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Turkey in the World Trading System and the WTO: Activism under Global Challenges and the EU Process

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Abstract

Turkey's increasing engagement in world economy and international trade invites her to take a proactive approach in the WTO and in regional trade agreements. Exogenous factors including her accession process to the EU, and the obligations under the Customs Union; as well as current state of negotiations within the realm of the WTO, and developments in the world trading system are important factors to shape this strategy. In this context, Turkey plays role of a middle-power actor who positions herself between developed and developing economies. The study argues, this dilemma reflects her Janus-face and can be avoided by her own choice. In this context, what Turkey needs is to establish a single identity that focuses on long-term competitiveness to transform its economy towards the production and export of medium-high technology sectors; and to be able to formulate a more comprehensive trade policy beyond a mere export strategy by considering vertical integration in global production and trade patterns; services, access to supplies; and the emerging global trade agenda in trade-related matters. This will help her to achieve the aspiration to become a regional leader and an influential global actor.

Keywords: *Turkey, Trade Policy, World Trade Organisation, European Union, Customs Union.*

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Introduction

Turkey's increasing engagement in the global economy has changed its trade regime and there upon its trading position within the world trading system over the last couple of decades. Turkey does not play a major role in the WTO and Doha Development Round (Doha Round). Mainly because it represents only a small figure of world exports and imports in world merchandise trade, and in trade in services.[1] More importantly, Turkey's trade position is largely shaped by its obligations under its Customs Union with the European Union and other bilateral trade agreements. However, Turkey can be regarded as a middle power that can be described as an emerging market destined to join the EU, and therefore represents a political gravity centre in its own neighbourhood. These changing parameters have helped Turkey to develop an assertive trade policy in the multilateral and bilateral spheres. Three important motives induced Turkey to initiate a more self-confident and offensive approach in its trading relations within the WTO.

First, the Turkish economy experienced a major transformation after 1980 adopting the principles of the market economy. In this context, export-oriented industrialisation in conjunction with policies such as flexible exchange rates; a more liberal import regime, new foreign investment policy; measures to create a liberal financial market and for the modernisation of the capital market; export promotion policies; and institutional restructuring have brought about a spectacular change in the structure of Turkish imports and exports. The dominant role of agricultural products in exports was terminated in favor of a rise in industrial products. Also the product range was diversified and the volume of foreign trade as a consequence increased significantly. Apart from the implications of several unilateral economic measures, the economic sectors had to reorient themselves to the changing multilateral discipline within the framework of the GATT/Uruguay Round and the WTO. Therefore, as an open, market-oriented economy Turkey could not be remain oblivious to the developments in the international trading regime gathered around the WTO and had to define its interests accordingly. Secondly, Turkey's close relations with the EU, a leading actor in the GATT/WTO system since early 1990's, forced Turkey to reposition its stakes in line with those of the EU providing that its accession process links with the Customs Union necessitated this. In this context, the EU position and assertiveness can stimulate Turkey to take initiatives in many areas of trade negotiations when they converge with the intentions of the EU. Third, the domestic actors started to define their interests in response to global developments such as new production networks, supplier-oriented industrial upgrading, technological and communication improvements, and advancements in financial markets. Gradually, export-oriented sectors sufficiently matured so they can strongly pressure the policy-makers for enhanced market access, while domestic import-competing sectors had to react more firmly to preserve their existing market share. Both actors started to play more visible influence on the governments. As a result, the governments had to be more involved in international trade regime and multilateral negotiations to balance domestic interests (i.e. putting themselves under WTO commitments) so as to obtain political support to pursue market-oriented policies to favour liberalising groups, as well as to defend the position of protectionist groups via available WTO mechanisms.

The multilateral aspect of Turkish trade policy encompasses WTO commitments with regard to trade in goods and services, trade-related intellectual property rights, trade-related investment measures, and various trade policy rules in areas within the WTO domain. Following the establishment of the WTO Turkey started to take an active role in negotiations (especially after the launch of the Doha Round) in issues pertinent to its evolving production and trade patterns. However, Turkey's position within the WTO system is largely shaped by a behavioural pattern reflecting its dual face. Accordingly, it keeps its developing country status as much as possible so as to preserve the rights already bestowed to such countries, and to benefit special and differential treatment in areas of negotiations if its interests require this. On the other hand, Turkey has to remain in close cooperation with industrialised nations, mainly with the EU because of the fact that, Turkey has already lowered its industrial tariffs, and liberalised its customs regime to a further extent than many other developing countries in line with its CU engagement. This is not a surprising case when Turkey has common interests with the EU but faces similar problems with other developing countries in world trading regime. This brings Turkey at the crossroads of national, regional and global forces as illustrated by Öniş and Mutlu (2008: 103). This unique position that requires a balancing between developing and developed economies and so makes Turkey an interesting actor to analyse.

This article focuses on the issues of central importance to Turkey's case within the WTO system and the Doha Round, in particular. It aims to explain the main priorities and concerns in the Round by referring to its special relationship with the EU. The latter was embedded in Turkey's transformation process. Before an investigation of Turkey's interests and position in several negotiation areas, the study initially provides a review of the Turkish trade structure, particularly its changing trade patterns, the priorities in evolving trade strategy, and the challenges thereof. The study finally provides for the conclusive remarks about Turkey's position in the WTO.

A Synopsis of Turkish Trade Regime and Prospects for a Changing Trade Strategy

Turkey's trade structure has radically changed, following post-1980 reforms in foreign trade regime and the establishment of the CU. This change induced by several unilateral trade liberalisation measures had significant impact on Turkey's trade position in the international trading system, particularly in GATT/WTO arena. This part summarises the main shifts in Turkey's trade patterns to provide an overall understanding about Turkey's position within the global trading system.

Turkish Trade Regime in Post-1980

Turkey has followed an inward-oriented trade policy largely based on import substitution, and exportation of primary agricultural and labour-intensive manufactured products mainly to European markets until 1980. A more liberal trade policy was adopted in 1980 with a view to integrating the Turkish economy into the world economy. This turn has largely been a consequence of the need for transformation in Turkey following developments in domestic politics and the world economy. However, this evolution has not been an exceptional case for Turkey alone in this era. This was a phenomenon observed in many other developing countries in early 1980's, too. According to Rodrik (1992: 31) the most important reasons for the above-mentioned changes relate to the economic circumstances in which most developing countries found themselves in as a consequence of the prolonged macroeconomic crisis in which higher inflation, and negative or slower growth were experienced. This eventually induced many of these countries, including Turkey to endeavour to prevent the deterioration in economic conditions and to focus beyond a mere concern about distributional considerations which included the import-competing interests of rent-seeking sectors. Economic stability measures in January 1980 were adopted to repair the downward economic trends including a tackling of resurrected current account deficits. In what followed, Turkey abondened its import substitution policy and started an export oriented industrialisation strategy with the subsequent opening of import markets in 1980's. In the export side, Turkish Lira was devalued by almost 50 percent against the US dolar to limit domestic demand, while the fixed exchange rate policy was replaced by a more flexible one with the aim of boosting exports. A package to encourage exports by means of tax rebates, export credits, and subsidies helped manufacturing industry to reach ever larger export values. In the realsm of imports the strict licensing mechanism was liberalised, quantitative restrictions were progressively phased out, tariff rates were eliminated, especially on imports of intermediate and capital goods, and nominal tariffs were lowered progressively from 77 percent in early 1980's, down to 40 percent in 1990, and then to 20 percent in 1994 (İzmen and Yılmaz, 2009: 175).

However, external conditions such as economic stagnation in the world economy in the late 1980's and during the 1990's, the Gulf War, the economic embargo against Iraq, and chronic domestic problems such as high inflation rates, budget deficits, rising debt stock, produced a severe economic crisis in 1994 in Turkish economy. Devaluation of Turkish Lira and economic measures to combat the crisis had positive impact on the competitiveness of Turkish exports in the short run. In the subsquent peirod exports rose by 18 percent after a modest 4 to 8 percent increase over the preceeding three years, while imports dropped by 21 percent in that year.

Turkey's Relations with the EU Based on a Customs Union

Turkey's ambition to become a part of the European Union (then the EC) and volatility in her economic structure induced policy-makers to take the radical step to finalise the CU with the EC in spite of domestic reactions from import-competing sectors. However, export-oriented industries forcibly supported this process in order to capture a much bigger and sustainable share in the European market. The CU that entered into force in 1996 had a significant effect on the Turkish economy, ultimately increasing the competitiveness of Turkish manufacturing industry and the shares in domestic production and export of relatively more technology-intensive products. Within this framework, Turkey has adopted a large body of EU trade legislation.[2] The CU brought four main substantive requirements on Turkish trade policy. First, Turkey had to remove all tariffs and quantiative restrictions on industrial products imported from the EU member states, and open Turkish domestic market to European competition. Apart from textiles and clothing the EU had eliminated most tariffs and quotas on imports of manufactured products from Turkey. Therefore the most notable effect of the CU for Turkish exports was the abolition of existing European quantitative restrictions applied in these sectors. This was welcomed by Turkish textile and apparel industry which considered Europe as the most sustainable and stable market for their products, at that time. The free movement of goods within the customs union applies to all products, including those imported from third countries into either the EU or Turkey. Turkey was to abide by EU textile policy, as well.[3] Secondly, Turkey had to align with the Common Customs Tariff (CCT) of the EC on imports of industrial products from third countries.[4] The average weighted industrial tariffs under the CCT are as low as 3.6 percent, and this incurs Turkey to implement a strategy in line with the EU, and other OECD countries in NAMA (non-agricultural market access) negotiations to pressure other developing and emerging powers to reciprocate by lowering their tariffs. Turkey has adopted the Community Customs Code and has started to implement the new import and export legislation since the beginning of January 1996. Third, Turkey was expected to adopt the preferential trading arrangements, including the Free Trade Agreements (FTAs) of the EU. Therefore, Turkey started to negotiate such arrangements with European Free Trade Association countries, several CEEC's (later many of whom became the EU members) as well as Israel, Macedonia, Croatia, Bosnia-Herzegovina, Palestinian Authority, Tunissia, Morocco, Syria, Egypt, Albania, and Georgia as a result of its obligation under the CU. These agreements represented the first wave of such bilateral trade schemes ever held by Turkey, (its CU link being an exception) provided an easier access for Turkish exports into these territories. Turkey has also based its Generalised System of Preferences (GDP) on that of the EC's. However, their significance for Turkish exports was secondary as Turkish industry was more concerned with the EU market in this period. Subsequently, Turkey had to follow several other EU preferential arrangements in the form of FTA's with major trading partners, when the EU trade policy switched to the arena of regional trade schemes in the aftermath of the failure in Cancun Ministerial in 2003. Finally, in accordance with the Decision of the CU, Turkey started to implement trade policy measures similar to those of the EU in the areas of imports, exports, and matters relating to customs. Turkey also adopted measures in areas directly relevant to the functioning of the CU. In intellectual property matters, Turkey brought copyright and patent laws into line with the EU, and had to implement the Uruguay Round rules on patents for pharmaceutical processes and products by the beginning of January 1999, thereby establishing a Patent Intitute. Competition was another vital issue. Turkey has aligned its laws fully with the EU. The law on competition was adopted and enforced in 1994, and it set up an independent Competition Authority, in 1997. Standards and technical barriers to trade were important areas to achieve free trade between the EU and Turkey. Accordingly, Turkey had to harmonise its technical legislation with that of the EU.

The CU can be regarded as a form of unilateral trade liberalisation by Turkey. However, it should be noted that the EC had previously eliminated a substantial part of its tariffs and non-tariff barriers facing Turkish exports, and it was nothing but a late reciprocal step by Turkey. In any case, the CU brought a much easier market access for Turkish products expecially in the fields of textiles and clothing following the EU's elimination of the existing quantitative restrictions. Additionally, the CU strenghtened Turkey's privildged position in the EU market vis-a-vis third country products.

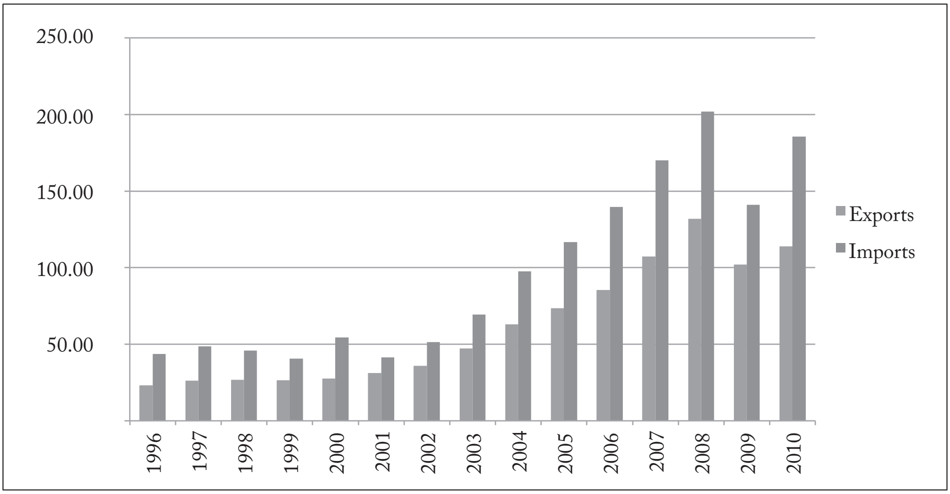
The CU was the most important step in Turkish trade regime in the 1990's and changed Turkey's foreign trade structure by increasing the capacity of Turkish industry to cope with competitive pressures and global imbalances.[5] In addition to its implications for the competitiveness of Turkish industry, the CU also provided a new outlook for Turkish trade and customs policy which became more EU-oriented in multilateral trade negotiations within the WTO negotiations. The new trade patterns in post-CU period led Turkey to formulate its priorities by taking into consideration of its commitments towards the CU and the EU accession process. Despite several inconsistencies and mismatching priorities, the EU effect should not be underestimated in shaping Turkey's negotiating position in different areas in the Doha Round, particularly in industrial products (NAMA) and trade facilitation matters.

The Changing Patterns of Turkish Trade Policy

Strategies and policy choices focusing on export-oriented growth have become fundamental elements to shape the structure of Turkish trade in post-liberalisation era. Nonetheless, both international developments and domestic policies to confront globally-induced challenges were important determinants to understand the shifts in specific periods. For instance, the expected implications of the CU were not realised in exports until early 2000's for two main reasons. First, it was too early to feel the stimulating effect of the CU on the Turkish economy before Turkey adopted a substantial number of harmonisation measures. Second, several exogenous factors such as the economic crisis in Asia in 1997 and in Russia in 1998; and the 1999 earthquake that hit several Turkish industrial premises led Turkish economy into crisis in 2001. The post-crisis adjustment measures helped to increase the exports and the exports/production ratio for almost all manufacturing sectors only after 2002. Furthermore, the crisis-driven shrinking domestic demand forced many Turkish producers to search for new export markets, in addition to those of the EU. In this context, the Undersecretariat of Foreign Trade-UFT (renamed as the *Ministry of Economy*, in 2011) timely initiated the *Strategy of Neighbouring and Surrounding Countries* in 2000, and the *Strategy of African Countries*[6] in 2003, in order to reduce regional dependency in export markets. In this period, the start of the Doha Round of negotiations was also welcomed by Turkey as liberalisation schemes to be adopted by 2005 (the original deadline for the Round) were expected to provide better market access opportunities for Turkish exports.

Indeed, this benefitted Turkish exporters in helping them find alternative destinations in the following period. Several motives can explain the rising levels of exports, i.e. dropping real-labour costs, improving financing facilities, a better regulated banking sector in the post-crisis period, higher prices for export products in international markets, and a positive development in euro/dolar parity in favour of Turkish exporters.[7] But, more convincingly it can be argued that, the long-run effects of te CU were better realised in Turkish manufacturing industry regarding the increases in productivity, technological development, reduced x-inefficiencies thanks to stiff competition, and better exploitation of the economies of scale by Turkish enterprises (Figure 1).

Figure 1. Turkish Exports and Imports After the CU, 1996-2010. (Billion $)



Source: Turkish Statistical Institute (TURKSTAT) and Ministry of Economy (formerly the UFT).

The volume of imports also increased reflecting the change production patterns in Turkish manufacturing industry with a notable increase after 2003, yet an exceptional decline in 2009 as a result of global economic and financial crisis.

The shares of the trading partners also changed considerably as a result of both global and domestic structural changes in the economy during the last decade and a half. The EU-15 share in total Turkish trade declined from over 50 percent to 46 in 2010, while the share of Middle East and North Africa (MENA). Russia, Central Asian Republics, and Asian countries increased substantially. In imports, a similar trend took place where EU products were significantly replaced (the total share of the EU-27 was only 38.9 percent in 2010 compared to 52 percent in 1996) by imports from Asian countries and Russia. Between 1996-2010, the share of imports from the Far East, and South Asia doubled while it almost tripled from Russia and Central Asian countries (see, Table 1). The EUs share in the total trade deficit fell significantly from 57 percent to 14 percent while trade with Asian countries started to represent the substantial part of Turkey's trade defict (78 percent). The rise in imports from Asia was predominantly a result of diverted Turkish demand for intermediates from Asia (i.e. Far East Asia, mainly China) because these countries were competitive and priced their goods in dollar terms. Turkey also sourced most of its energy products such as oil and natural gas from Russia and Central Asia in order to diversify its energy supply markets. The political atmosphere between Russia and Turkey also helped this process to make the former as the second major import destination in Turkey following the EU-27, in 2009. Yükseler and Türkan (2008: 15) noted that the trend reflected an asianisation of imports to Turkey. Meanwhile, the share of MENA and African countries in the volume of Turkey's exports increased slightly over time with a constant share in imports from the region. The region represented an exceptional case whereby Turkey experienced occasional trade surpluses in particular due to its enlarged market access to Iraq (Turkey's second-rank export market in 2009 after the EU-27).

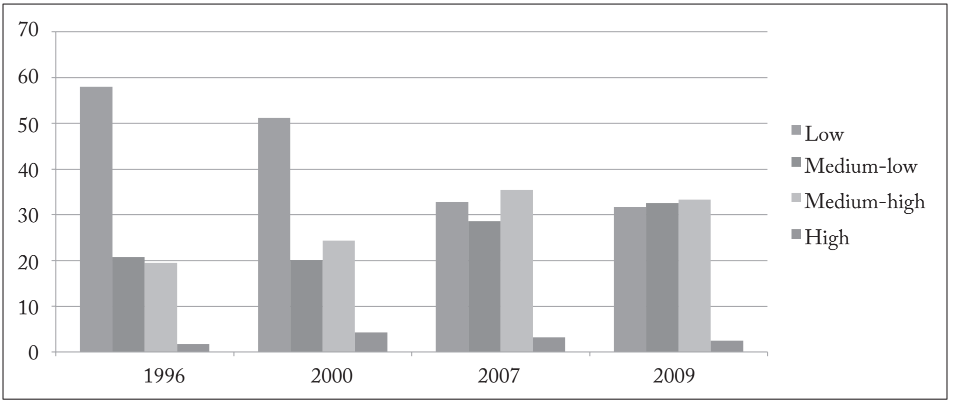
Table 1. Change in Turkey's Exports and Imports by Country Groups (%) in the Post-CU Period

	1996	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total Share In Exports (%)										
EU-15	49.7	54.0	52.2	51.4	51.2	51.8	51.6	48.8	47.9	46.7
EU-10	2.3	2.1	2.1	2.3	2.8	3.0	2.9	3.4	3.6	4.3
Other Europe	5.1	5.2	5.3	4.7	5.3	6.0	6.1	7.2	8.0	8.9
Americas	7.8	10.2	12.4	11.1	10.4	8.7	8.7	7.7	6.8	4.8
Asia I	5.7	3.3	3.2	3.0	3.7	3.4	2.5	2.5	2.7	2.8
Asia II	11.2	5.6	5.7	6.1	6.1	6.0	5.9	6.5	7.7	8.9
Africa & M. East	13.3	13.6	12.2	13.4	12.5	14.3	15.5	16.7	16.0	16.5
Free zones	1.9	2.9	3.2	3.0	4.0	4.1	4.1	4.0	3.5	2.7
Other	2.8	3.1	3.7	5.0	4.1	2.8	2.7	3.1	3.7	4.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Total Share In Imports (%)										
EU-15	53.0	52.6	48.8	44.2	45.2	45.7	43.4	38.9	36.4	34.1
EU-10	0.9	1.1	1.4	1.6	2.3	2.6	3.2	3.2	3.1	3.3
Other Europe	4.6	4.1	4.3	5.8	7.2	7.4	6.9	7.0	6.5	6.5
Americas	10.2	9.0	8.6	9.1	7.6	6.8	6.5	6.5	6.5	6.9
Asia I	9.9	11.4	11.6	11.2	11.7	13.0	14.9	16.6	17.0	18.1
Asia II	6.9	9.1	10.4	11.1	10.6	11.1	13.1	14.7	16.6	18.2
Africa & M. East	11.6	8.6	10.4	13.2	10.7	10.3	9.8	11.2	12.1	10.7
Free zones	0.7	1.2	0.9	0.7	1.1	0.8	0.8	0.7	0.7	0.7
Other	2.1	2.8	3.5	3.1	3.6	2.2	1.4	1.3	1.3	1.5
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Trade Balance Share (%) - deficit / + surplus										
EU-15	-56.8	-50.1	-43.3	-21.5	-31.4	-32.7	-28.4	-22.2	-18.1	-12.6
EU-10	0.8	1.0	-0.8	0.7	-1.2	-1.7	-3.6	-2.8	-2.3	-1.5
Other Europe	-4.0	-2.2	-3.4	-9.0	-11.7	-10.5	-8.4	-6.6	-4.0	-2.4
Americas	-13.0	-6.9	-4.7	-2.8	-1.0	-2.9	-2.4	-4.5	-6.0	-10.4
Asia I	-14.7	-26.6	-20.4	-36.6	-30.4	-33.4	-37.6	-40.6	-39.5	-44.2
Asia II	-2.1	-15.7	-15.2	-26.8	-21.2	-21.9	-26.3	-28.5	-30.6	-34.0
Africa & M. East	-9.6	0.9	-8.5	-12.8	-6.4	-1.7	0.6	-1.6	-5.7	-0.8
Free zones	0.7	1.9	1.5	6.3	5.6	6.1	5.1	5.1	3.7	2.7
Other	-1.3	-2.4	-3.3	2.7	-2.3	-1.2	1.0	1.6	2.5	3.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Yükseler and Türkan (2008: 84).

Turkey experienced a structural change in its exports shifting from conventional and unskilled labor-intensive sectors to more technology intensive-sectors requiring more skilled labor. Increase in exports, was substantial in sectors which can be classified as medium-low and medium-high-technologies between 1996 and 2010. This was especially the case in basic metals (by 50 percent). machinery and equipment n.e.c. (by 100 percent). and motor vehicles, trailers and semi-trailers (3 times). while traditional share of low-technology products such as textiles and clothing industries declined four times from over 40 percent to 20 percent from 1996 to 2010. Other declining sectors as a share in total exports were low-technology food products and beverages (from 12 to 6 percent) and chemicals (medium-high) in this period. Accordingly, the total share of medium- tech sectors accounted for 65.8 percent in 2009, while its total sum (medium-low and medium-high in aggregate) was only 40. 3 percent in 1996 (Figure 2). The share of low-tech exports mainly in textiles and clothing dropped sharply from 57.8 percent in 1996 to 31.7 percent in 2009.

Figure 2. Change in Technology-Intensiveness of Sectors in Turkish Manufacturing Exports 1990-2009 (%)



Source: Turkish Statistical Institute (TURKSTAT).

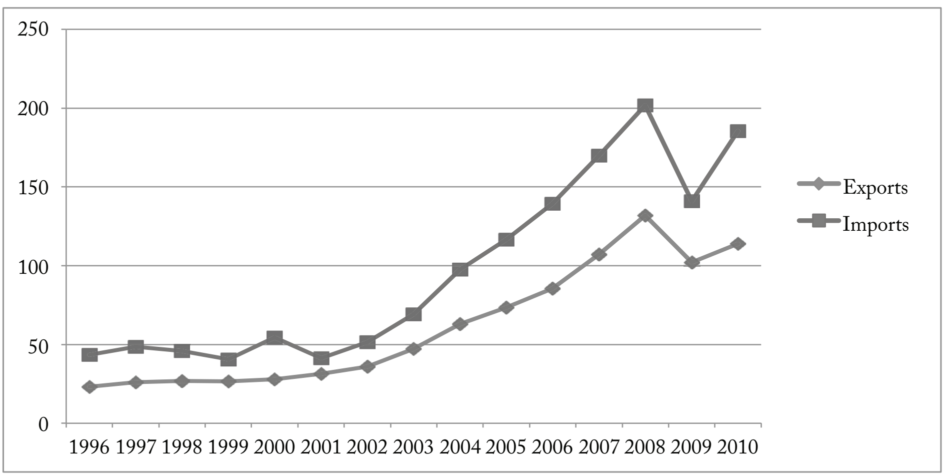
This trend is also reflected in Turkey's trade policies within WTO when Turkey proposed its trading partners to lower their tariffs in export-oriented sectors, while it instituted safeguard measures in declining industries in which reduced competitiveness provoked domestic producers to search for protection against rising imports. In 2006, for example Turkey was in favour of a scheme for emergency measures in textiles and clothing sectors to offset the domestic implications of the quota phase-out process in the post-Uruguay Round period.[8]

Challenging Factors for Turkish Trade Policy

Following the introduction of an export-oriented strategy and implementation of trade liberalisation policies, Turkey became an offensive exporting country with the share of industrial products rising progressively to almost 92 percentas as part of its total exports[9] in 2010, only constituted 36.6 percent in 1980. However, several factors continue to challenge the rising trend of success in Turkey's trade in the last three decades.

The first challenge is the emergence of persistent trade imbalances which has repercussions on the countrys current account deficits. Actually, the *trade deficit* is not a new phenomenon, but it has been a characteristic in Turkey's trade operations since the end of the Second World War, this amounted to over 70 billion dollars, in 2010. Following the CU, the deficit continued (indicated in Figure 3) while the export/import ratio has remained on average only 65 percent. Substantial increase in exports did not increase this ratio of exports to imports, in any discernable way. However, the ratio of trade deficit to the GDP rose from 15.9 percent in 1980, to 19.4 percent in 1995, finally reaching to 45 percent in 2008, with a peak of 56.3 percent in 2006. Energy imports have been an important factor contributing to Turkish trade deficits (in fact export/import ratio raises from 65 to a more satisfactory level of 81 percent between 2002-2010 if energy imports are excluded).

Figure 3. Turkish Trade Deficit in Dollars (1996-2010)

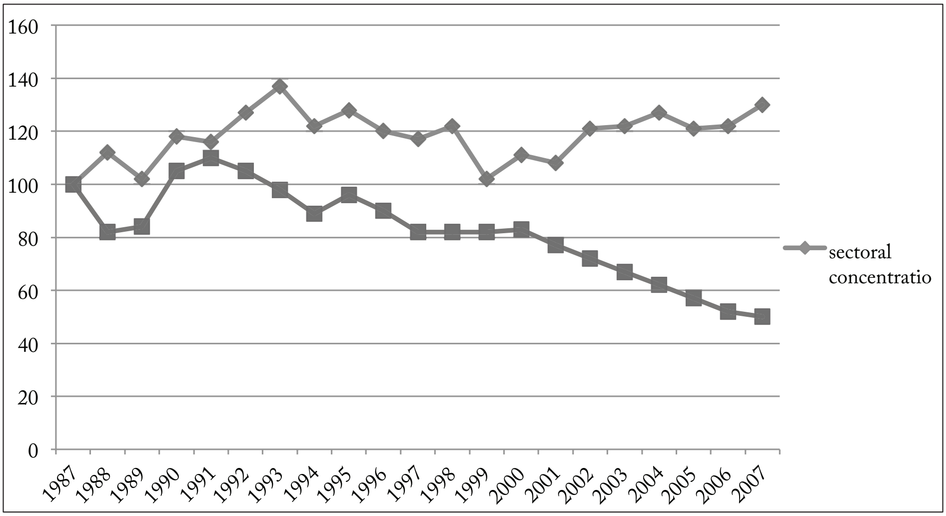


Source: Undersecretariat of Foreign Trade (UFT).

The second challenge relates to the *sectoral composition* of exports. There has also been a steady growth in the technology-intensiveness of the manufactures, with a trend of decrease in low-technology products, and an increase in medium-technology products. However, the share of high-technology goods remained constant. Overall, medium-low technology manufacturing industry products have dominated export performance in Turkey. The success in vehicle production (especially automobile industry). as well as electrical machinery and equipment, consumer electronics, and, iron and steel products was remarkable. However, increasing competitive pressures made Turkey fall into the the middle-income country trap in international trade whereby low-technology manufacturing is facing challenges from low-wage countries as a result of further liberalisation of world trade under the influence of multilateral and regional liberalisation. On the other hand, spreading into value-added and high-tech sectors requires a more sophisticated strategy. The *export-composition* of the Turkish manufacturing industry reveals that the share of high-tech product exports is comparatively lower than many other developed and principal developing countries (e.g. the G-20 members). The total share of these products (such as office machinery and computers, radio-tv and communication equipment, medical and optical instruments) only represents a tiny figure: 2.5 percent in 2009, while it constituted almost 2 percent in 1996. Hence, the CU and other relevant measures did not boost exports in these segments. Furthermore, Turkey's world market share in high-tech goods is only confined to 0.15 percent despite its corresponding share of 1 percent in total merchandise exports. The positive change in market share also reveals a marginal 0.05 percent, a much lower rate of increase compared to many leading trading nations from the 1990's to the 2000's.

A third challenge concerns trends in the of Turkey's exports. Trade performance and sustainability are based on country and product-based concentration of exports and imports. It is observed that country concentration of exports experienced a positive downward shift after 1980 when Turkey managed to geographically diversify its exports. The trend appeared more promising especially after 2001. Geographical diversification of exports was reassuring as Turkey started to find alternative markets to replace those of the EU.

Figure 4. Turkey's Export Concentration by Country and Sector (Herfindhal-Index, 1990-2007)



Source: Türkiye Kalkınma Bankası (2010:10)

Market diversification has another dimension. Several of Turkey's important trading partners that constitute a significant share in its exports are not yet members of the WTO. The Russian Federation (only recently acceded to the WTO). Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan, Iraq, Syria, Iran, Algeria, Libya are among these where the existing WTO regime does not provide predictability and transparency. Therefore, it is essential that the accession processes of these countries are completed successfully and Turkey provides maximum support for their eventual integration into the multilateral trading system.

Nevertheless, Turkey does not reveal a corresponding performance in sectoral diversification. In other words, Turkey experienced gradually a concentration of its exports in an ever narrowing diversity of products, while it must be admitted that a sustainable increase in exports can only be achieved through multiplicity of its products. Undoubtedly, diversification of export markets is favourable as Turkey becomes less dependent on limited number of country markets, mainly those within the EU. But, the upward shift in product concentration ratios after 2001 needs further elaboration in every sector seperately depending on whether it is a result of industry-specific structural shifts, or developments outside the industry itself (Erlat and Akyüz, 2001). Nevertheless, the related timidity largely reflects the limited resources such as raw materials, physical capital, qualified labour force, technological investments, research and development expenditures, and innovation initiatives as well as industrialisation strategies adopted in response to global developments. A better explanation for a narrower range of export products may well be the lack of sufficient policy initiatives to boost domestic production at higher stages of the value-added chain under Turkey's current domestic political economy considerations. Turkey, in this respect has served as an assembly centre in manufacturing remaining mainly dependent on imports of intermediates from Asian or European countries. A recent study by (Taymaz, Voyvoda and Yılmaz, 2011) argues that although Turkey somehow manages to retain a competitive position under international production linkages in every period, it is nevertheless specialised in sectors with low-cost standardised-technology products whose growth potential is rudimentary and does not serve to contribute to sustained growth of the country. Therefore, Turkey strongly needs to reposition itself at the higher stages of international production chains based on information and communication technologies rather than in areas left over by developed economies (Taymaz, Voyvoda and Yılmaz 2011: 91-92).

The fourth challenge comes from the *exchange rate parity*. It was not possible for Turkey to implement many policies including export incentives in an independent fashion as a result of its CU obligations. Therefore, Turkey started to direct its foreign trade by means of exchange rate realignments in the post-CU period. Devaluations during crisis periods were usually followed by policies that lead to an appreciated Turkish Lira. These policies, as observed after 2002, made intermediate imports needed for industrial production relatively cheaper (Tonus, 2007). However, this process generated a significant increase in imports of processed and primary industrial supplies; primary fuels and lubricants; parts and accessories of capital goods and transport equipments, and rendered manufacturing industry more dependent on imports. Yükseler and Türkan (2008: 53-59) claim that this importisation process accelerated trade imbalances. Appreciated currency also helped Turkish exporters who source intermediates from Asian countries in dollar terms, and process them to be exported to European markets in euro terms. The euro/dollar parity in favour of the former helped exporters to stay competitive and retain their share in the European market (İzmen and Yılmaz, 2009: 183). Indeed, in Turkey the share of imports in dollar terms increased from 55 percent in 2003 to 61 percent in 2010 in terms of total imports. The volume of exports in euro terms over the same period passed those in dollar terms thus shaping general trade patterns. How sustainable this configuration of trade is remains open to dispute when challenges in European economy after the crisis started to induce a shrinking in the value of Euro, to reduce overall EU demand for importables, and to boost new trade protection measures after the global financial crisis.

Another compelling factor as a challenge to Turkish exports relates to overall *competitiveness* in world markets. Global developments (change in global production networks and new outsourcing facilities, technological developments, diversified communication, transportation and marketing methods etc.) lead all countries naturally to adopt new strategies to conform to changing conditions and the increasingly competitive situation. The adaptation capability of Turkish exports industry has been relatively good when exporters had the capacity to follow trends in the world economy and managed to forward their exports into emerging markets. According to International Trade Centre (ITC) estimates, Turkey has successfully advanced its rank from sixth (in 2000-2005) to second in 2005-2009 period among the upper-middle income group of countries.[10] However, a similar success is not assured in its *competitiveness* (i.e. increase in its market share in export products and in export destinations) while Turkey's ranking descended from second to fifth for the corresponding periods (seventh for 2007-2009). As figures in Table 2 reveal, over the last decade Turkey became less competitive while its adaptation capacity increased in exportation.[11]

Table 2. Comparison of Turkey's Trade Performance Index-TPI with Various Middle-High Income Countries (2000-2009)

	2000-2005				**2005-2009**			
	Competitiveness	Rank	Adaptation	Rank	Competitiveness	Rank	Adaptation	Rank
Argentina	0.0000	16	0.0001	5	-0.0004	20	-0.0003	19
Azerbaijan	0.0000	15	0.0000	15	0.0009	4	-0.0002	18
Belarus	-0.0001	18	-0.0004	21	0.0000	13	0.0000	12
Brazil	0.0032	1	-0.0001	18	-0.0005	21	0.0003	1
Chile	0.0009	4	0.0001	4	0.0000	14	0.0001	3
Kazakhstan	0.0004	7	0.0004	2	0.0011	3	-0.0001	13
Malasia	-0.0007	20	-0.0003	20	-0.0001	16	-0.0005	20
Mexico	-0.0012	22	0.0003	3	0.0037	2	-0.0008	21
Romania	0.0009	5	-0.0001	17	0.0008	6	0.0000	11
Russia	0.0018	3	0.0011	1	0.0044	1	-0.0029	22
S. Africa	0.0009	6	-0.0004	22	-0.0003	19	0.0000	4
Turkey	0.0022	2	0.0001	6	0.0009	5	0.0003	2

Source: TEPAV (2011a) based on UN Comtrade Database, ITC Trade Performance Index.

At a sectoral level, among leading Turkish export products, the reduction in competitiveness is notable in sectors such as fruits and vegetables, and the clothing industry although only modestly perceived in iron and steel industries and in vehicles. However, the only significant sector that managed to increase its competitiveness was electrical machinery. It can be argued that, a reduction in the competititveness, with a continuation in the export of standardised labour-intensive products with lower and middle-technologies, may cause lasting reductions in export markets.[12]

As Table 3 indicates, Turkey's relative competitive position deteriorates especially after 2003 compared to many developing countries including the BRIC (i.e. Brazil, Russia, India, China) countries, S. Korea, Mexico, Indonesia which are prominent rivals of Turkish export products in international markets. Turkey's rising imports from Asian countries can also be attributable to its waning competitiveness against Far East, and South East Asian countries (i.e. ASEAN) especially in several low-technology and labour-intensive sectors (Yükseler and Türkan, 2008).

Table 3. Turkey's Relative Position vs. Selected Countries (Competitiveness Index, 2000=100)

	2000	2001	2002	2003	2004	2005	2006	2007
Japan	100	89.5	109.7	124.3	132.6	155.5	168.7	203.6
Korea	100	86.3	96.1	107.9	114.4	114.3	107.4	121.6
Sweden	100	86.7	94.3	93.8	97.1	112.8	113.3	121.1
US	100	76.6	88.8	106.1	118.1	131.1	131.0	151.8
Brazil	100	94.7	127.8	143.5	146.2	130.7	115.6	119.0
China	100	78.1	92.8	112.1	123.2	137.6	136.1	147.7
India	100	79.6	92.8	104.5	112.1	120.1	120.2	123.0
Mexico	100	73.1	84.9	110.7	126.4	134.7	134.1	154.2
Indonesia	100	86.0	82.2	86.7	97.3	109.9	94.5	105.6
Turkey	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Adapted from Türkiye Kalkınma Bankası (2010:34).

Hence, the transformation in the structure of exports does not necessarily provide positive prospects for a number of clear reasons. First, Turkish export strategy did not specifically define ways to increase her industries competitiveness under the challenge of dynamic comparative advantages. Expression of intensions of switching into technology-intensive sectors does not go beyond a rhetoric unless coupled with a comprehensive agenda linking several related policy areas. An active industrial policy aimed at long-term restructuring based on skill upgrading, science and technology planning, technological support and R&D incentives to enterprises and attracting technology-based FDI have become essential determinants for export upgrading. *The Turkish Industry Strategy Document* adopted in 2010[13] had the intention to provide a clear road map by pinpointing the strong and weak aspects of Turkish industry. However, the document does not put forward under its Action Plans a comprehensive set of instruments necessary to switch into high-tech sectors and to boost competitiveness.[14]

In imports, Turkey has one of the most liberal trade regimes with regard to the MFN Tariff Trade Restrictiveness Index (TTRI).[15] This makes it the fifth least restrictive trade regime with an average of 1.5 percent, much lower than the averages of Europe and Central Asia (4.4 percent) and the upper-middle income countries (6.9 percent). Because the TTRI for non-agricultural products are based on the EUs CCT, this figure stands at only 1.3 percent putting Turkey at a lower protection level than most of its trading partners.[16] For agricultural products, however, the TTRI is 21.8 percent in 2009, placing Turkey in a higher protectionist group of countries. However, Turkey's *import protection measures* have many times challenged its trade position in WTO negotiations. Only 46.3 percent of tariff lines in Turkey were bound after the Uruguay Round, while the applied tariff schedule has a complex structure. Despite lower-average bound MFN tariffs, the mean MFN tariffs are higher in sectors like textiles, footwear, chemicals, transport equipment, base metals etc. in which the volume of imports is considerable. Imports in several categories of products are subject to licensing, the permission of authorities, and strict health and sanitary controls (Togan, 2010: 1349-1357; WTO, 2012). Increasing resort by Turkish industries to anti-dumping and safeguard measures places Turkey among a high-rank user of such trade policy instruments in the last decade (this point will be raised further in the next section).

Another major point with respect to the import side relates to rising dependency in Turkish manufacturing industry to imported intermediates, hence leading to trade deficits and the decline of local suppliers. The import dependence is mainly rooted in some sectors like consumer electronics with inputs imported from East Asian and European suppliers (Taymaz and Voyvoda, 2009: 165). It compells Turkey to choose a newer input supply strategy called GITES, developed recently by the Ministry of Economy. Its consequences are not yet certain and potentially blurred under given global production networks, limited domestic resources and energy supply insufficiencies in Turkey.

Finally, the EU's regional trade agreements such as Free Trade Agreements (FTA's) have a challenging impact on Turkey's market share in the EU and in its relations with third countries. Accordingly, different motives induce the EU to involve itself bilateral trade agreements (allegedly not as alternatives to the WTO multilateralism) leading to special links with its several trading partners. These initiatives, whatever their impact on the WTO itself, have repercussions on Turkey's current privileged status in EU markets under its secular link with the CU. Accordingly, Turkey has several concerns about the EU FTA's.[17]

First, they cause an erosion of preferences for Turkish exports in EU markets. Such FTA's can be seen as a trade re-orientation rather than a trade diversion as these agreements provide equal conditions of duty and quotas of free access to products coming from previously sidelined third countries. In this respect, Turkey's concerns rise as the EU enters into negotiations and concludes agreements with countries like Mexico, India, South Korea, ASEAN, MERCOSUR, Ukraine etc. which are in competition with Turkey within the EU market. The similarity of composition of exportables shall also cause a deterioration in terms of trade in Turkey vis-a-vis the EU as Turkey has to further reduce its export prices to be able to keep its market share constant. The second concern regards the likely impact of such agreements in Turkish domestic market. Under the CU regime, third country products that enter into free circulation in the EU can be re-exported to the Turkish market (recall that the same is true for imports into Turkey from third countries if they are to be re-exported to the EU market) with no tariffs, quotas or similar mesures to be imposed as if they have the EU origin. Thus, Turkey will in practice liberalise its imports while these countries can continue applying measures against Turkish exports. Third, the EU is free to choose its trading partners for concluding free trade deals and negotiate in its own terms without taking into account the needs and priorities of Turkish domestic actors. Thus, Turkey's position and long-term interests are disregarded. Negotiations are not held in parallel, while Turkey claims it is not very well informed of this process process despite its CU linkage. The EU proposes better market access conditions for European firms in industrial, agricultural and services areas and bring further requirements on its FTA partners to comply with EU norms in standards and domestic regulations in return for its own concessions towards these partners. However, Turkey also assumes indirect liabilities arising from such bilateral deals (via CCT) without reciprocal achievements unless it can negotiate similar FTA's with these partners. Should these countries refrain from negotiating with Turkey is another concern even though the EU has asked its partners to start negotiations with Turkey for similar FTA's. Therefore, a Turkey clause is instituted by the EU to encourage these countries to approach Turkish initiatives positively, but this clause is not binding with its limited political effect. Only commercial considerations of these countries can motivate them to have a corresponding FTA with Turkey.[18] Finally, FTA deals are proliferating under a domino effect where all countries place themselves within these schemes so as not to loose their market shares against its rivals. This trend, however shifts attention from the multilateral negotiations and causes the Doha Round to fall behind schedule. The WTO's World Trade Report in 2011, as a special issue concerning rising preferential trade agreements, argued that such arrangements, though not necessarily incompatible, cannot simply be seen as substitutes to the WTO system (WTO, 2011b:196). Countries like Turkey derive further gains from the WTO regime and therefore any sidelining of Doha Round will bring further complications for its trade regime.

Turkey's Position in the WTO and The Doha Round

Turkey has been a Contracting Party to the GATT since 1994, and became a founding member of the WTO on March 26, 1995.[19] Turkey has so far undergone five policy reviews (1994, 1998, 2003, 2007, and 2012) under TPR mechanism. The WTO's *Trade Policy Review: Turkey 2007* (WTO, 2008) formulates Turkey's main interests in the Doha Round as:

> *(providing for) a* fair, competitive, and predictable trading environment where trade (including export) distorting support measures are eliminated. For Turkey, agriculture is the key issue of the DDA; and Turkey attaches utmost importance to non-agriculture market access (NAMA) negotiations and trade facilitation.

WTO, 2012 also noted that Turkey attaches great importance to the successful conclusion of Doha Development Agenda, as an opportunity to establish a more competitive and fairer international trading system and expects the negotiations to lead to a balanced outcome that takes into account the developmental concerns of WTO members. (p. 14).

It can be proposed that the main factors shaping Turkey's position in the world trading system are the current relations based on the CU with the EU, the WTO Agreements (WTO, 2008: vii) and the on-going picture of rising preferential trade arrangements accelerated by the EU.

In the Doha Round, Turkey is apparently squeezed into a position between *developed* and *developing countries,* largely as a result of its special relationship with the EU, and its developmental concerns commensurate to its economic and social conditions (Pulat, 2003: 5). As regards the main pillars of the negotiations, Turkey's position swings between two sides reflecting its ambitious market access requests with balanced outcome for developing states, but sometimes differs even within the same area of negotiations. Being in the CU Turkey stands to gain from reductions in industrial tariffs by other developing countries with comparable levels of income as their average bound tariffs are usually higher and eventually create unfair competition. In agriculture, Turkey prioritises the elimination of trade-distorting subsidies, including export subsidies while it simultaneously insists on keeping special products and special safeguard mechanisms for developing countries, this in consideration of the fact that its agrarian population in the country is high (almost 30 percent). Its engagement in negotiations concerned with trade in services has been active and constructive as proposed by Ambassador Aran (2011). but this focus has been considered by Turkey as mostly favouring developed countries interests.

Besides these main features, Turkey overall has been involved in different bargaining coalitions with several participating countries during the negotiations. Understandably, this is a typical behavioural pattern to support a countrys position. Turkey worked in coordination with the EU and other industrialised nations (as in NAMA); or with developing countries (the G-33, India, China, S. Korea and Indonesia to make special products and SSM a part of the final text in agriculture) and joined a mixed group in Friends of the Antidumping. Its role was constructive in the Friends of the System group together with Norway, S. Korea, Canada, New Zealand, Singapore, Chile and Colombia, to support the continuation of negotiations (Aran, 2012).

This section aims to provide a short analysis of Turkey's general outlook and its position in major areas of negotiations in Doha Round and the WTO.

Non-Agricultural Market Access (NAMA)

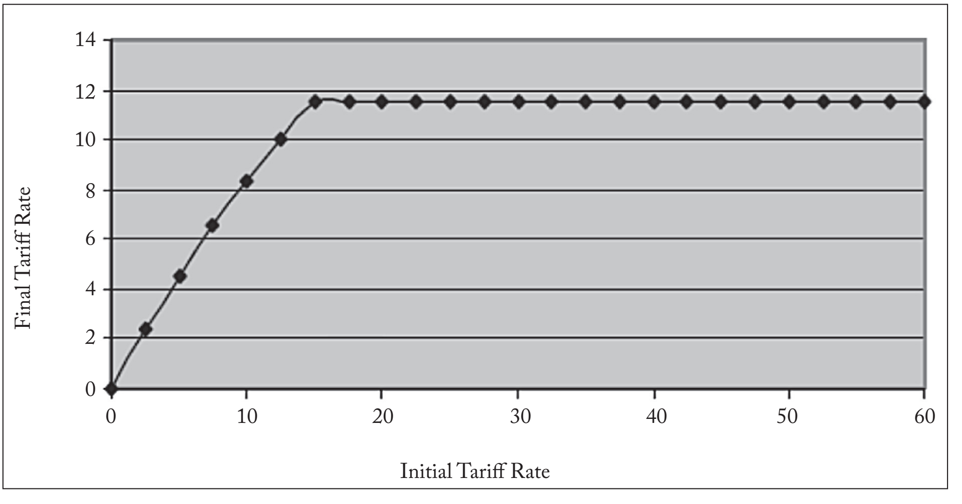
Turkey paid great attention to non-agricultural market access negoatiations in Doha Round, mainly because most of its exports consist of products covered under NAMA. More importantly, Turkey has applied the EUs common cutoms tariff (CCT) since the establishment of the CU. The weighted-average applied tariff rates under the CCT after Uruguay Round was set at 3.7 percent, a relatively low level which provided easier market access conditions for third countries, including many large developing countries which are rivals for Turkish products. In return, these countries had higher tariff rates to Turkish products. Therefore Turkey had to take a position in line with the EU and other industrialised nations to force developing countries to make further reductions. Therefore, the CU, to a large extent has been a determinant of its general approach in NAMA negotitions. By supporting the Doha mandate set in 2001, Turkey showed its tendency to become actively involved in the negotiations. Turkey, in its national communication briefly outlined its views in 2003.[20] In terms of tariff bindings, Turkey proposed that all members should commit themselves to bind all non-agricultural tariffs, and in this regard Turkey's lower level of binding coverage (36.3 percent) could also likewise be raised to 100 percent as well. Modalities for tariff reductions were the cardinal element in negotiations. Turkey suggested that a non-linear formula would be the best for steeper cuts in higher tariffs (especially when it is considered that simple average bound tariffs were much higher in several developing countries such as India, S. Korea, Brazil, Argentina, South Africa, and many ASEAN members than they were in Turkey). Turkey's proposal was for adopting a formula with a constant coefficient where 15 percent was to be set as a ceiling base rate, instead of using differrent variables or coefficients for different country groups and with limited flexibilities to be conferred to the developing countries (Figure 5).

Hence, Turkey from its point of view had an optimal approach to prevent developing countries to continue applying higher rates to the detriment of Turkey's exports. Accordingly, the formula offered by Turkey initially proposed that any tariff rate above 15 percent, after negotiations should amount to around 11.5 percent at most. Additionally, the formula offered a more progressive elimination of tariffs under 15 percent to allow Turkey to keep its tariff margins within the context of the CU. The formula offered was:

$$For\ t_0 < 15\%,\ t_1 = \frac{50 \times t0}{50 + t0}\ and\ For\ t_0 \geq 15\%,\ t_1 = \frac{50 \times 15}{50 + 15} \cong 11.5\%$$

Concerning non-tariff barriers, Turkey's choice was to consider the issue as an integral part of the negotiations and to undertake them together with the reduction of tariffs. Furthermore, Turkey took the position that no sectoral exception to general negotiations should be allowed. This approach can be explained by the reason that Turkish exports are composed of a wide range of products encompassing various sectors, and these products are mainly based on low and middle-technology. These sectors overlap those where most trade protection globally takes place and that they are actually or potentially subject to severe import restrictions in almost all countries.

Figure 5. Turkish Initial Proposal in NAMA Negotiations (TN/MA/W/41) in 2003.



Following the failure to achieve final modalities in Cancun in 2003, a general framework was instituted in Annex B of the General Councils Decision in July 2004. However, many developing countries claimed that it repeated the views of developed countries, and resembled largely the *Derbez Text* that had been rejected in Cancun because it had reflected an earlier Canada-US-EU proposal. Therefore, they were opposed to the Framework in general. The main idea of the developing countries was that the Framework provided an extreme form of harmonisation with far-reaching tariff reductions that provided an opening for exporters from industrialised nations in developing country markets, and it proposed no sufficient emphasis on the less-than-full-reciprocity principle for the developing countries.[21] The negotiations started to generate a modality based on a non-linear Swiss formula, with a possibility that more than one coefficient would be applicable, and special and differential treatment and a less-than-full-reciprocity principle could be used for the developing countries. After tough negotiations the text which brought different coefficients with flexibilities for developing countries, took shape in July 2008 with subsequent revisions of the draft text.[22]

For Turkey, the fierce opposition by several developing countries, and NAMA-11 in particular has prevented what it proposed initially (a single coefficient). Despite its developing country status Turkey cannot practically benefit special and differential treatment set out for developed countries, but has to follow the EU in accordance with its CU obligations. Nonetheless, even a limited final text based on a non-linear formula is better than no text for an offensive Turkish policy. Additionally, some side steps were important for Turkey such as the acceptance of a mark-up approach that could provide higher cuts for some developing countries.[23]

In practice, Turkey adopted an approach which pressures developing country partners so that they sharply cut their tariffs, tariff peaks and tariff escalations. This approach intends to keep reductions in CCT at a minimum; to provide Turkish exporters with the possibility to express their preferences in the EU market; and to achieve lower tariffs vital for Turkish exporting sectors such as automobiles, textiles, clothing, machinery, consumer electronics, and iron and steel, at the end of negotiations.[24] Nevertheless, Turkey's *sui generis* position is well observed in NAMA. It can neither benefit from its developing country status in practice (such as flexibilities and different coefficients secured for the latter- or protect its sensitive products nor can it have an overall trade-off that many developed countries enjoy- between NAMA and other negotiation topics (agriculture, services etc.) owing to its special concerns in the latter. Overall, it can be argued that an incomplete Doha Round does not serve Turkey's interests in trade in manufactures while uncertainties in the multilateral system motivates a wider set of regional trade arrangements with further complex repercussions on Turkey's trade relations.

Agriculture

Agriculture is a thorny subject in the WTO and in Doha Round negotiations, in particular. No country has managed to insulate itself from the pressures of agriculture -even though it represents a tiny part of the total world trade- because of its significant role in terms of employment, vulnerability of incomes of farmers, food security, environmental concerns and so on. Turkey with its vast territories and geographical proximity to Europe, Middle East and North Africa, and Central Asian Republics renders her a potential beneficiary of agricultural trade liberalisation. However, Turkish position in agriculture in Doha has been largely defensive in nature (Pulat, 2003: 6). Its cautious policy has been mostly in line with the developing countries highlighting their typical sensitivities. It can be claimed that similar sensitivities also exist among certain members of the EU, the US and several other developed countries such as Japan, S. Korea, Norway, Switzerland, and Iceland whose positions have also generally been defensive. However, the main divergence lies in their generous subsidies to their domestic farming that the developing countries cannot mostly provide for financial reasons. Therefore, developing countries prefer to protect their domestic producers by means of high tariffs and by gaining greater flexibilities in terms of their special and differential statutes under WTO rules. This is also manifest in the Turkish case where *domestic support* is comparably much lower than the EU. Indeed, in *Trade Policy Review: Turkey 2003* (WTO, 2004) prepared just after the Cancun Ministerial revealed, the Turkish governments official view reflected its developmental and social concerns:

> As a developing country, Turkey gives priority to the ongoing negotiations on agricultural products. In developing countries, the majority of the population depends on agriculture for their livelihood. Therefore, the results of the agreement will not only have economic but also social effects. Since developing countries cannot provide necessary and sufficient support to their domestic agriculture, *tariffs are the only instrument to protect agricultural sectors against highly subsidized imports mainly from the developed countries*. Developing countries also need to support their agricultural sectors to sustain agricultural production. However, government support remains at negligible levels in these countries, including Turkey, because of budgetary constraints. Therefore, without any substantial reductions in the other pillars of the Agreement, tariff reductions could not generate fair and improved market conditions (Pulat, 2003: 14).

In Turkey, agricultural support reduced substantially as a result of agricultural reform policies under the guidance of the World Bank guidance and IMF-led monetary policies, initiated in late 1990's. This urged Turkey to implement a direct income-support programme which converted the nature of domestic support from amber into blue box measures in the WTO. Therefore, it is not surprising that Turkey supported the views of the Cairns Group and the G-20 of initiating cuts in domestic support and eliminating trade distorting subsidies during the negotiations rather than acting in coordination with the EU as in NAMA. In the context of negotiations, Turkey's approach also overlapped with the G-33 in de minimis issue. Turkey like many other developing countries was subject to de minimis rule which provided the opportunity to give domestic support not exceeding 10 percent of the production value. Therefore, Turkey opposed any proposal to reduce 10 percent figure which it deemed as minimal.

Nevertheless, the value of support for agricultural increased in Turkey following the phase-out of market-oriented Agricultural Reform Implementation Project (ARIP) in 2008. The direct income-support has been replaced by deficiency payments-system and area-based payments extensively since 2009, leading to higher market prices support (WTO 2012: ix).

On the other hand, tariffs are important instruments to protect domestic farming in Turkey. The average applied MFN tariff is extremely high in agriculture (e.g. 28.3% in 2007). and according to the WTO definition,[25] average tariff protection was 47.6% on agricultural products in 2007 (the simple average as high as 114.3 rercent in the case of live animals and products thereof, and 109.4 percent in dairy products). compared with 5% on non-agricultural products. Furthermore, tariff escalation is positive especially in food, beverages, and tobacco product sectors (WTO, 2004: 31). In *market access* Turkey apparently has remained true to the EU's general approach to resist substantial cuts in tariffs, nevertheless the defensive nature differed widely as Turkey demanded to be placed in a different band than the EU on grounds of its developing country status. Turkey thus supported a simple linear formula imposing on developing countries a maximum of only two-thirds of those tariff cuts made by developed countries. Turkey also supported the G-33 position to achieve the possibility to benefit from reduced and/or zero cut options for special products (SP) and special safeguard mechanisms (SGM). the two essential flexibilities[26] with regard to live animals, dairy products, grains, oil seeds, sugar, tea and tobacco (İzmir, 2008: 149).

In *export subsidies* Turkey welcomed the EU position regarding an intention to eliminate them by 2013, the only main issue over which its interests overlap with the EU position.

Interest coalitions of Turkey with non-EU and developing countries may be regarded as paradoxical if one considers that Turkey is at the same time involved in an accession process that requires harmonisation of its policies with the EU's Common Agricultural Policy. However, Turkey's intention is to benefit all flexibilities reserved for developing countries in the implementation of the final agreement because its full EU membership seems to take a long time (İzmir, 2008: 139).[27]

Services

Sampson argues (2008: 86) that the General Agreement on Trade in Services (GATS) under the WTO have a potential to immensely expand trade in services, and change the patterns of global production and investments. The services sector represents an overwhelming share in employment and GDP in Turkey as in many countries, and serves as an essential element of economic development. Turkey's overall trade balance in trade in services in 2009 was 17 billion dollars, with a real growth of 7.8 percent (while it was 4.4 percent in goods). However, the services share of total exports dropped from 37.2 percent in the late 1990's to 20 percent in 2009 as Turkey started to focus more on manufacturing. The two main aspects of services negotiations have been *market liberalisation* and *rule-making*. The liberalisation made under different modes is usually based on bilateral request and offer formulae between the members.

Turkey's initial conditional offer was submitted in September 2003, and this was followed by a revision in September 2005.[28] Turkey's requests were generally concentrated on construction and engineering services, while its trading partners made comprehensive plurilateral requests in the fields of telecommunication, maritime, logistics, energy, environment, distribution, postal, financial, education, legal, architecture and engineering, and audio-visual services as well as MFN exceptions. The requests from Turkey were made by a wide range of countries ranging from the US and the EU to S. Korea, Mexico, India, Pakistan, Singapore and Taiwan. In the realm of services, Turkey adopted a cautious approach displaying its concerns over domestic regulatory problems in many services areas. Therefore, the official position has been to avoid any new requests from its trading partners for further market access.[29] Two topics were important for Turkey regaring services. The first priority issue as in many developing countries was the movement of natural persons who are service-providers (mode IV) because this represented a sizable receipt of remittances. Turkey has made extensive investments abroad in construction and engineering business in which qualified personel is essential, but visa and immigration related obstacles needed elimination for the interests of many Turkish undertakings providing services abroad. The second issue involved Article II exemptions simply because most of Turkey's partners in trade in services are non-WTO neighbouring countries such as Russian Federation (acceded in late 2011 and the ratification process is expected to finish in 2012) Azerbaijan, Central Asian Republics, Bosnia, Libya, Algeria so on.

There are several factors influencing Turkey's guarded stand on services. First, the commitments of other countries including those of the EU. Although the CU does not extend into services Turkey followed the EU by not adopting a position that went beyond the latters commitments under GATS and services negotiations. Second, its domestic concerns over investment regime and extensive privatisation programs in areas like infrastructure, electricity, natural gas, and telecommunications reflected tensions concerning social aspects of the issue and security considerations. Additional pressures by local suppliers not to relinquish their priviledged access also served as a factor that affected Turkey's liberalisation scheme in not offering wider market access to foreigners (Yılmaz, 2007: 252). The third point to be raised in respect to Turkey's involvement in trade in services regards the so-called domestic coordination problem. The Treasury in Turkey has been the main responsible body responsible in the coordination of Turkey's position in services trade negotiations until 2011, differently than in other areas in which the Ministry of Economy (then the UFT) was responsible. Structurally the services area requires the involvement of several institutions, public and regulatory bodies, and private parties which made the formation of a unique approach difficult to achieve by the Treasury. Fourth, a comprehensive quantitative and qualitative assessment of the outcomes of liberalisation in services has never yet been tabled in Turkey while most attention was diverted to manufacturing which is more easily estimated. Finally, it can be argued that the developments in trade in services are largely influenced by the deadlock in industrial and agricultural negotiations. Therefore a lack of progress in these areas shall have a retarding effect on services under the single undertaking.

Other Prominent Areas of Negotiations

TRIPS is another important area of the Doha Round package although it has never constituted one of the major tracks in negotiations. However, the protection of intellectual property rights always obtained sufficient support from developed countries and TRIPS was symbolised as a mechanism to enforce these rights. Many developing countries claimed that Uruguay Round was imbalanced partly because the TRIPS Agreement served to interests of developed countries especially in areas such as pharmaceuticals and chemicals.

Despite being considered a developing country, Turkey has made marked progress in establishing intellectual property rights under its CU regime with the EU. Besides the establishment of the Turkish Patent Institute to administer issues pertinent to patents, trademarks, and industrial designs, several legislative steps have been taken to make Turkey a party to several international conventions and to enforce the protection of rights thereof (Özdemir, 2010: 34). Despite its past success in administrative and legal progress, Turkey is not equally forthcoming in her enforcement of laws in practice and it is currently considered to be one of the most problematic countries with respect to counterfeit goods, and protection of patents and copyrights. This brings Turkey into direct confrontation with the EU. In Doha Round two prominent issues were on the agenda: *geographical indications (GI)* and *biological diversity (BD)*. In GI, Turkey has not contested the EU approach for a legally binding WTO registration system for wines and spirits and its extension to other products. Turkey was only concerned with the issue of Turkish Raki in terms of registration of spirits but supported the Friends of the GI Group (led by the EU) for an approach of an extensive coverage to include other products in the system (Pulat, 2008 :24-225; Aran, 2012). The BD deals with patentability or non-patentability of plant and animal inventions, and the protection of plant varieties. In negotiations Turkey generally supported the W52[30] group of developing countries which claimed that a disclosure requirement must be obligatory for patent applicants to disclose the origin of genetic resources and traditional knowledge used in the inventions.

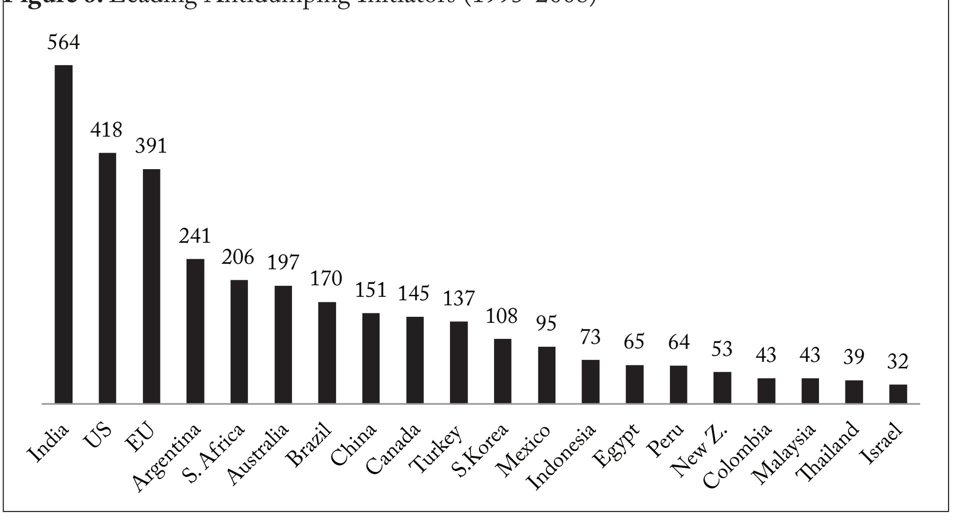
Trade facilitation (TF) has been an important aspect of the Doha Round to discipline non-tariff barriers and to provide smooth processing of exports and imports. In TF, Turkey actively participated in the negotiations apparently for two reasons. First, Turkey after the CU has largely aligned its import and customs legislation with the EU, one of the most advanced of such systems. On the export side, however Turkish exporters face serious problems in customs dealings with developing countries authorities mainly because of the lack of technical capacity in these countries. Such problems include but are not limited to the need for accelerated customs procedures, harmonisation in commercial documents, improving transparency and predictability, and computarisation of administrative procedures so on. Secondly, its land transportation fleet is strong but is heavily subject to such problems. In this context, Turkey initiated its first communication TN/TF/W/45[31] in 2005 proposing that a final agreement must include elements such as improvement in consistency and predictability; transparency; and acceleration of customs clearance procedures. Turkey further tabled communications on matterss such as the publication and availability of trade-related legislation on internet issues; advance ruling; and quota-free transit regime.[32]

Trade-Remedy Measures

Turkey is a frequent user of trade-remedy measures (i.e. antidumping duties, safeguard measures) in the last couple of years. The WTO statistics reveal that it became the tenth largest user of antidumping protection in terms of initiation and definitive measures among the WTO members. Also, the UFT figures reveal that by March 2009, 274 investigations have been opened and 182 of them were terminated with definitive duties, with a successful imposition of about 66 percent. This means that 2 out of every 3 investigations is followed by a final duty. Turkey's application of antidumping measures has been rising since the CU in 1996,[33] hence rendering Turkey one of the leading users, as Figure 6 indicates. As of August 2011, Turkey had 118 anti-dumping duty measures in force, compared with 93 at the end of 2007, and 27 at the end of 2002 (WTO 2012: 46).

The *Antidumping* issue was held under the *Rules* negotiations in Doha Round. Turkey had a position mostly in line with, if not totally overlapping the so-called Friends of the Antidumping Group of countries[34] which proposed in principle to change WTO rules to prevent any possible abuse of anti-dumping measures, and burdensome or unnecessary investigations. However, the group members started to have divergencies in their views once the negotiations started to focus on specific issues and Turkish support to the group waned with time (Tan, 2008, p.247). Turkey's position is interesting in the sense that it favoured formulation of new rules and regulations to provide transparency and due process in implementation as it is one of the main targets of such mesures itself. However, like many others Turkey had practiced such measures increasingly to protect domestic industries once its tariffs had been further cut down after the Uruguay Round and the CU. Therefore, Turkey soon discovered that antidumping measures serve as a life-jacket mostly in its declining industries like textiles and clothing, base metal products, plastics and rubber articles, and other manufactures such as lighters and pencils, imported from low-priced Asian countries (i.e. China, India, Thailand).

Figure 6. Leading Antidumping Initiators (1995-2008)



Source: http://www.antidumpingpublishing.com/info/free-resources/anti-dumping-statistics.aspx

Cheong and Dikmener (2007) noted that in the conduct of antidumping investigations the antidumping authority (UFT Directorate for Imports) has considerable discretion to decide which countires and products to be included as well as the calculation of dumping margins. The majority of these duties are specific, but some are *ad valorem* reaching up to 100 percent. Therefore, they had a serious pre-emptive effect to reduce the level of imports. In this regard, Turkey's position reflects its mercantilist approach on the antidumping issue because in the Round its focus was on disciplining the investigation process, and clarifying rules in order to curtail discretionary power of investigating authorities.

Safegurad measures are not as widely used as antidumping in Turkey, but an increasing trend in line with the concerns of domestic industries can be observed over the recent years (Table 4).

Table 4. Safeguard Measures in Turkey since 2004

Turkey	Thermometers	07.17.2004
Turkey	Activated Earth and Clays	07.17.2004
Turkey	Certain Glasswares	07.17.2004
Turkey	Unframed Glass Mirrors	07.17.2004
Turkey	Certain Voltmeters and Ammeters	07.17.2004
Turkey	Footwear	01.05.2006
Turkey	Salt	01.05.2006
Turkey	Vacuum Cleaners	01.05.2006
Turkey	Steam Smoothing Irons	01.05.2006
Turkey	Motorcycles	08.15.2006
Turkey	Frames and Mountings for Spectacles	02.11.2007
Turkey	Travel Goods/Handbags and Similar Containers	06.05.2007
Turkey	Certain Electrical Appliances	12.19.2007
Turkey	Cotton Yarn	05.23.2008
Turkey	Matches	05.02.2009
Turkey	Vacuum cleaners	13.02.2010
Turkey	Steam smoothing irons	13.02.2010
Turkey	Motorcycles	13.02.2010
Turkey	Footwear	13.02.2010

Source: The World Bank, Global Safeguards Database at: http://econ.worldbank.org/ttbd/gsgd/ and WTO (2012).

Countervailing duties are occassionally used measures in Turkey like in many other WTO members for the reasons that most countries are willing to subsidise their domestic industries anyway, so no one can accuse others of behaving unfairly. But more importantly, the Agreement on Subsidies and Countervailing Duties of the WTO have extensively disciplined subsidies. Furthermore, it can be claimed that Turkey's position considers seriously its obligations under the CU with the EU.

Concluding Remarks

Turkey's changed trade patterns led it to follow a proactive approach in international trade relations under the WTO regime, after having adopted outward-oriented policies and the CU. At the same time WTO rules and agreements were important determinants for Turkey's domestic reforms (e.g. regarding governmental support, subsidies, tariff liberalisation, and investment rules). An extensive trade liberalisation scheme in post-1980's helped Turkish industry to integrate into global markets long before the WTO's multilateral track. However, sustained structural problems in the Turkish economy and their challenges for Turkish trade policy urged a more cautious approach that sought reciprocity from trading partners. Therefore, the broader objective for Turkey in the world trading system has been to maximise its benefits from multilateral liberalisation while defending its national interests for social and economic development considerations. As noted in the WTO's Trade Policy Review in 2012, Turkey seeks for a balanced outcome from the Doha Round negotiations that consider its developmental concerns. In this respect, domestic sensitivities helped to keep higher tariffs (mainly in agriculture and labour-intensive industries) and induced proliferation of trade remedy measures.

Turkey has played the role of a middle-power actor during decade-long Doha Round negotiations whose overall position has been an amalgamation of the perspectives of both developing and advanced economies. This made Turkey a *sui generic* party with a developing country status on the one hand, while having aspirations of an OECD member on the other. The EU process had a strong affect in shaping the outlines of Turkish position in many areas. However this Janus-face often rendered Turkey as being regarded a developed member supposedly to give more concessions in the eyes of developing countries. Its intermittent membership to coalitions like G-20 in WTO was therefore challenged. This is not surprising when Turkey had to coordinate many of its commercial policies with those of the EU when their mutual interests converged. This makes confrontation with the EU highly unlikely for Turkey, without incurring the risk of damaging its ongoing candidacy status. Within this framework, the short-term perspective for Turkey should be to designate its own position in areas (mainly in agriculture, in various services sectors) without necessarily following the EU position, but without totally disregarding its long-run EU membership perspective. It should also seek a more co-ordinated action with the EU in non-agricultural market access and trade facilitation.

However, short-run priorities are more readily subject to change amidst global developments. The longer-term perspective for Turkey in the Doha Round, and the WTO-based multilateral trading system at large depends on the likely outcome of the Round, and the sustainability of the

WTO's legitimacy when challenged by global factors. More importantly, this perspective is dependent on Turkey's own success in facing challenges. This requires a viable trade strategy.

This strategy must prioritise *vertical integration* in world production and trade patterns, and help Turkey to reposition itself under international production networks (away from standardised goods and production stages and increasing towards high value-added processes). It should have a focus on improving *competitiveness* rather than short-term adaptation possibilites within global transfomation process. Turkey will have to make a trade-off between a pro-active export-oriented market access strategy in medium to high-technology sectors, and a defensive position in low to medium-technology products. Turkey's dilemma in finding herself positioned between developed and developing economies, which in turn affects its position in Doha (and possibly FTA) negotiations, can only be solved if it avoids the middle-income trap by strongly assuming a single identity.

Trade strategy should also go beyond conceptualising exports mainly for manufactured products and give priority to *trade in services* since it plays a substantial role in economic growth. It can be argued that the potential gains from reforming trade in services are large, probably much more than those derived from the liberalisation of trade in goods. Furthermore exploiting gains from trade in goods rests on better quality of services. So services matter for Turkey's trade strategy. Equally, Turkey's trade strategy should not be confined to exports only. Imports are main drivers of growth, and import strategy must set up better *access possibilities to main supply markets* considering Turkish industries higher ratio of dependency on foreign intermediaries and raw materials. Finally, todays trade policy is not only about trade but goes beyond it. It should not neglect that a *deeper integration agenda* (i.e. invetsments, government procurement, competition, environmental issues, social standards, food safety) is pressing. The negotiations in regional trade agreements (and multilateral negotiations to a certain extent) have growing emphasis in these issues which will have repercussions on Turkey (especailly by means of the EUs extended trade strategy).

These points are especially crucial for Turkey if it has to play an influential role in trade negotiations and in the WTO, and more ambitiously to achieve its objective to be among the worlds ten top economies, as well as to reach an export volume worth 500 billion dollars annually.

Endnotes

1. WTO International Trade Statistics (2011a) reveal that in 2010 Turkey was twenty-second leading exporter of manufactures in the world with a share of 1 percent and a value of 114 billion dollars, and fifteenth largest importer with a share of 1.5 percent and a value of 186 billion dollars (counting the EU-27 as one). In services trade, Turkey amounts to a share of 1.2 percent (33 billion dollars). and 0.7 percent (18 billion dollars) in exports and imports in 2010 ranking sixteen and twenty-four, respectively.
2. WTO International Trade Statistics (2011a) reveal that in 2010 Turkey was twenty-second leading exporter of manufactures in the world with a share of 1 percent and a value of 114 billion dollars, and fifteenth largest importer with a share of 1.5 percent and a value of 186 billion dollars (counting the EU-27 as one). In services trade, Turkey amounts to a share of 1.2 percent (33 billion dollars). and 0.7 percent (18 billion dollars) in exports and imports in 2010 ranking sixteen and twenty-four, respectively.
3. For a detailed analysis of the CU Decision see, Kabaalioğlu (1998).
4. This caused an important dispute settlement case in textiles in the WTO, after a complaint by India against Turkey. See, http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds34_e.htm for facts of the dispute. This matter shall be analysed subsequently.
5. Turkey was allowed to maintain higher rates of protection in specified sensitive products until 2001, as an exception to its alignment of the CCT.
6. İzmen and Yılmaz (2009) go further to claim that as well as its effect on Turkey in making her to come more into line with the market forces, the CU also helped Turkey to resist the East Asian and Russian crises of the 1990s, and the global recession in 2008, without which it would have been very difficult for Turkey to overcome (p.176). However, the CU did not eliminate the effects of these crisis and did not prevente Turkish economy from experiencing another crisis in 2011, but did transform Turkish industries to become more resistant to external shocks.
7. *Neighbouring countries* can be defined as the countries that have common borders with Turkey or that may be reached from Turkey directly without having to cross a third country. These are namely, Azerbaijan, Georgia, Iran, Iraq, Syria, the Turkish Republic of Northern Cyprus (KKTC). Greece, Bulgaria, Ukraine, the Russian Federation and Armenia. The *surrounding countries* are those which do not share a common frontier with Turkey but have cultural ties or geographical proximity and are feasible markets in terms of population and/or economic potential. These countries include Turkmenistan, Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, Israel, Saudi Arabia, Jordan, Lebanon, Egypt, Moldova and Macedonia.
8. For export increase in Turkey see, UFT (2009). *The develeopment of exports in Turkey*, available at: http://www.dtm.gov.tr/dtmadmin/upload/IHR/genel.doc (retrieved on 12 April 2011).
9. Several countries including Turkey urged the WTO under the so-called Istanbul Declaration to extend the deadline for implementation of the final integration stage to December 31, 2007 with regard to the WTO Textiles and Clothing Agreement. The idea behind the initiative was to prevent job losses and business bankruptcies due to massive trade associated with the ending of current textile trade regime in 2005. For the petition Istanbul Declaration Ragarding Fair Trade in Textiles and Clothing

presented to the WTO Director General see, www.ncto.org/quota/Idec.pdf (retrieved on 16 April 2011).

10. This ratio is over the worlds average of manufactured products to total exports, according to World Bank figures.
14. Actually when revision is made for the period of 2007-2009 to eliminate the effects of the global economic and financial crisis, Turkey ranks the first in its group.
12. TEPAV (2011a: 2).
13. TEPAV (2011b: 5).
14. See, http://www.sanayi.gov.tr/Files/Documents/sanayi_stratejisi_belgesi_2011_2014.pdf for the Document. (retrieved on 18 April 2011).
15. For more on Turkey's competitive position see, Seymen (2009).
16. MFN TTRI denotes the tariff that when uniformly applied accross the entire (MFN only) tariff Schedule would keep total imports at the observed level. The TTRI helps to capture the protectionist aspect of a countrys non-discriminatory trade policy. See, World Trade Indicators 2009/10 database (country-level Trade Briefs and Trade-at-a-Glance Tables) available at: http://info.worldbank.org/etools/wti/docs/Briefstaags.htm (retrieved on 18 April 2011)
17. WTO (2012, p. viii) notes that the import regime for industrial goods is *de facto* more open, as CU and FTAs provides many of Turkey's trading partners a duty-free access.
18. For a more detailed analysis of the debate concerning the implications of the EUs FTA regime on Turkey-EU relations and Turkish trade regime, see Akman (2010).
19. Nevertheless, it must be admitted that most of these countries with few exceptions such as Mexico and Algeria have already initiated negotiations, and Turkey has successfully used its CU link to persuade these countries in this regard.
20. Turkey has not yet signed any of the plurilateral agreements that resulted from the Uruguay Round but it is an observer state in the Committees on Government Procurement and Trade in Civil Aircraft, and party to the Information Technology Agreement (ITA).
21. The WTO Document TN/MA/W/41, 12 August 2003, Communication from Turkey on Market Access for Non-Agricultural Products.
22. Hilary, J. (2005, p. 12). *The Doha Deindustrialisation Agenda: Non-Agricultural Market Access Negotiations at the WTO,* available at: http://www.wto.org/english/forums_e/ngo_e/posp47_nama_e.pdf (retrieved on 10 May 2011). For a recent review of NAMA negotiations see, Low and Santana (2009).
23. The fourth revision draft text is TN/MA/W/103/Rev.3, on 6 December 2008. For current state of NAMA negotiations, see TN/MA/W/103/Rev.3/Add.1, on 21 April 2011.
24. Yaman (2008:177).
25. Yaman (2008:182-184).
26. WTO definition of agriculture: HS Chapters 01-24 less fish and fishery products, plus some selected products.
27. In the Hong Kong Ministerial the developing countries were allowed to make lower commitments in specific numbers of special products they deemed essential due to food security, livelihood security, and rural development reasons. Turkey sided with the G33 group of developing countries on the grounds that these instruments are of vital importance to realise progress in market access negotiations and to sustain agriculture in developing countries. The G-33 raised their concerns over special products

(SP) and special safeguard mechanisms (SSM) that were regarded as controversial issues to deadlock the Doha negotiations in July 2006. In their press statement, the G33 countries- including Turkey stated in para. 4: Ministers insisted that all aspects of SPs and SSM must be incorporated integrally in any modalities to be agreed by July 2006. They further stressed that no modalities in agriculture can be acceptable which do not fully reflect the expectations of the vast bulk of developing countries in the WTO on SPs and SSM. See, http://www.tradeobservatory.org/library.cfm?refID=88374 (retrieved on 14 May 2011).

28. For more on Turkey's position in WTO in agriculture see, Çakmak and Akder (2005).
29. See, WTO Document TN/S/O/TUR/Rev.1 on 29 September 2005 for Turkish Revised Conditional Offer on Services.
30. The Fifth Meeting of the WTO Coordination Committee in Turkey, held on 12 April 2006, available at: http://www.dtm.gov.tr/dtmadmin/upload/ANL/CokTaraf-liAnlasmaDb/KitapcikNisan2006.doc (retrieved on 16 May 2011).
31. Named after WTO Document TN/C/W/52, a proposal for "modalities" in negotiations on geographical indications (the multilateral register for wines and spirits, and "disclosure" in biological diversity.
32. WTO Document TN/TF/W/45 The document is accessible via: http://docsonline.wto.org/gen_search.asp?searchmode=simple
33. For a detailed analysis of Turkey's approach in TF, see (Oğuz, 2008).
34. See, WTO figures available at: http://www.wto.org/english/tratop_e/adp_e/ad_init_rep_member_e.pdf (retrieved on 19 May 2011).
35. This was a heterogenous group of countries composed of Norway, Chile and Hong Kong which opposed the use of such measures *per se;* Japan and S. Korea, Taiwan which have started to use them recently, but usually opposed any intensive use by their trading partners against their interests; Switzerland and Israel which considered to take part for their own negotiation strategies; Brazil and Mexico which showed themselves opposed to the US pracitces; and Turkey, a ferquent user itself, but opposed its abuse by others for its export purposes.

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