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Turkey's geo-economic shift:

An opportunity to revitalise EU integration amid sanctions

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Turkey’s geo-economic shift:

An opportunity to revitalise EU integration amid sanctions

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Abstract

› Since the beginning of the war in Ukraine, Turkey has adeptly navigated a balancing act between Russia and the West, leveraging its position as a credible mediator.

› However, Turkey's geo-economic vulnerabilities and strong economic ties with the West have made this approach untenable, especially given the recent escalation in pressure from the United States.

› As the US adopts a firmer stance and Turkey starts to distance itself from Russia, the implications for the European Union's strategy towards Turkey become increasingly important, presenting an opportunity to revitalise relationships.

› However, relations may sour again owing to stalled progress in relations and ongoing regional instability. Turkey's vocal stance against Israel and the war in Gaza underlines its dissatisfaction with US and EU responses, but at present the country has only limited leverage to effect change.

› The EU needs to adopt a proactive stance towards Turkey, moving beyond waiting for a post-Erdoğan era, and establish new forms of engagement other than EU accession.

› A modernisation of EU-Turkey customs rules is long overdue and would benefit both sides.

› Given Turkey's geopolitical significance and NATO membership, it is crucial for the EU to maintain relations with the country to prevent it from aligning more closely with Moscow and Beijing.

Keywords: Turkey, EU, foreign trade, customs union, sanctions, investment

JEL classification: F14, F50, F51, O10, O53

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1. TURKISH-RUSSIAN RELATIONS OVER THE LAST DECADE: A TURBULENT MARRIAGE OF CONVENIENCE

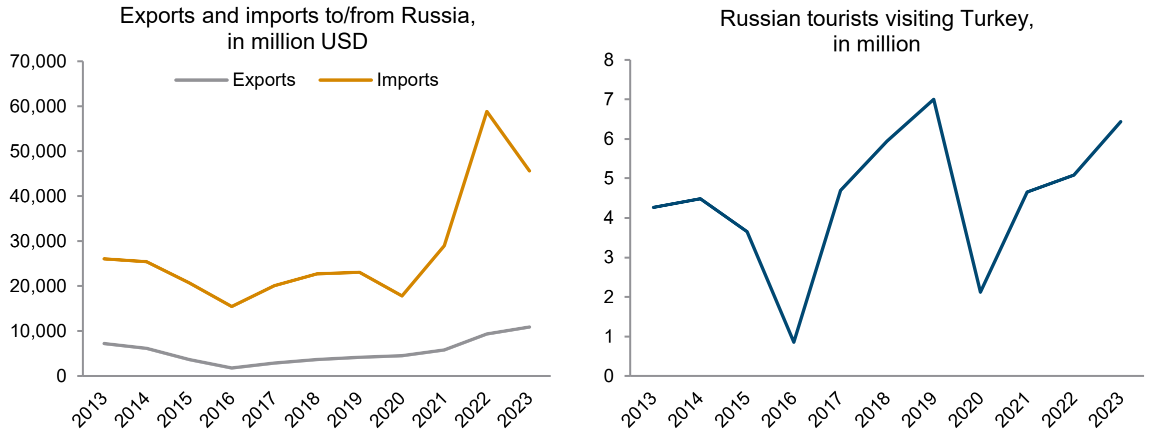
The Russia-Turkey relationship can be described as a strategic rivalry, albeit one that has for several years developed positively owing to a confluence of interests. Historically, the relationship between Russia and Turkey has been strained. Turkey's accession to NATO during the Cold War era intensified tensions with the Soviet Union. However, following the dissolution of the Soviet Union, bilateral relations improved. Today, Russia is a significant trade partner and major energy supplier for Turkey. Despite the economic cooperation, the two nations often find themselves on opposing sides in conflicts (for instance, those in Syria, Nagorno-Karabakh and Libya), reflecting their differing geopolitical interests.

Economic ties between Turkey and Russia have been rocky over much of the past decade. Turkish exports to Russia experienced a notable decline from 2013, reaching their nadir in 2016 following Russia's imposition of sanctions in response to Turkey's downing of a Russian military jet in 2015. The decline in exports exacerbated Turkey's economic challenges, which mainly stemmed from financial turbulence in emerging markets, economic policy failures by the Turkish government, and anti-government protests[1] at the time, leading to significant capital outflows and currency depreciation.

Russian sanctions imposed on Turkey delivered a severe blow to key sectors such as tourism, agriculture and construction, which heavily relied on the Russia market. The tourism industry saw a sharp decline as Moscow suspended visa-free travel, halted charter flights, banned Turkish vacation packages and closed Turkish tourism firms in Russia. In 2015, Russians made up 10% of foreign visitors to Turkey, but this plummeted to 3% in 2016 (see Figure 1). Russian sanctions also significantly impacted Turkey's agricultural sector. In 2015, Turkey exported over USD 1.05trn of food and agricultural products to Russia. However, in November 2015, Moscow imposed an import ban on several fruits and vegetables from Turkey, resulting in a 56% decline in the country's food and agricultural exports in 2016 and significant losses for Turkish farmers. Additionally, in December 2015, Moscow restricted Turkish companies from operating in Russia, including prohibiting Turkish construction firms from working there.

[1] On 28 May 2013, civil unrest erupted in Turkey, starting as a protest against the urban development plan for Istanbul's Taksim Gezi Park. The demonstrations quickly evolved to address broader issues, including demands for greater freedom of speech and opposition to the authoritarian policies of the government. Over time, these protests spread to various cities throughout Turkey.

Figure 1 / Economic relations between Turkey and Russia



Sources: TurkStat; Central Bank of the Republic of Turkey.

However, Russia lifted sanctions by the end of 2016 following a letter of apology from Turkey's president, Recep Tayyip Erdoğan, leading to a sharp upturn in bilateral economic relations. By 2022, trade levels had returned to normal (and, in fact, surpassed pre-2015 levels). From 2017, Russian visitor numbers began to rebound, and Russia remains among the top contributors to Turkey's tourism sector, alongside Germany. The normalisation of relations between Turkey and Russia has not only facilitated trade but has also led to deeper collaboration in the military and energy sectors. Turkey's acquisition of Russian S-400 anti-air missiles in September 2017 highlights the strengthened military cooperation. Meanwhile, in the energy sector, projects such as the Akkuyu nuclear power plant, developed by Russia's Rusatom, and the TurkStream Russia-Turkey gas pipeline demonstrate the depth of the two countries' relationship.

The normalisation coincides with Turkey's strained relationship with the West. The relationship between Turkey and Russia has deepened over recent years, partly owing to Turkey's frustration with stalled EU accession talks and Western criticism of its actions in Syria and the eastern Mediterranean. Disputes with the US, including the 2018 crisis over a detained American pastor,[2] worsened tensions and triggered a severe currency crisis in Turkey. The crisis, mainly driven by a large current-account deficit and significant foreign-currency debt, also served to push the country closer to Russia.

2 Andrew Brunson, an evangelical pastor from the US, was imprisoned in Turkey for two years on terrorism and espionage charges after the 2016 coup attempt. Diplomatic efforts involving the US Congress and the US Justice Department continued throughout, peaking in August 2018 when the US president, Donald Trump, threatened sanctions and doubled tariffs on Turkish steel and aluminium, intensifying the dispute and Turkey's currency crisis. Mr Brunson was released in October 2018.

2. FOLLOWING THE INVASION, TURKEY'S ECONOMY HAS STRUGGLED, BUT ITS TIES WITH RUSSIA HAVE GROWN STRONGER

The 2022 invasion of Ukraine came at a time when the Turkish economy was already facing severe difficulties. Despite achieving growth of 5.6% in 2022, driven by a strong post-COVID-19 recovery, Turkey's economy has encountered numerous challenges since 2018, stemming from a difficult external environment and unconventional monetary policies implemented by its central bank.

However, the fallout from the war in Ukraine, combined with persistent currency appreciation and higher import costs, has exacerbated Turkey's economic difficulties. The fallout has included large price increases for energy and other imported commodities, driving up consumer price inflation to a staggering 72% in 2022. According to the Turkish Energy Market Regulatory Authority (EMRA), imports of natural gas reached 54.66 bn standard cubic metres in 2022, marking a 7% increase from the 2021 level. Russia was the primary source of imports, accounting for 39.5% of the total. Additionally, the current-account deficit reached a record EUR 46bn, equivalent to 5.4% of GDP. In 2023, decreases in energy prices and changes in monetary policy led to a modest improvement in the current account, with the deficit narrowing to EUR 41bn, equivalent to 4.1% of GDP. However, inflation remained high at 54%, easing in the first half of the year, owing to base effects, but accelerating again in the second half.

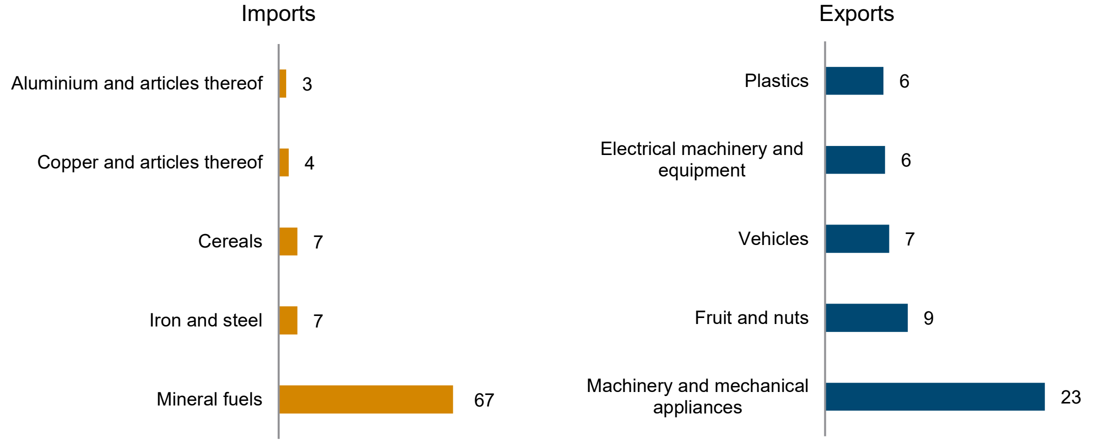
From the second half of 2022, the contribution to growth of Turkey's net exports turned negative, because of weak external demand in the EU and increased imports, driven partly by high energy prices and gold imports, as households sought alternatives to the local currency amid high inflation. The weak export performance continued into 2023, with declines in exports to major partners including the EU, the US and Iraq, reflecting weak demand and protectionist measures. The EU's share of Turkish exports declined to 40.5% in 2022, from 41.3% in 2021, continuing a downward trend observed since 2018. Similarly, Turkish imports from the EU dropped significantly, from 31.5% of the total in 2021 to 25.6% in 2022, influenced by strong price effects and increased energy imports from non-EU countries, notably Russia.

Meanwhile, Turkey's economic relationship with Russia took on a new level of importance. Over the past two years, Russia's significance as a crucial trading partner for Turkey has grown substantially. Turkey has experienced a significant upsurge in exports to Russia, with a 62% rise in 2022 followed by an additional 17% increase in 2023. In 2022, Russia ranked first in Turkey's imports and eighth in Turkey's exports. By 2023, it had risen to sixth position in terms of exports.

The leading category for Turkey's exports to Russia is machinery and mechanical appliances, comprising 23% of total exports to Russia, followed by fruits and nuts (9%), vehicles (7%), electrical machinery and equipment (6%), and plastic articles (6%). Machinery and mechanical appliances, along with electrical machinery and equipment, are Turkey's top export categories overall, accounting for 16% of total Turkish exports. Although Russia was already a significant market for Turkey before the conflict, its market share increased strongly in 2022. Specifically, in the machinery and electronic equipment sector, Russia's market share increased from 4% to 13% in 2022, and rose further in 2023, to 15%. One potential reason for the rise in Turkish exports to Russia could be re-exports (where imported goods are transshipped to Russia). Although no official data exist on Turkish re-exports to Russia, an analysis of Turkish imports from the rest of the world reveals notable increases in 2023: imports of vehicles rose by 77%, electrical machinery and equipment by 29%, and machinery and mechanical appliances by 18%. Additionally, there is a significant dependency on exports to Russia in Turkey's agricultural and fishing sectors. In 2023, approximately 17% of fruit and nut exports and 20% of fish exports were destined for Russia (see Figure 2).

Russian imports followed a similar trend. Mineral fuels represent Turkey's largest import category, constituting 20% of all imports in 2023. Russia serves as the primary supplier, accounting for 28% of mineral fuel imports in 2021, a share that rose to 43% in 2022 and remained at that level in 2023. Additionally, 66% of cereal imports originated from Russia in 2023, marking an increase from 58% in 2021.

Figure 2 / Top five products in Turkey's imports and exports from/to Russia, 2023, in %



Source: UN Comtrade.

Following the outbreak of the war in Ukraine, Russian investment in Turkey also saw a significant increase. In 2021, Russian citizens established only 177 companies in Turkey. However, this number surged to 1,384 new companies in 2022. The largest investments were made in the retail and wholesale sector, accounting for 56.7% of total companies established and 38.5% of total assets. This was followed by investments in construction (2.2% of companies and 22.3% of assets), and manufacturing (7.1% of companies and 16.3% of assets). Part of the increase in investment is linked to the influx of Russian emigrants following the outbreak of the war and military drafts. In 2022, the number of Russian nationals acquiring their first year of residence in Turkey surged by 140%, building on a 120% rise in 2021, although it fell back by 21% in 2023. As of 2023, Russian immigrants represent 7% of the foreign population in Turkey, up from 3% in 2018.

Russia also plays a significant role for Turkey in terms of tourism. In 2023, Russia accounted for the joint largest share of tourists in Turkey at 13% (equal with Germany). Since the lifting of Russian sanctions against Turkey in 2016, the number of Russian tourists visiting Turkey has increased each year (with the exception of 2020, when COVID-19 restrictions impacted tourism). In 2022 and 2023, the number of Russian tourists visiting Turkey rose by 9% and 27%, respectively. Nevertheless, European visitors remain the dominant group in Turkey's tourism sector. Over the years, Europeans have consistently exceeded 50% of all tourists visiting Turkey, with numbers steadily increasing. This trend persists: the number of European tourists increased by 13% in January-July 2024, compared with the same period of 2023; the number of Russian tourists remained little changed.

3. ATTEMPTS TO CHART A MIDDLE PATH BETWEEN RUSSIA AND THE WEST START TO RUN UP AGAINST GEO-ECONOMIC REALITY

Western sanctions targeting Russia began in March 2014 following the annexation of Crimea, with a gradual escalation by the EU and the US after the onset of the Ukraine war in 2022. Although the initial sanctions did not target trade (because of concerns about oil price spikes), the EU, the US and the UK were among those to implement new sanctions against Russia from 2022, in response to the war in Ukraine. These actions have included blocking certain Russian banks from the SWIFT payment network, imposing specific sanctions against individuals and organisations, and prohibiting the trade of certain products and services. The trade sanctions include banning the sale or transfer of oil-refining technologies and restricting the importation of crude oil and petroleum products. Additionally, a ban is in force on the export of cutting-edge technology, machinery, energy-related equipment, aviation and space industry goods, dual-use items, luxury goods, firearms, and chemicals. Export and import restrictions do not apply to goods primarily for consumption or related to health, pharmaceuticals, food and agriculture.

Turkey tries to maintain a balanced approach, condemning Russian aggression while preserving economic ties amid the conflict. This approach is mainly driven by Turkey's economic vulnerabilities and the substantial importance of Russia as a key partner across multiple fronts. Since the war began, Turkey has condemned Russia's aggression, and has even provided military and diplomatic assistance to Ukraine. Days before the invasion, Turkey and Ukraine signed an agreement to deepen their security cooperation. Since then, Ukraine has ordered multiple Bayraktar TB2 drones and Ada-class corvettes from Turkey, which were used in defence against Russia. The agreement also included establishing a drone production plant in Ukraine by Turkey, now delayed due to the invasion. Turkey also ramped up its presence in the Black Sea. In January 2024, it initiated a joint naval operation with Romania and Bulgaria to remove stray mines that have posed problems since the start of the war.[3] Despite these developments, Turkey has opted not to join Western sanctions. Its trade relationship with Russia has remained strong. Turkey has become a supplier of critical goods that Russia had been reliant on the EU for and, although many European countries have suspended aviation connections with Russia, it continues to facilitate flights to and from major Russian cities.

The approach of adopting the role of a 'middle power', keeping economic relations open with both sides, has gradually started to reach its limits. Since 2023, certain Turkish firms and individuals have also faced sanctions for aiding Russian aggression in Ukraine. In September 2023, the US imposed sanctions on five Turkish companies and five individuals for their involvement in the repair of ships owned by Russia's defence ministry and facilitating the transfer of dual-use goods. In December of that year, the US sanctioned eight Turkish firms for continuing to supply critical components for Russian weapon systems, including 'high-priority products' and dual-use items. In February 2024, the US further sanctioned 16 companies, citing their support for Russia's industrial sector by producing US-origin machine tools and electronic equipment, and selling them to Russian end-users without appropriate licences. Additionally, the UK imposed sanctions on three Turkish firms, and the EU sanctioned one.

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[3] Dimitar Bechev: 'Closer Ties to the West Don't Mean Turkey Will Give Up On Russia', February 2024. https://carnegieendowment.org/russia-eurasia/politika/2024/02/closer-ties-to-the-west-dont-mean-turkey-will-give-up-on-russia?lang=en

Rather than direct sanctions, the greatest pressure exerted on Turkey by the West may be via US secondary sanctions, something that many Chinese firms are also finding out. A wider range of Turkish companies felt the impact of the secondary sanctions imposed by the US. On 22 December 2023, the US president, Joe Biden, signed an executive order, authorising sanctions on foreign financial institutions that conduct or facilitate significant transactions supporting Moscow's war efforts. As a result, foreign banks must strengthen their compliance measures to identify and restrict transactions related to Russia. Following the order, Turkish banks reportedly severed ties with their Russian counterparts. The sanctions primarily affected Turkish exporters, rather than oil imports from Russia. Thus, the primary concern lies not in Turkey's outgoing payments but in incoming payments from Russia. Furthermore, the secondary sanctions do not affect transactions involving humanitarian aid and food.

Turkey's approach has also been shifting in response to pressure from Western allies, particularly the US. Because Turkey is not part of the EU – and the current customs union does not extend the sanctions' territorial scope – it is not required to implement equivalent sanctions or anti-circumvention measures. However, owing to pressures from the US and signs of rapprochement in relations between the two countries, Turkey has become more willing to implement controls to prevent sanctions circumvention. The first indication of a change in approach became evident in March 2023, when Turkey imposed restrictions on exporting sanctioned goods to Russia from the EU, the US and the UK. The ban primarily targets goods in transit, stored in warehouses, or located within free zones. Nevertheless, the restrictions do not cover the transportation of dual-use or sensitive technology items, nor do they restrict the unrestricted movement of sanctioned goods from Turkey to Russia. Furthermore, despite Turkish exporters' demands, the Turkish Ministry of Trade declined to include a wider range of products in the so-called 'green list' of exemptions when secondary sanctions were announced. For products on the green list, Turkish banks process payments as usual. Currently, the green list encompasses transactions concerning agricultural products, medicine, textiles, tourism and education.

However, Turkey's importance for Russia as a means to acquire sanctions goods appears relatively limited compared with CIS countries, as highlighted by Astrov et al.[4] They assess potential sanctions evasion by product groups (HS6) with exports to Russia that are over 50 times greater than their exports to all other destinations in 2019. Their findings indicate that Turkey's exports to Russia for 54 of 71 economically critical goods significantly increased compared with exports to other destinations in 2022, suggesting possible sanctions circumvention. Nonetheless, this trend is more pronounced in CIS countries, which exhibit substantial export increases across nearly all product groups. Despite Turkey's steep increase in exports from pre-war levels, its absolute trade numbers remain less significant than those of China. In 2023, Chinese imports comprised approximately 54% of all Russian imports, making China by far its largest supplier. In contrast, Turkey, although ranked second, accounted for just 5.2% of Russian imports, followed by Germany, with 4.8%.

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4 Vasily Astrov, Artem Kochnev, Lisa Scheckenhofer, Vincent Stamer and Feodora Teti: 'Monitoring the Impact of Sanctions on the Russian Economy', *EconPol Policy Report* 47, February 2024.

4. THE VIEW FROM ANKARA: PULL-BACK UNAVOIDABLE BUT HAS COSTS

The pull-back from full economic relations with Russia as a result of Western pressure has already had an impact on the Turkish economy. The escalation of sanctions, combined with Turkey's economic troubles, had already begun to strain Turkish exports to Russia, which had been declining since April 2023. The impact of the secondary sanctions on Turkish exports to Russia has been notable, with a 33.7% decrease in Q1 2024 compared with the same period of 2023 (see Figure 3). Overall, exports to Russia in the first eight months of 2024 fell by 24% from the same period in 2023. Furthermore, imports from Russia saw a similar, albeit more modest, decline of 8.4% in Q1 2024 compared with the same period of 2023, primarily driven by falling energy prices and a stable domestic currency.

Figure 3 / Year-on-year growth of exports and imports to/from Russia

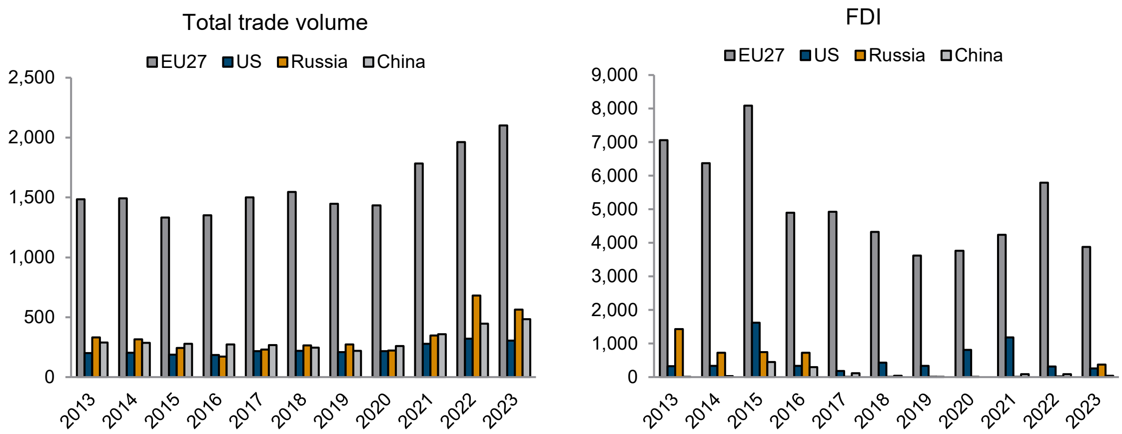
Source: TurkStat.

As a result of its balancing act, the Turkish government refrained from directly addressing sanctions on Turkish firms and sought to downplay the issue. Since the war began, Turkey has stated that it does not engage in sanctions as a matter of principle. The government affirmed that trade with Russia continues, while emphasising that it will not allow Russia to bypass Western sanctions through Turkey. The government has noted that only small companies engage in sanction evasion, suggesting that this could be because of a lack of awareness. Furthermore, it has stressed that if such attempts were to contravene Turkey's policies, Turkish authorities would intervene accordingly.

However, improved relations with the US have resulted in a shift in Turkey's approach to sanctions, with Turkey tightening monitoring to prevent sanction evasion. Following the announcement of secondary sanctions by the US, Turkish banks tightened their compliance procedures regarding sanctions. This led to significant trade delays and a notable drop in export volumes to Russia in Q1 2024. Turkish exporters are pushing for streamlining the process of receiving export earnings from Russia. However, the Ministry of Trade stated that it has no plans to act on this matter for the time being. As of August 2024, there is also no evidence that trade is rerouting through CIS countries, as exports to the region have not significantly increased.

The matter is highly sensitive, given the risk of being blacklisted by the US and severed from the US financial system. Turkey's economic ties with its Western allies, particularly the EU and the US, run deep. Trade with the EU and the US represented 40% of Turkey's total trade volume in 2023, significantly larger than its trade with Russia and China (17%). The EU remains by far Turkey's largest trade partner and primary source of investment (see Figure 4). Although Turkish trade integration with the US is relatively limited compared wsith the EU, Turkey has a high dollarisation rate both in FX borrowing and deposit dollarisation. Despite the recent efforts towards de-dollarisation, including the introduction of FX-protected deposit schemes, savings and borrowing in US dollars and euros remain substantial. In 2023, 42% of all deposit were foreign currency. Additionally, 86% of Turkey's total external debt in 2023 was dominated either in US dollars (58%) or in euros (28%). As of July 2024, Turkey's short-term external debt stock reached its highest point at USD 176bn, with nearly half denominated in US dollars, implying that any loss of access to dollar funding would have an immediate and significant impact on the Turkish economy.

Figure 4 / Turkey's economic relations with its main trade partners, million USD



Sources: TurkStat; Central Bank of the Republic of Turkey.

As the US has increased the pressure and closed down Turkey's ability to chart a middle path between Russia and the West, there are signs that Turkey is leaning back gradually towards the West. One sign of this is that Turkey aims to reduce its dependence on Russian energy, in line with trends across most of Europe. Turkey is currently in negotiations with ExxonMobil in the US to purchase LNG. The Turkish energy minister, Alparslan Bayraktar, has stated that the country, which imports nearly all of its natural gas from Russia, is seeking to diversify its energy sources to reduce its dependency on a single partner. This development comes amid improving relations with the US after Ankara dropped its veto on Sweden joining NATO and Washington agreed the sale of F-16 jets.

Turkey seeks to strengthen its ties with the US despite its opposition to Israeli military operations in Gaza and criticism of US support, as domestic challenges limit its influence over US policy. The war in Gaza has created tension between Turkey and the US. Although President Erdoğan and the Turkish government have been vocal in their criticism of Israel and its prime minister, Benjamin Netanyahu, Turkey's leverage remains limited. This situation is reminiscent of Turkey's experience with Russia in Syria, when – despite being on opposing sides – trade ties restricted Turkey's actions. Economic dependencies on the US similarly restrict Turkey's response regarding Gaza. However, Turkey could gain leverage if the escalating conflict leads to a migration crisis, making it again a key partner for the EU. However, frustrated by stalled EU accession talks and issues related to the F-35 fighter jet programme, Turkey has recently sought to diversify its international partnerships by formally requesting BRICS membership, normalising ties with Syria and re-engaging with the Arab League.

5. POLICY RECOMMENDATIONS: THE EU SHOULD SEIZE THE MOMENT TO RENEW ECONOMIC RELATIONS IN A MORE POSITIVE WAY

The analysis presented above makes clear that Turkey is increasingly being forced by the West in general and the US in particular to abandon its middle way between the West and Russia. Turkey was probably never as important in Russian sanctions avoidance as some supposed, but clearly it has been part of the reason that the Russian economy has held up so much better than expected since the imposition of Western sanctions following the 2022 invasion.

Yet, as outlined, this has significant costs for Turkey. First, because of the deep economic and financial connections between Russia and Turkey. And second, because Turkey's economy, despite robust growth, is under strain following years of economic mismanagement that have caused a collapse in the currency and skyrocketing inflation. In that context, breaking off economic relations with an important economic partner is even more painful.

The fact that Turkey can be influenced by the US in this way indicates important features of the Turkish growth model. A policy that targets growth and employment above all else has brought results, but by relying so greatly on a large current-account deficit and US dollar credits, it has made Turkey geo-economically vulnerable to US pressure. Ultimately, the growth model has reduced Turkey's room for manoeuvre in foreign policy. And, although the costs of reduced economic relations with Russia are high for Turkey, the costs of damaging economic ties with the West, and even incurring Western sanctions, would be much greater.

In all of this, the EU has a very important role to play. Turkey has been a difficult partner in many ways, yet its geopolitical and geo-economic significance for the EU is significant, and in general much greater than for the US. The EU must therefore see this phase of relations not simply as one where Turkey should be pressured, but also as an opening for a long overdue renewal of economic relations in a way that is mutually beneficial. The ideals of 'change through trade' may have been severely damaged by the EU's failed approach to Russia over the past decades, but this should not prevent the EU from trying to integrate more deeply with Turkey. In a world of ever-increasing geo-economic tensions and bloc-building, it is in the EU's interests that it – rather than China or Russia – remains Turkey's main economic partner. Our analysis also suggests that, if the EU is truly committed to offering Turkey an attractive proposition, Turkey would be willing to distance itself from Russia further.

Specifically, the EU should take the following steps:

› Support the US in tightening the screws on Russian sanctions avoidance, including via Turkey, and ensuring that anything that could support the invasion of Ukraine is punished. Yet the EU should also take care to not to cause unnecessary collateral damage to the Turkish economy as a result. Sectors such as tourism, education, food and humanitarian aid transactions must remain exempt.

› The EU should use this as an opportunity to positively upgrade its economic relations with Turkey. An upgrade of the EU-Turkey customs union is long overdue, and would have positive spillovers for both sides. Previous research suggests that modernising and upgrading the customs union could lead to 2% additional GDP growth for Turkey and 0.7% additional GDP growth for the EU.[5]

› Linked to the previous point, the EU should recognise the positive change in Turkish economic policy making in the last two years. There is now a new economic team, with more orthodox policies. Moreover, Turkey has already shown its willingness to diversify its trade from Russia. EU leaders must, of course, remain realistic about President Erdogan, but should also recognise the changing political atmosphere in Turkey. The March 2024 local elections marked the first time that the ruling Justice and Development Party (AKP) lost its position as the leading party, with the opposition Republican People’s Party (CHP) emerging in the lead. The results reflect public dissatisfaction with President Erdoğan's policies in recent years and may continue to nudge the government toward a more stable path. The EU must stand up for its core values, but also recognise and encourage whatever improvements it sees.

› The Western private sector shows the way. Since the invasion, no country has received more new greenfield FDI projects from Austria (to take just one example) than Turkey. This is an important signal to EU policy makers about the growth opportunities of Turkey, despite the turbulence, and shows where EU companies can benefit. EU policy makers, in upgrading the customs union and other areas of deeper economic integration, should recognise the importance of Turkey for the EU private sector. At a time of severe labour shortages and mediocre growth in many core European markets, Turkey has a lot to offer EU firms.

› The EU should not forget that this is not Turkish dependence, but interdependence. Turkey has leverage too, of which the migration deal is only one example. Turkey’s size and leverage mean that the EU should treat it is a partner. There could, for example, be some dialogue about standard setting and regulation, especially if the customs union is upgraded.

5 Erdal Yalçin and Gabriel Felbermayr (2021): ‘The EU-Turkey Customs Union and trade relations: What options for the future?’, In-depth analysis requested by the INTA committee, Brussels: European Union. https://www.europarl.europa.eu/thinktank/en/document/EXPO_IDA(2021)653640

IMPRESSUM

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