmanship of Commissioner Peter Mendelson, the EU put forward a new trade outlook, as illustrated by the Communication 'Global Europe: Competing in the World'. Some commentators suggested (Abbott, 2008; Kutlay, 2009) that the most striking element of novelty of this strategy was by far the emphasis on bilateral and regional agreements.

According to Woolcock (2007) three main aspects had determined the rationale behind EU's renewed commercial interest for FTAs. First, EU-FTAs could neutralize trade diversion effects brought about by the FTAs set up among third countries; second, FTAs would be viable tools to establish deeper commercial relations with countries experiencing rapid economic growth; finally, FTAs could serve as a way to enforce international trade rules. While explaining the EU's attitute towards FTAs, Woolcock affirms that '[the EU] is motivated by a desire to achieve in FTAs what it has failed to achieve in multilateral negotiations' (2007: 4).[1] Yet the author further specifies the causes for the EU's change in trade strategy: in particular, the failure to include the 'Singapore issues' (investment, competition, trade facilitation, goverment procurement) or 'deep trade agenda' (Young and Peterson 2006) into the DDA; the US renewed attitude towards the use of FTAs; the increased competition over emerging Asian markets (see Sally 2007; Kutlay 2009). As an evidence, the US involvement in important new markets, i.e. South-Korea, through the mean of FTA fostered a 'growing pressure for EU exporters and investors in the region for the EU to strengthen its presence' (Woolcock 2007: 5). The 2006 Communication put emphasis on one particular feature, namely the fact that 'the current geography of EU FTAs mainly covers our neighbourhood and development objectives well, but our main trade interests less well' (EU Commission, 2006: 14). Consequently, the document provided the new benchmarks to enhance EU trade policy:

- Maintaining WTO at the centre of the international trading system to strengthen its multilateral-based functioning, further liberalize world trade and achieve the DDA objectives;
- Widening the EU's economic scope through an enhanced conceptualization of FTAs. Bilateral agreements must regain importance to boost the EU's competitiveness and deepen EU trade relations with emerging markets (especially Asia's markets);
- Taking into consideration partner's market potential (economic size and growth) and level of protection against EU exports (existence of tariff and non-tariff barriers) when setting up new FTAs. Following these criteria particular countries (South Korea, India and Russia) and regional blocs (ASEAN,

1 As regard to this point, alsoYoung and Peterson (2006) stress how the EU is actually trying to push forward the issues not enforceble through multilateral cooperation via alternative channels, such in fact FTAs

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Mercosur, GCC) emerge as priorities.

- Widening the areas of liberalization including services, investment, public procurement and competition. Investment promotion and facilitation acquire special importance.[2]

Bearing these elements in mind, it is shown that the institutional changes introduced by the ToL may be possibly considered as the consequential step taken in order to address EU trade policy's weaknesses and boost EU's trade actorness. Looking at the larger picture, the EU market power has steadily decreased as a consequence of the rise of the developing and dynamic 'Rest' – from 1996 to 2005 in fact EU's world market share has slightly diminished both in value and volume terms, losing respectively -1.3 and -1.7 percentage points in market share (Trade DG 2008: 11). On the internal side, the EU has demonstrated to fall short of political will and suitable measures to become 'the world most dynamic knowledge-based economy', as envisaged by the 2000 Lisbon Strategy[3] (Wyplosz 2010).

Hence, the gradual switchover to a FTAs-based regime might be ascribed to a series of interrelated dynamics. On global scale, the world economy's recasting led to the decrease of EU's global economic actorness and to a more general reconsideration of costs and benefits deriving from the thorough acceptance of a multilateral trading system. At EU level, these changes implied the restoration of trade-related postures in open contrast with those previously pursued. The EU committed to the goal of re-asserting and preserving its role in the world economy by maximazing the capacity to expend its range of action, both geographically and in terms of trade-areas. As a matter of fact, 'this relative decline in EU market power is likely to be a factor favouring the continued use of bilateral trade agreements in which the EU can make more use of any asymmetry in economic power relative to other countries' (Woolcock, 2010a: 14).

The EU's Trade Policy

Before the enforcement of the ToL, the Article 133 of the Treaty establishing the European Community (TEC) ascribed the EC institutions the exclusive competence to deal with EC trade policy. However, as Woolcock points out (2005: 379), the Commission had often underlined that in the areas of services, investments and intellectual properties the EC powers had to be further extended. Following revision treaties did not substantially widen Commission's powers in trade policy-making. Under Article 133 (TEC) the EU was entitled to negotiate multilateral agreements, whereas Article 310 regulated the EU's role in bilateral and region-to-region agreement's negotiations. There were some differences between the two policy processes involved, but both attained to the 'Community method' procedures.

When the EU negotiated trade agreements within a multilateral organization, such as WTO, the Commision elaborated a draft mandate expressing the EU's position on a given topic, but also mirroring member states' and civil society's claims, above all interest groups. This draft was discussed within a Commitee of senior trade officials set up by Article 133 to be finally approved by the General Affairs and External Relations Council (GAERC) by a qualified majority vote (QMV); however practically by consensus. Hence the Commission was the only actor allowed to represent and put forward EU's interest in multilateral negotiations. The outcome of the negotiations would have been adopted by the GAERC, generally again via consensus-building. The assent of the European Parliament (EP) was required only if the agreement implied modifications to the existing acquis. By contrast, in bilateral or region-to-region negotiations the EP's role was strogger because it had to grant its simple majority vote's assent over any agreements. Most importantly, the Council decided on the final adoption of the agreement through the unanimity vote.

The ToL brought about several novelties. Yet Woolcock (2010; 2010a) underlines three main changes. First of all, the ToL clarifies the attribution of competence between the EU and the member states; secondly, it enhances the role of the EP in the EU trade policy-making and finally it includes external trade and in-

2 See Evenett (2007) for a detailed account of EU trade policy's evolution since 1995 and Sally (2007) to grasp EU's shift towards Asia's markets.

3 The Lisbon Agenda stemmed from March 2000 European Council, where EU member states agreed on a platform of ambitious goals aiming at coping with new challenges faced by the EU economy, such as her ageing population (see Gros, 2005). Growth and jobs are in fact the main points to be further developed and strengthened. Research and innovation become the foundamental factors driving the EU towards a knowledge-based, investment-attractive and sustainable economy. The political and economic guidelines spelled out in the Lisbon Declaration also fostered the introduction of a new set of instruments, the so-called 'Open Method of Coordination' (OMC) to ensure better level of flexibility and implementation (João Rodrigues, 2005).

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vestment policy in the overall frame of the European External Action (EEA).

The ToL has fulfilled the task of moving all trade-related aspects for services, intellectual property (IP) and foreign direct investments (FDI) under the EC exclusive competence. De Quevedo Ruìz (2009: 85) in fact points out (see also Woolcok 2010: 22) that under the provision of Article 133 (TEC) there was no clear attribution of competence concerning services and IPs between the EU and member states. As a consequence the competence in those matters was shared, and FTAs dealing with those items were 'mixed' as they also included member states' national competences. Article 207 of the Treaty on Functioning of the EU (TFEU) replacing the Article 133 (1) (TEC) has indeed extended the definition of trade policy thus granting the EU the exclusive competence

…with regard to changes in tariff rates, the conclusion of tariff and trade agreements relating to trade in goods and services, and the commercial aspects of intellectual property, foreign direct investment, the achievement of uniformity in measures of liberalisation, export policy and measures to protect trade such as those to be taken in the event of dumping or subsidies.

This provision further entails the GAERC to use the QMV even for agreements related to services and IP, eliminating the unanimity vote.[4] The straighforward consequence is faster policy-making over a wider range of areas in order to develop a more effective and inclusive trade policy. Article 207 (1) of ToL also casts the EU's exclusive competence over FDI. The Article's provision offers an overall framework for investment liberalization and protection,[5] even tough member states' autonomy to establish Bilateral Investment Treaties (BITs) with third parties will be substantially curtailed. As a matter of fact, EU-BITs will gradually replace individual EU member states' BITs with third countries, on condition that the eventual 'EU investment model' will provide better terms for investors than the ones offered by member states.

The ToL further strengthen the role of EP in EU trade policy-making. Once the co-decision mechanism has been defined as an ordinary legislative procedure (OLP), the Council and the EP, especially through the International Trade Committee (INTA), share the powers to set up the EU's commercial policy. In particular, since now on INTA will have to be reported by the Commission about the developments during negotiations, altough it does not take part in the process as much as the Trade Policy Committee, that actually assists the Commission throughout negotiations. However the EP still lacks the power to shape the objectives and authorize negotiations, but its consent is required for all kind of trade arrangements before Council's adoption of the agreement.

Finally, the inclusion of trade policy in the framework of the EU's external action is a crucial point to start wondering about what role the EU will grant to trade in the context of its foreign policy and more generally, external action. To this extent, the after-ToL trade policy is closely linked with the issue of the EU's international actorness. According to Woolcock (2010a: 3-7) EU trade actorness' attributes are: market power, in terms of size and market access; EU's recognition as an actor independent from EU member states, especially via European Commission's role in negotiations; cohesion among member states in order to shape an autonomous EU position; normative power, stemming from shared norms and standards' ability to influence other actors' decisions. Furthermore, parliamentary accountability over trade policy, which before the ToL was the least developed aspect (see also Young and Peterson 2006).[6] If one may accurately say that the ToL strengthen the role of both the European Commission and the EP, more should be argued as regards the EU's trade actorness and the deriving way of exercising power. It has been widely acknowledged that the EU's power in international relations is based on the capability to constraint others' conducts through 'soft' means excluding coercitive or military instruments. In his seminal article Ian Manners (2002) defined the EU's power, and therefore the EU's peculiar kind of international actorness, in terms of establishing 'what passes as normal in international relations', which means, the ability to set the normative framework influencing ac-

4 However, Article 207 (4) (a) (b) underlines that the unanimity vote would be used by the Council for agreements concerning trade in cultural, audiovisual, social, education and health services in order to preserve EU's cultural diversity and welfare provisions. This shows that the principle of 'parallelism' introduced with the Treaty of Nice (ToN) has not been overruled.

5 As Woolcock points out (2010: 24), once that FDI have fallen under EU exclusive competence, BITs set up by member states before the entrance into vigour of ToL would provide a case for exemption (grandfathering clause) even violating the relevant provision.

6 However Hagemann (2008) casts some doubts about the new legal framework's ability to foster a higher degree of democratic accountability.

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tors' behaviours. However, it might be misleading to adapt the persuasive character featuring the concept of 'soft' power (ye 1991) to the EU when it acts as a 'trade' power (Meunier and Nicolaidis 2005). Assuming that the changes set up by the ToL magnified the EU's trade actorness, would not automatically imply the increase in the EU's power to shape the rule of the global trade-system. Rather, it might be argued that once defined the conditions for the EU to re-emerge as a leading trade actor, the mechanisms of conditionality entailed in the FTAs would acquire further relevance as the crucial element to address others' behaviour in line with the EU's expectations. Conditionality is in fact the tool that the EU uses to transform its economic power, into the leverage capable of shaping others' actions, thus exercising its power 'through' the channel of trade.

Such a consideration may be tested in the case of the EU's CU with Turkey. The question of horizontal coherence across different EU external policy areas, i.e. trade and enlargement, it is in fact the key to understand what kind of effects the post-ToL EU's trade policy is likely to produce vis-à-vis Turkey's accession process. More specifically, how will the EU's new trade strategy affect existing trade agreements, such as the CU established with Turkey in 1995?

The EU-Turkey Customs Union

In 1963 the Association Agreement between the European Economic Community (EEC) and Turkey, the so called 'Ankara Treaty', was signed envisaging three main points: the creation of a CU between the EEC and Turkey; free mobility of labour; and eventually Turkey's ECC full membership (Article 28 of the Treaty). Those goals had to be achieved through a three-phase process consisting of a 5-year 'preparatory stage' when the EEC provided Turkey with economic assistance in order to smooth the passage to the 'transitional stage' to finalize the Customs Union. In 1973 the 'Additional Protocol' modified the Ankara Treaty and outlined 1996 as the deadline to achieve the CU. The Additional Protocol entailed a remarkable reduction of EC protectionist barriers for Turkish industrial goods (textile excluded). Likewise Turkey agreed on lowering tariffs and quotas on EEC exports (Öniş 2001). The 'final phase' would have established the CU; however, owing to the growing political instability and Turkey's debt crisis, in 1977 Turkey freezed Additional Protocol's provisions and unilaterally stopped customs lowering.[7]

The 1980 'January 24 Decision' for economic stabilization and liberalization had the objective to align Turkish economy with the changing European economic environment. The economic reforms contained in the programme, which ushered Turkey into its first phase of economic liberalization (1980-1989), soon produced the desired outcomes. Macroeconomic adjustments were mainly oriented to promote exports and gradually liberalize imports, along with the deregulations of exchange rate and capital movements. Inflation lowered to 35-40% from the three-digit rate of the previous years, the gross domestic product (GDP) grew at an annual average of 5.8% without recession. During the same period, following the liberalization of trade and financial markets, the export-GDP ratio trebled, shifting from 4.1% to 13.3%. However, in this phase foreign direct investment (FDI) flow was still unremarkable, thereby similarly to the Greek case we cannot speak of investment-led growth. After the abolishment of the 'Law for the Protection of the Value of the Lira' in 1984 foreign exchange regime and capital movements were also liberalized. As a result, along with the steady depreciation of Turkish Lira (TL) short-term money markets were established and the whole domestic financial market vigorously stepped into the global financial system (Ertuğrul and Selcuk, 2001). During that period the role of the state as an economic actor, both investor and producer, was dramatically curtailed through an intense process of privatization affecting the so-called 'state economic enterprises' (SEEs). However, wages were constantly eroded by this combination of privatization and restrictive policies. As Mütfüler (1995) shows, structural adjustments carried on throughout the 1980s had the goal to offset European economic integration's effects over Turkish economy. Non-tariff barriers' removal and Southern countries' new membership further maximized EC market integration at the expense of Turkey's welfare gains. Freer circulation of productive factors magnified intra-EC trade, in particular thanks to the fact that the rest of the EC achieved free access to new EC-members dynamic markets. Thus far Turkey's external trade was dominated by the EC: imports and exports absolute volume steadily increased, however Turkey's shares of im-

7 Turkey in fact faced a steep balance of payment's worsening due to the considerable foreign reserves' outflows used to pay energy bills after the 1973-74 oil-shock. Stagflation further decreased EEC's demand for Turkish manufactures, thus fostering industrial recession. Ecevit's expansionary monetary policy meant to boost economy but in fact just helped inflation to spiral (Zürcher, 2007).

ports from the EC started to boost since the second half of the 1980s, as a result of improved macro-economic conditions. Contrarely, Turkey's share of exports to EC between 1985 and 1988 went sharply above and below the average of 45% respectively (see Table 1 and 2). It is then arguable that Common External Tariff's (CET) imposition in the new members' markets increased intra-EC trade at the expense of Turkish goods' competitiveness in the European markets. Nonetheless, Turkey's competitiveness problem may also be explained looking at Turkey's specialization in lower value-added goods, such as textile, iron and steel. However, on a longer time-frame, Turkey's exports grew rapidly at an annual rate of 17.2%, while the export/GDP ratio shifted from 4,1% in 1980 to 12,8% in 1995, one year after the establishment of the CU. The effect of trade liberalization and the growing productive specialization helped Turkish export-industry to concentrate on the manufacturing sector, which in fact began to cover a higher share of the overall exports (see Table 3). Between 1980-1990 the manufacturing

Table 1

TURKISH IMPORTS[36]

Year	Imports ($)	Imports from EC	% EC
1979	4,946	1,708	34.5
1980	7,815	2,268	29.2
1981	8,864	2,519	28.4
1982	8,794	2,466	28.4
1983	9,179	2,596	28.3
1984	10,663	2,974	27.8
1985	11,275	3,547	31.5
1986	11,020	4,565	41.4
1987	14,093	5,667.8	40.0
1988	14,267	5,894.2	41.1
1989	15,686	6,054.8	38.4
1990	22,302	9,328	41.8
1991	21,047	9,221	43.8
1992	22,872	10,063	44.0
1993	29,429	12,301	41.8

Source: Mütfüler, Meltem (1995), "Turkish Economy Liberalization and European Integration", Middle Eastern Studies, 31 (19), January 1995, 85-98; p. 89.

Table 2

TURKISH EXPORT PERFORMANCE[37]

Year	Exports (merchandise)	Exports to EC (million $)	Exports to EC as %
1979	2,261	1,132	50.0
1980	2,910	1,300	44.7
1981	4,703	1,564	33.3
1982	5,890	1,802	31.4
1983	5,905	2,066	36.1
1984	7,389	2,781	39.0
1985	8,255	3,204	40.3
1986	7,583	3,263	43.8
1987	10,190	4,868	47.7
1988	11,662	5,098	43.7
1989	11,627	5,408	46.5
1990	12,959	6,906	53.2
1991	13,594	7,042	51.8
1992	14,715	7,460	50.7
1993	15,344	7,242	47.2

Source: Mütfüler, Meltem (1995), "Turkish Economy Liberalization and European Integration", Middle Eastern Studies, 31 (19), January 1995, 85-98; p. 89.

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sector grew by 7.9% annually, while in the following decade its growth reached 5.9% (World Bank 2000). Through this process Turkey not only reduced its import tariffs, mainly on EC goods, from 10% to 60% in six years (1988-1994) in order to align with CET, but it also experienced a economic growth, boosting Turkey's GDP from $128 billion in 1980 to $322,1 billion in 1990 and doubling the international trade share over the whole GDP. In terms of annual growth, during the same time-span Turkish GDP increased annualy by the average rate of 5.4%. The outcome was less satisfactory in the following decade, when the average GDP growth was 4.2% (World Bank 2000; OECD 2010). Further reforms aimed at restructuring the bank-system and financial sector, for the TL's exchange rate to be market-determined. In 1989 currency full-convertibility was also established. On the external dimension, financial reforms eased capital inflows and outflows, while on the internal side interest rates and credit-issuing were totally liberalized. However, no adequate financial istitutions have been set up in order to supervise the whole transition, consequently fuelling a dramatic increase of corruption (Öniş 2004).

To sum up, throughtout the 1980s Turkey actively shifted from an import-substitution to an export-oriented economy, maintaining the EC as the main trade partner. However, it is not accurate to speak of a proper 'growth effect' deriving from the 'January 24 Decision'. Despite stable GDP growth rate, capital accumulation was undermined by high volatility of financial markets and even higher levels of inflation. Restrictive monetary policies further curtailed rooms for human capital accumulation. Indeed, the Turkish case in 1980s-1990s has been defined as the classic example of 'boom-bust' economy (Ertuğrul and Selcuk 2001): better investment conditions certainly favoured physical capital accumulation, thereby prompting medium-term growth effects; however less focus on human and knowledge capital undermined long-term growth effects (see Baldwin & Wyplozs, 2009). The combination of these factors in Turkish economy meant cyclical current account inbalance leading to

Table 3

	1963	1980	1985	1990	1995	1996	1997	1998	1999	2000	2001	2002
Exports	368	2.910	7.908	12.959	21.637	23.225	26.261	26.974	26.588	27.775	31.334	35.762
Imports	687	7.909	11.343	22.302	35.708	43.627	48.559	45.921	40.687	54.503	41.399	51.270
Trade Volume	1.055	10.819	19.251	35261	57.344	66.851	74.820	72.895	67.274	82.278	72.733	87.032
Tarde Deficit	-319	-4.999	-3.435	-9343	-1 4.071	-20.402	-22.298	-18.947	-14.099	-26.728	-10.065	-15.508
Exports/ Import (%)	53,5	36,8	70,2	58,1	60,6	53,2	54,1	58,7	65,3	51,0	75,7	69,8
Export/GDP(%)	4,9	4,1	11,8	8,6	12,8	12,8	13,9	13,5	14,5	13,9	21,2	19,9
Import/GDP (%)	9,2	11,2	16,9	14,8	21,1	24,1	25,7	23,0	22,1	27,3	28,0	28,5
TRexp/WORLDexp (%)	0,248	0,152	0,437	0,389	0,424	0,440	0,447	0,498	0,477	0,438	0,512	0,561
Manu.Exp/Total Export(%)	19,8	36,0	75,3	79,0	88,2	87,1	88,1	88,5	89,3	91,2	91,5	93,1

Source: State Planning Organization (SPO), IFM. In Utkulu, U. and Seymen, D. (2003), "Trade and Competitiveness Between Turkey and the EU: Time Serie Evidence", 1 – 28, p. 5.

Table 4

Current Account (CA)	1990	1991	1992	1993	1994	1995
Export	13.0	13.7	14.9	15.6	18.4	21.9
Import	22.6	21.0	23.1	29.8	22.6	35.2
Trade Balance	-9.6	-7.3	-8.2	-14.2	-4.2	-13.2
Current Account Balance	-2.6	0.3	-0.9	-6.4	2.6	-2.3
Capital Account Balance	3.9	-1.3	2.4	6.6	-2.4	8.9
GDP Growth	9.4	0.3	6.4	8.1	-6.1	8.1
Inflation	48.6	59.2	61.4	60.26	149.56	64.9
PSBR (%GNP)	7.4	10.2	10.6	11.7	8.1	6.5

Source: IFM; adapted by the author.

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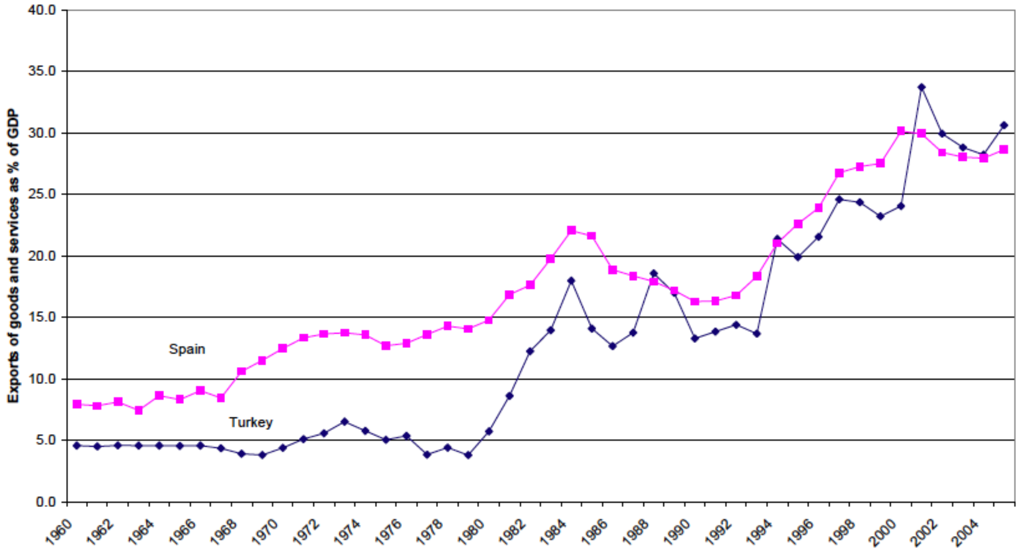
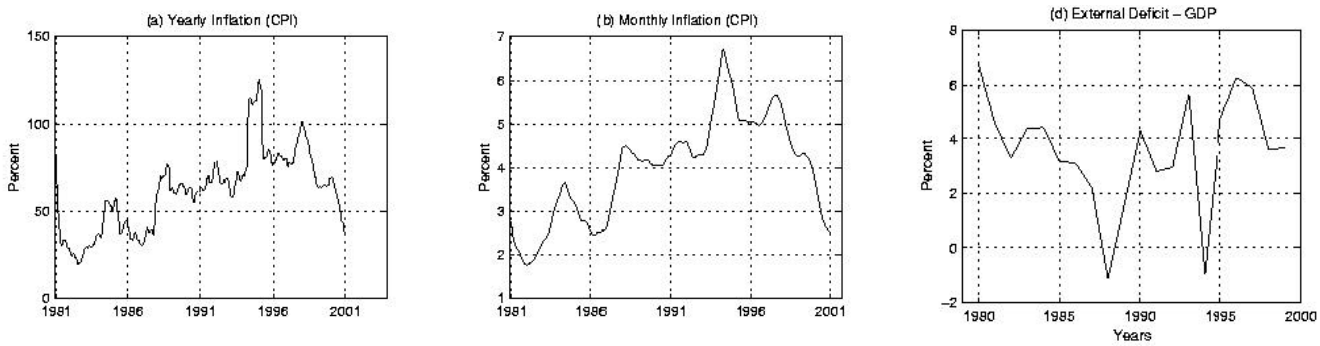
Table 5



Sources: Eurostat; in Gros, D. (2005), "Economic Aspects of Turkey's Quest for EU Membership", CEPS Policy Brief, 69, April 2005, 1-10, p. 3. The author makes a comparison with Spain's economy, which became an EU's new member when Turkey lodged its application for full-membership, so as to demonstrate the different patterns of economic integration between EU members and non-members.

financial volatility, especially throughout the second phase of liberalization (1989-1995) (see tables 4 and 5). The years before the establishment of the CU were marked by high level of inflation and external deficit (see figures 1). However, the decisive impulse to foster EC-Turkey integration came from politics. In 1989 the EC rejected 1987 Turkey's application for membership. This event shifted Turkish policy-makers' attention towards the creation of a customs union, which was not seen as a mere alternative but as a crucial step towards full-fledged membership. During the 1990s party fragmentation led to the emergence of Necmettin Erbakan's islamist Welfare Party (WP) at the expense of the more secular True Path Party's (TPP) leadership. Hence, most prominent TPP figure Tansu Çiller used the rise of political Islam as a scapegoat to trigger the CU's establishment. She in fact argued that the CU's failure, broadly meaning the impossibility to join the EC, was likely to gradually transform Turkey into an Islamist regime, whereas a firm commitment from the EC would have preserved the country's secular and Western-oriented tradition (Mütfüler-Bac 1998). The Association Council Decision N. 1/95, better known as '1995 Agreement', implied for Turkey a 'substantial alignment of regulatory regimes' (Ülgen and Zahariadis 2004). In particular the CU required: 1)

Figure 1



Sources: Ertoğrul, A. & F. Selçuk (2001), "A Brief Account of Turkish Economy, 1980 – 2000", in Russian and East European Finance and Trade, pp. 1 – 27; p. 2.

Sources: Ertoğrul, A. & F. Selçuk (2001), "A Brief Account of Turkish Economy, 1980 – 2000", in Russian and East European Finance and Trade, pp. 1 – 27; p. 8

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bilateral removal of industrial tariffs, a process started with the Additional Protocol consisting of customs duties' complete elimination; 2i) the harmonization of Turkey's external industrial tariff with the CET on imports from third countries (an average of 3%) under the provision of Article 16; 3) adoption of the acquis communautaire in the matter of TBT's elimination, protection of competition— in 1995 in fact Turkey developed its own competition laws on the EU model— administration of border procedures, rules of origins, protection of commercial, industrial and intellectual property rights; 4) under the provision of Article 54, the adoption of EU's commercial policy towards third countries, which means accepting all FTAs between

Table 6

Year	Export (TR)	Change (%)	Export (to the EU)	Change (%)	EU Share of Export	Import (TR)	Change (%)	Import (from the EU)	Change (%)	Import share from the EU	Turkey - the EU Trade Balance
1995	21,6		11,1		51,2	35,7		16,9		47,2	-5,8
1996	23,2	7,3	11,5	4,2	49,7	43,6	22,2	23,1	37,2	53,0	-11,6
1997	26,3	13,1	12,2	6,1	46,6	48,6	11,3	24,9	7,5	51,2	-12,6
1998	27,0	2,7	13,5	10,2	50,0	45,9	-5,4	24,1	-3,2	52,4	-10,6
1999	26,6	-1,4	14,3	6,3	54,0	40,7	-11,4	21,4	-11,0	52,6	-7,1
2000	27,8	4,5	14,5	1,1	52,2	54,5	34,0	26,6	24,3	48,8	-12,1
2001	31,3	12,8	16,1	11,1	51,4	41,4	-24,0	18,3	-31,3	44,2	-2,2
2002	35,8	14,1	18,1	12,0	50,5	51,3	23,8	23,1	26,5	45,1	-5,1

Source: State Planning Organization (SPO), IFM. In Utkulu, U. and Seymen, D. (2003), "Trade and Competitiveness Between Turkey and the EU: Time Serie Evidence", 1 – 28, p. 6.

the EU and trade partners and implementing their provisions, including IPs. Thtough this the CU deepened the extent of economic integration between the EU and Turkey both in terms of legislative harmonization and trade volume. The implementation of the CU certainly impacted Turkish economy, both in terms of foreign trade and EC-Turkey trade. On the import side, in the year of the inception of the CU, Turkey's overall imports raised by 22,2%, but in terms of imports from the EC the increase was by 37,2%. However, these figures decreased sharply in the following years, mostly due to the 1998-99 financial turmoil caused by the crises in Russia and Southeast Asia. In the period of 1995–2002 the average share of imports coming from the EU was around 49,3%, but the pattern was highly uneven: in 2001 for instance Turkey's imports from Europe accounted only for 44,2% of the total. On the export side, Turkey traded on average with the EU the 50,7% of its total exports, especially in 1998 and in the 2000s (see table 6). The establishment of the CU proved to be more beneficial for Turkey in terms of increasing imports rather than exports, thus augmenting Turkey's foreign debt deficit with the EU. However, under the CU regime the EU positively remained Turkey's major trade partner.

EU-Turkey external trade volume in the period 1999-2008 experienced an almost steady increasing trend, amounting to €93.463 million in the last year (Eurostat 2010). In 1999 Turkey's share of imports coming from the EU was 55.41%. However, interestingly enough in the period 2001-2010 EU's share of Turkey's total trade volume started to decline from 53,63% in 2003 to 42,29% in 2010. This downturn cannot be explained only through the recent economic crisis because the declining share of trade towards EU countries began when Turkey's imports and exports were still booming. On the other hand, Turkey has become the EU's seventh biggest imports partner accounting for 3.0% of the EU's total imports and the fifth major export partner receiving the 4.1% of the EU's exports (European Commission 2008). Is it then arguable that Turkey's economy is highly integrated with the EU's economy? Should this assumption be posed under review? The EU's economy is surely more dependent on the US, China, Russia and EFTA members, especially Norway and Switzerland, than on Turkey. However, in the period of 2001-2010 it is acknowledged that also Turkey started to gradually diversify its trade patterns: Middle Eastern and Asian countries have attracted the bulk of Turkey's import-export shares showing a clearly rising trend. As a combined effect of the 2008 financial crisis and Turkey's trade patterns diversification, total trade between Turkey and the EU dropped from $138,193 million in 2008 to $37,605 million in 2010 (see Table 7).

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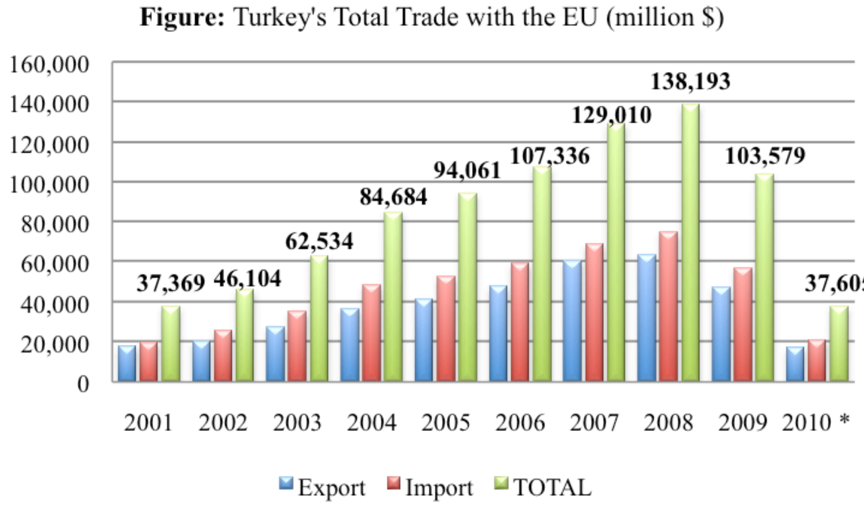
Table 7



Source: Turkstat

Turkey's trade diversification may be understood taking into account several factors. Regions of the Black Sea, the Caspian Sea and the whole Greater Middle East adquired more importance in global trade, and Turkey, due to its peculiar geographical position, may foster a pivotal role in the region. A clear sign of such an intention may be seen nowadays as regard to energy supply, where Turkey is acting to become the 'energy-corridor' bringing hydrocarbons directly to European markets (Tekin and Williams 2009; 2009a). Despite the fact that the EU is still the main commercial partner, Turkey's centrality within countries with abundant energy resources, dynamic economies and growing internal demands seems to set the basis for an on-going economic upgrade. Turkey's efforts to strengthen trade parternship and establish new cooperation agreements with its neighbourhood spells out a certain interest in becoming a major hub in the region. In the meanwhile, trade patterns' diversification would increase Turkey's gains in terms of volume trade, specialization and export-led economic growth. In the light of what has been set up as the new Turkish foreign policy doctrine,[8] becoming a regional hub for trade and energy would increase Turkey's role vis-à-vis the EU, as the membership does not seem a sudden alternative.

According to the official data in April 2010 in fact export to the Near and Middle East covered the 19,3% of Turkey's total export, while the 8,2% has been traded with other Asian countries. The Organization of Black Sea Economic Cooperation (OBSEC) amounts to the 13% of Turkey's total exports. On the import side almost 30% of Turkey's imports come from the Asian continent, almost 40% from OBSEC and former Sovier Republics, while almost 14,4% originates from Middle Eastern and South-East Asian countries grouped within the Organization of Islamic Conference (OIC) (Turkey's Undersecretary of the prime Ministry for Foreign Trade 2009).

One of the key issue in the debate about the future sustanability of the CU agreement deals with agriculture. Although the CU set up the basis for deeper integration towards Turkey's full membership, a crucial sector for Turkish economy such as agriculture has not yet been included in the arrangement. Despite the declining weight of agriculture in Turkish economy, in 2007 this sector still employed 26% of Turkish labour force accounting for 9% of the GDP (see Table 8). Turkey's eventual membership would widen the EU's agricultural area of 39 million hectares. Turkey in fact is a major agricultural producer and net exporter: in 2007 its cereal production equaled 11.4% of the EU's production, fruit and vegetables equaled 60%. Given these data it is possible to understand the EU's reluctance to fully liberalize agriculture. Albeit Common Agricultural Policy's (CAP) new logic has moved price floors to market-determined prices compensating farmers' losses with direct payments, if Turkish agricultural products were fully liberalized within the context of the CU, market prices would reach a lower equilibrium level and the EU's reimbursements to farmers would sharply increase. However, it is worth noting that the bulk of agricultural trade between the EU and Turkey already abides with preferential trade rules and

8 The concept of "Strategic Depth" created by the current Fpreign Minister Ahmnet Davutiglu is based on the assumption that Turkey must gain a primary role in world affairs ("centrality") due to its historical legaly and geographical location. One of the means to realize this aim is in fact trade relations.

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Table 8

Economic importance of agriculture

Indicators	Turkey	EU 27
*Agriculture area (000 ha)**	39 503	182 129***
Proportion of total area	50.4%	41.4%***
Proportion of Arable land	55.6%	59.3%
Proportion of Permanent Grassland	37%	30.9%***
Share of agricultural labour in total labour (%)	26.4	5.6
Share of GDP (%)	8.7	1.8

Source: State Planning Organization (SPO), IFM. In Utkulu, U. and Seymen, D. (2003), "Trade and Competitiveness Between Turkey and the EU: Time Serie Evidence", 1 – 28, p. 6.
* Usable agricultural area (UAA); *** 2006 data.

it is mostly liberalized (Grethe 2003: 27), although no fixed timetable is scheduled to thoroughly include agriculture in the CU. In case of its full inclusion in the CU framework, Turkey would be constrained to lower its prices in accordance with the WTO-led trend pushing towards the liberalization of agricultural goods. This in turn would affect negatively the welfare gains of Turkish farmers, already in a disadvantaged position because mostly concentrated in the poorest areas. Lowering of the agricultural prices would increase the need to support producers through export subsidies, administered prices and direct payments. The ongoing liberalization of agricultural good in fact has already affected Turkey in this sense. In 1998 only producer support in Turkey cost € 9 million, while in 2000 the 86% was granted as price support, creating sharp distortion effects (Grethe 2003: 29).

Thus far, Turkey has benefited from the CU as long as this arrangement provided the framework to gradually shape Turkey's trade legislation on the acquis bases. Legislative harmonization, alignment with CET and adoption of FTAs set up by the EU clearly increased Turkey's access to third countries' markets. Harrison, Rutherford and Tarr (1996) argue that acting simoultaneously on the 'internal' sphere, i.e. the CU, and the 'external' dimension, i.e. tariff reduction with third countries, would reduce 'trade diversion' effects. As a matter of fact Ülgen and Zahariadis (2004: 21) state that 'stronger bilateral trade has thus been accompanied by stronger trade growth overall [for Turkey]' . Indeed Harrison, Rutherford and Tarr (1996) calculated Turkey's gains from bilateral liberalization as recurring and accounting for 1-1.5% of the GDP. However they outlined revenue replacement as a big challenge. Since Turkey would be likely to lose around 1.4% of the GDP from tariffs reduction, fiscal deficit should not be increased in order to offset the loss. Reducing export subsidies applied to trade with third countries is an important measure in order to both diminuish distortion effects and alleviate the burden on fiscal deficit. In addittion Zahariadis (2004 in Ülgen and Zahariadis, 2004) estimates that harmonization with EU technical regulations and abolition of technical barriers would account for 1.5% of the GDP.

As substantial tariff reduction implies an imports increase, currency depreciation is needed to boost exports and keep the current account in balance. In the Turkish case acting on the exchange rate has often spiralled inflation. However, given the exclusion of agriculture from the CU arrangement and Turkey's maintainance of relatively higher tariff, the agricultural sector ended up being a more protected sector. This led in turn to increase the assymetry of the integration depth within the CU, with negative effects for Turkey. As a matter of fact, in order to balance different exports level between the industrial and the agricultural sectors Turkey would have to subsidize agricultural goods boosting exports in an inefficient way and negatively affecting fiscal deficit. Therefore the asymmetric nature of the CU posed some problems that should be addressed

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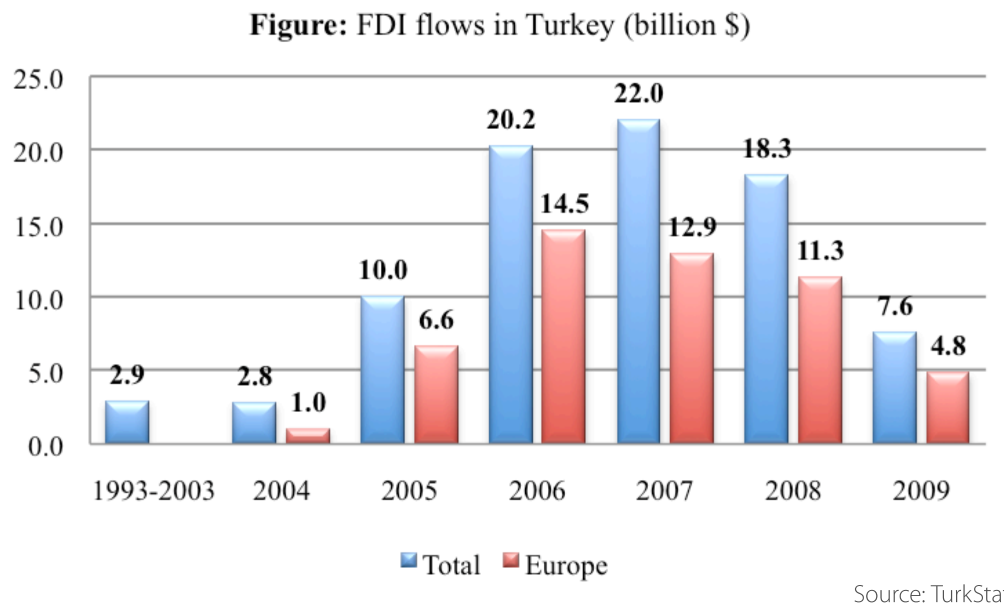
fostering widening and deepening measures.
In addittion, the CU has also produced several drawbacks. To start with, the CU's main weakness seems to be the lack of cooperation and consultation between the two parties in dealing with commercial policy's choices, since Turkey has actually no say on EU external trade policy. This in turn has led to inconsistency between the EU and Turkey trade policy. After 1996 and especially following the 2006 EU' change in trade policy strategy, Ülgen and Zahariadis (2004: 26) stress that

The EU went ahead and concluded these agreements [FTAs with third countries] without actually taking into consideration the existence of a custom union arrangement with Turkey. As such, there were no prior consultations with Turkey and therefore Turkish concerns did not come into play during the negotiations. Yet, because of the custom union arrangement, Turkey was forced to conclude a similar agreement with those countries after the EU did.

This phenomenon is seen as the origin of a highly detrimental situation for Turkey. The EU's trade partners have proved very often to be unwilling to negotiate with Turkey because via FTA's establishment with the EU and in virtue of EU-Turkey CU, they were able to export tariff-free goods also to the Turkish markets. By contrast, since the preferential agreement just included goods originating from the EU, they were not bound to lower their tariffs vis-à-vis Turkish goods. To this extent, EU-Turkey CU created a typical case of 'trade deflection'. Implications for Turkey were, firstly the fact that Turkish exporters found themselves in disadvantage as regards the EU's exporters towards third countries as Turkish goods did not fall within the preferential agreement; secondly the loss of potential tariff revenues from goods coming from third countries who entered the Turkish market via EU (Kutlay 2009: 127).
The second drawback is that several areas are still not included in the CU. Besides the 'in-between' case of agriculture, liberalization of trade in services could have a strong impact on productivity and competitiveness of Turkey's service sector and furthermore, it would curtail state involvement in economic activities, ensure regulatory policy convergence and improve economic governance. In addition, since Turkish economy is rapidly shifting towards a service-led economy— service's share of total GVA raised from 53.4% in 1998 to 64.4% in 2008 (Eurostat 2010)— the liberalization of this sector could further improve CU parties' mutual gains in terms of efficiency and lower prices. However EU members' fear for 'social dumping', yet magnified by the latest enlargement, is likely to deny Turkish enterprises the right to settle and eventually bring their labour force to the EU.
On Turkish side, the 'implementation problem', namely the insufficient and inadequate application of norms and standards, also concerns techni-

Table 9



Source: TurkStat

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cal regulations, with the result that some industrial goods categories heavily imported by the EU such as cars, chemicals and foodstuff, still do not fit with the standards. Trade flows then become slower, with obvious welfare losses (Barysch, 2005). Moreover, increasing current-account deficit, huge public debt and lower employment rate undermine Turkey's ability to attract FDI, especially long-term inflows (see Table 9).

to widen the CU also liberalizing the service sector, the EP would be asked to grant its assent and via INTA it will be constantly updated about negotiations' outcomes. However, it would not be able to determine Commission's choice of whether or not to widen the CU, but it will share the decision-making power with the Council to eventually adopt the act.

By contrast, the division of competence between EU and member states would have major repercussions. Since new crucial areas have been included under the umbrella of the EU;s exclusive competence, member states have agreed on yielding part of their trade policy's autonomy to the Commission, thus enormously widening its power of initiative. Trade-related aspects of services, FDI and IPs are in fact the furthest challenges to international trade liberalization, given their growing weight

The CU and the ToL

In order to understand what kind of implication the ToL could have on the EU-Turkey CU two factors should be taken into account. First, the likely institutional changes of the ToL affecting the EU trade policy and consequently the existing CU. Second, ToL novelties, interacting with global trade dynamics that may re-shape EU trade actorness. With the ToL the EU has achieved institutional channels which widen and strengthen EU trade policy's scope of action. Despite its importance insofar as EU legitimacy is concerned, it might be said that the increased role of the EP is not likely to determine EU-Turkey CU economic improvements or worsening. Rather, as the EP mirrors European society's claims it would work as catalyst or obstacle when time to deepen the EU's relations with Turkey will be ripen. For instance, if the EU decided on national GDPs, the global shift towards technology and knowledge-based economy and their technical and legislative complexity. EU members decided to maximize their individual strength in bilateral as well as in multilateral negotiations acting collectively within the EU bloc. The obvious result might be two-fold: the Commission's competence in trade policy has been extended in order to pursue a more coherent, encompassing and far-reaching trade policy, and this may strengthen the EU in multilateral and bilateral negotiations; as a result, the overall EU's capability to act as an independent and assertive actor in international trade may be enhanced. Being empowered with the competence to include all the aspects concerning trade and trade liberalization in the globalization era, the EU would be able to exploit the comparative advantage created by high added value and technological goods, knowledge, information and IT economies, highly developed human capital formation and accumulation.

A possible scenario might occurr if and when the EU would apply the ToL's provision related to trade policy within the context of the CU with Turkey. In this case the existing arrangement would be widened and deepened to a new dimension of trade integration between Turkey and the EU. In spite of macroeconomic constraints and structural asymmetries, such as agricultural sector's relevance, state-dominated enterprises and low level of competition enforcement, Turkish economy has proved to be dynamic and onward-oriented. Service, especially communication and transport, is a fast developing sector which is expected to become Turkish economy's engine. As shown above, service liberalization between the EU and Turkey could push down prices as a result of the increased competition, thus augmenting net consumers welfare gains and maximizing efficiency for producers. In the case of a more integrated CU, Turkish market will benefits not only in quantitative terms, but also to the extent of stability and reliability. Hence, foreign agents would be more prone to invest in Turkey thus increasing long-term FDI inflows. Under Article 207 (1) the EU will liberalize FDI while protecting EU investors, thus creating a mutually beneficial framework to en-

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sure a safe investment-environment and boost economy. Turkey, who still attracts a relatively low portion of FDI given its market size, will be directly favoured by this provision. To sum up, if applied to the existing arrangement the novelties brought about by the ToL could start up the CU on new, more dynamic and more challanging basis.

However, the most thought-provoking point might depend on the EU future trends in trade policy. Once acknowledged that ToL reforms' goal is to grant to the EU the capability to act as a more visible, coherent and effective trade actor, what is important to understand is how and in which direction the EU will carry on its trade policy. To this extent, it is still unclear whether the dynamics taking place at global level, i.e. economic regionalization vs. multilateralism, are likely to have a stronger impact than internal preferences, i.e. switchover to bilateral FTA/PTA-based regimes. Some authors (Abbott 2008; Kutlay 2009; Martin et al 2010), without putting into question the liberalization trend undergone by global trade, have argued that multilateral liberalization has experienced a sharp decline favouring the flourishing of FTAs. As it was shown above, also the EU since 2006 has underpinned its trade strategy to this logic bypassing the multilateral praxis. This shift is likely to hold for two main reasons. On the one hand, the crisis in Greece has prompted an escalation of panic throughout the EU and global markets (Nye, 2010), laying bare Economic Monetary Union (EMU) structural asymmetries and Euroland's currency vulnerability (Ito 2010; Rodrik 2010). The EU has to find a way to reaffirm itself in the international trade arena,[9] not only to sustain welfare gains achieved so far but also to restate its primary legitimacy source, i.e. economic strength. On the other hand, the EU is still one of the most important global economic actors, and the size and specialization of its economy can produce better trade-offs when it acts on bilateral or regional basis. In sum, it seems that the EU has started to grant much more value to the net gains achievable through FTAs rather than the ones provided by multilateral arrangements, mainly within the WTO rounds, regardless distortion effects emanating from the discriminatory character of each preferential agreements.

Should the EU keep pursuing its trade liberalization agenda, now including also services, IPs and FDI, by favouring bilateral arrangements, Turkey's gains from the current CU would be unequally distributed. Assuming that the EU carries on negotiations in order to liberalize trade in services, FDI and IPs within the context of the CU, when the EU would set up the FTAs with third countries dealing with the same contents, the 'trade deflection' scenario valid for industrial goods woud appear again in Turkey's detriment. Furthermore, if the EU would decide not to extend service, IPs and FDI liberalization to the CU with Turkey, distortion effects arising from preferential agreements between a world major trade bloc and highly dynamic economies on fast growing and gainful sectors would be likely to undermine Turkey's global competitiveness and reduce its capability to penetrate new markets.[10] Moreover, the practice of 'shadowing' the EU;s FTAs policy, being the only viable solution to offset the diversion and deflection effects, has proved to be costly. First, the bureacratic cost of initiating and maintaining separate negotiation in order to settle a final agreement. Second, often the lack of willingness of the third party to negotiate with Turkey a FTA mirroring that established with the EU. Needless to say, the outcome of this long-lasting and resource-draining process, is by no means secure. The inclusion of the 'Turkish clause', requiring the third party to sign a similar FTA with Turkey, is an appropriate step to share this burden. Also, the fact that Turkey is compelled to undertake further efforts in order to counterbalance the effects of the unilaterally decided EU trade policy, from the Turkish standpoint, is the result of the highly asimmetrical nature of the CU.

9 For instance, Lady Catherine Ashton's appointment as High Representative of the Union for Foreign Affairs and Security Policy, who was in fact former EU Trade Commissioner is highly indicative of EU's eagerness to point out trade as EU external action's cornerstone.

10 However, as Kirişci (2009) points out, Turkey has started to pursue a more active 'trade diplomacy' in order to follow EU external trade policy and too sign bilateral preferential agreements with EU's new trade partners (see also Kutlay, 2009). This practice of 'shadowing EU's FTA policy' has been for long carried on by EFTA (Baldwin & Wyplozs, 2009: 461).

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Table 10

Status of Preferential Trade Agreements (PTAs) of EU and Turkey in Comparative Perspective				
	EU		**Turkey**	
Country	Starting Date of Negotiation	Signature Date of the Agreement	Starting Date of Negotiation	Signature Date of the Agreement
Isreal	1995	1995	1994	1996
EFTA Countries	1990	1992	1990	1991
Croatia	2000	2001	2000	2002
Bosnia-Herzegovina	2000	2007 (initialized)	2002	2002
Serbia	2005	2007	2007	continuing
Montenegro	1996	2006	2007	continuing
Morocco	1995	1995	1999	2004
Tunisia	1995	1995	2002	2004
Palestine	1995	1997	1999	2004
Syria	1995	2004 (initialized)	2004	2004
Egypt	1995	2001	1998	2005
Albania	2000	2006	2003	2006
Jordan	1995	1997	2005	continuing
Lebanon	1995	2002	2003	continuing
South Africa Republic	1995	1999	2004 (exploratory talks)	continuing
Algeria	1995	2001	Not started	March 2010 JEC*
Faeroe Islands	-	1991	2000	continuing
ACP countries	1998	2000	Not started	-
Mexico	1996	2000	Not started	-
Mercosur	April 2000	continuing	June 2008 (exploratory talks)	-
GCC	1990	continuing	November 2005	continuing
Ukraine	April 2008	continuing	June 2007 (exploratory talks)	-
India	June 2007	continuing	February 2008 (attempt)	-
Chile	2000	2002	March 2008	July 2009
South Korea	May 2007	October 2009	January 2008 (attempt)	-
ASEAN	May 2007	continuing	June 2007 (attempt)	-
Central America	September 2007 (exploratory talks)	April 2008 (I round)	Not started	-
Andean Community	September 2007 (exploratory talks)	April 2008 (I round)	Not started	-
Pakistan	-	-	November 2009	March 2010 MoUs**
Iran	2002	stalled	2007	April 2009

Source: Kutlay, M. (2009), "The Changing Policy of the European Union towards Free Trade Agreements and its Effects on Turkish Foreign Trade: A Political Economy Perspective", USAK Yearbook, 2, 117-132, p. 127.
* Joint Economic Commission (JEC) ** Memoranda of Understanding on economic cooperation, agriculture and investments

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Conclusion

From the EU's perspective, the institutional channels opened by the ToL are likely to strengthen the Commission's ability to cast a more coherent and inclusive trade policy, which in turn might be able to shape a more assertive and credible role as an autonomous actor in the international trade arena. Given current patterns of trade globalization, the high volatile nature of the international financial system and the growing intra-systemic asymmetry, multilateral arrangements seem harder to achieve and less attractive in terms of the immediate gains and positive outcomes. Thus, it is arguable that the FTAs will continue to be the most used trade arrangements insofar as trade liberalization on wider and wider sectors is concerned.

In this context, the EU-Turkey CU looks more like a liability, rather than an assett. Comparing economic advantages that the EU would achieve under ToL provision as regards trade policy, and by contrast the detrimental situation that Turkey may face, it seems obvious that the 'in-between' solution offered via CU is not satisfying. Turkey is by far a rising international actor whose power is less and less based on its traditional military strength; economic relations and commercial ties have spread throughout its entire neighbouring area. The geography of Turkey's economic actorness is radically changing: at the time of CU establishment Turkey was in fact exclusively dependent on the trade flows with the EC, while nowadays trade patterns have widened and diversified to great extent. A highly interesting point is that Turkey's share of market oriented to countries having just a marginal impact on the EU's economy, such as Iran or Central Asian countries if we exclude natural resources, is dramatically growing. In this context, Turkey's ability to act as a fully autonomous economic actor is curtailed by the CU's binding provisions, which compell Turkey's trade policy to attain to EU's unilateral decisions. In this framework, Turkey's wider interests run the risk to be subdued to a far rigid scheme.

Furthermore, if we carefully look at the very reason explaining the establishment of a CU with the EU, namely the prospect of full-fledged membership in the medium-term, and even more carefully we read between the lines of EU political debate about Turkey's accession, it is arguable that the mismatch among Turkey's expectations, the commitment towards membership and the EU's ambiguous behaviour is clearly deepening. More academic and public debate is needed in order to outline the changing nature of Turkey's trade diversification and to evaluate the impact of keeping the CU up. Current arrangement appears too rigid and too less inclusive to match with Turkey's economic dynamism. And without any serious evidence of an eventual membership, the CU long-term sustainability could start to be put into question.

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