64

June 2021

IKV BRIEF

TURKEY-UK FREE TRADE AGREEMENT: ITS SCOPE AND FUTURE

Merve Özcan Altan

IKV Junior Researcher

ECONOMIC DEVELOPMENT FOUNDATION

www.ikv.org.tr

TURKEY-UK FREE TRADE AGREEMENT: ITS SCOPE AND FUTURE

Merve ÖZCAN ALTAN, IKV Junior Researcher

On 24 December 2020, the EU and the UK signed a Trade and Cooperation Agreement to establish their new economic and commercial ties after the end of the UK's Transition Period on the way to Brexit.[1] It was kind of a Christmas present for each side since there had been a tense wait stemming from the rising uncertainty as 31 December 2020, the end of the Transition Period, was approaching. This historical development of the signature of the EU-UK Trade and Cooperation Agreement made both sides take a deep breath. On the following days it was Turkey's turn to breathe deeply thanks to Turkey-UK Free Trade Agreement (FTA) that was signed on 29 December 2020 immediately after the EU-UK Trade and Cooperation Agreement.[2]

1. A Brief Look at Turkey-UK Economic and Commercial Ties

In a similar vein to the Agreement between the EU and the UK, Turkey-UK FTA had also been much awaited particularly by the Turkish business world and exporters who have been selling products to the UK. This was a natural consequence of dense economic and commercial ties between the two countries. Examining Turkey's recent trade data in terms of imports and exports categorised by origin and destination countries displays the significance of the UK for Turkey. Regarding Turkey's exports, the UK comes at second place right after Germany (Table 1). During 2019 and 2020, Turkey sold goods and services worth approximately 11 billion dollars to the UK and this has made the UK have a share over 6% in Turkey's exports. Similarly, throughout the first two months of 2021 Turkey's exports of goods and services to the UK accrued 1.8 and 1 billion dollars in January and February, respectively.

Likewise, Turkey's imports coming from the UK has been around 5 to 7 billion dollars since 2018. As a result of these import volumes, the UK has constituted shares between 2.5 and 3.3 percent in Turkey's total imports during the last three years. Although the UK was among the top 10 trade partners of Turkey concerning imports especially in 2018, the reductions in import volume from the UK in 2019 and 2020 have caused the UK to fall behind in ranking to the 10th and 11th places. Lastly, Turkey purchased goods and services from the UK worth 500 million dollars in January 2021 by the most recent data. To conclude, what can be drawn out from Turkey-UK commercial relations is that the value of goods and services sold by Turkey to the UK is pretty more than that of goods and services purchased by Turkey from the UK. Therefore, Turkey can be said to have a trade surplus vis-à-vis the UK. Taking it a step further, Turkey holds the largest amount of trade surplus with the UK.

[1] European Commission, (2020), The EU-UK Trade and Cooperation Agreement, https://ec.europa.eu/info/relations-united-kingdom/eu-uk-trade-and-cooperation-agreement_en Accessed: March 2021

[2] *Türkiye Cumhuriyet Ticaret Bakanlığı*, (2020), *Türkiye ile Birleşik Krallık arasında Serbest Ticaret Anlaşması imzalandı*, https://ticaret.gov.tr/haberler/turkiye-ile-birlesik-krallik-arasinda-serbest-ticaret-anlasmasi-imzalandi Accessed: March 2021

Table 1: Turkey's top import and export partners

Imports					Exports				
Country[3]	*2018 (billion dollar, % in total)*	*2019 (billion dollar, % in total)*	*2020 (billion dollar, % in total)*	*January 2021 (billion dollar, % in total)*	*Country*[4]	*2019 (billion dollar, % in total)*	*2020 (billion dollar, % in total)*	*January 2021 (billion dollar, % in total)*	*February 2021 (billion dollar, % in total)*
China	21.5 *(9.3)*	19.1 *(9.1)*	23 *(10.9)*	2.2 *(12.2)*	*Germany*	16.6 *(9.2)*	16 *(9.4)*	3 *(9.5)*	1.5 *(9.4)*
Germany	21.5 *(9.3)*	19.3 *(9.2)*	21.7 *(10.3)*	1.5 *(8.4)*	*UK*	11.3 *(6.2)*	11.2 *(6.6)*	1.8 *(5.7)*	1 *(6)*
Russia	22.7 *(9.8)*	23.1 *(11)*	17.9 *(8.5)*	1.8 *(10.1)*	*US*	9 *(5)*	10.2 *(6)*	1.9 *(6)*	0.9 *(5.7)*
US	13 *(5.6)*	11.8 *(5.6)*	11.5 *(5.5)*	0.7 *(4)*	*Italy*	9.8 *(5.4)*	8.1 *(4.8)*	1.7 *(5.5)*	0.8 *(5.2)*
Italy	10.8 *(4.7)*	9.4 *(4.4)*	9.2 *(4.4)*	0.6 *(3.7)*	*France*	7.9 *(4.4)*	7.2 *(4.2)*	1.5 *(4.8)*	0.8 *(4.7)*
Iraq	1.6 *(0.8)*	2.7 *(1.3)*	8.2 *(3.9)*	0.8 *(4.5)*	*Iraq*	10.2 *(5.7)*	9.1 *(5.4)*	1.5 *(4.7)*	0.8 *(4.7)*
Switzerland	2.9 *(1.2)*	3.4 *(1.6)*	7.8 *(3.7)*	211 *(1.2)*	*Spain*	8.1 *(4.5)*	6.7 *(3.9)*	1.3 *(4.5)*	0.7 *(4.3)*
France	7.8 *(3.4)*	6.8 *(3.2)*	7 *(3.3)*	0.6 *(3.8)*	*Netherlands*	5.8 *(3.2)*	5.2 *(3.1)*	0.9 *(2.8)*	0.5 *(2.8)*
South Korea	5.8 *(2.7)*	5.8 *(2.7)*	5.7 *(2.7)*	0.5 *(2.7)*	*UAE*	3.6 *(2)*	2.8 *(1.7)*	1.1 *(3.5)*	0.5 *(2.8)*
UAE	3.8 *(1.8)*	4.4 *(2.1)*	5.6 *(2.7)*	0.4 *(1.9)*	*Israel*	4.5 *(2.5)*	4.7 *(2.8)*	0.9 *(2.8)*	0.5 *(2.8)*
UK	7.6 *(3.3)*	5.6 *(2.7)*	5.6 *(2.5)*	0.5 *(3)*					

Source: Turkish Statistical Institute

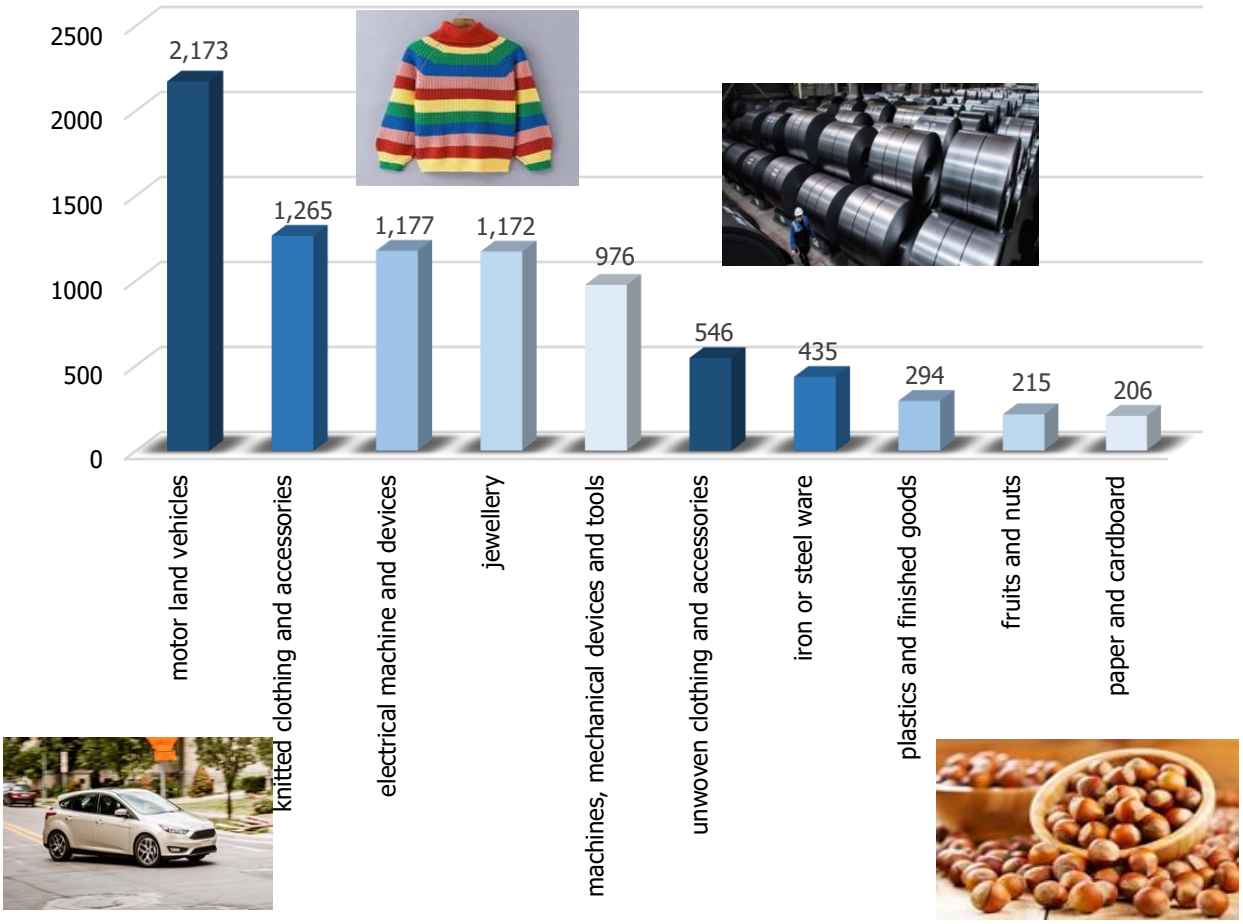
Turkey's primary products that are exported to the UK are gold, textiles, ready-to-wear products, electrical and electroless machines, motor vehicles and parts, iron and steel products, insulated cables and wares along electric conductors.[5] On the other side, Turkey's major import items coming from the UK are diesel and semi-diesel engines, automobiles, iron and steel waste and junk and their ingots, drugs prepared to be used for treatment and prevention.[6]

According to the latest data released by Turkey's Ministry of Trade, motor land vehicles, knitted clothing and accessories, electrical machine and devices in addition to jewellery come to the forefront as the most exported goods by Turkey to the UK in 2019 (Graph 1).[7] They were followed by machines, mechanical devices and tools, unwoven clothing

[3] Countries are ranked in accordance to their import volumes in 2020.
[4] Countries are ranked in accordance to their export volumes in February 2021.
[5] *Türkiye Cumhuriyeti Dışişleri Bakanlığı*, *Birleşik Krallık'ın Ekonomisi*, http://www.mfa.gov.tr/birlesik-krallik-ekonomisi.tr.mfa#:~:text=Ba%C5%9Fl%C4%B1ca%20ihracat%20kalemleri%3A%20Otomobil%2C%20alt%C4%B1n,par%C3%A7alar%C4%B1%2C%20optik%20ve%20t%C4%B1bbi%20cihazlar. Accessed: March 2021
[6] Ibid.
[7] *T.C. Ticaret Bakanlığı Dış Temsilcilikler ve Uluslararası Etkinlikler Genel Müdürlüğü*, (2021), *BİRLEŞİK KRALLIK ÜLKE PROFİLİ*
https://ticaret.gov.tr/data/5ebe9fea13b876cbbc365429/%C4%B0ngiltere%20%C3%9Clke%20Profili.pdf
Accessed: March 2021

and accessories, iron or steel ware, plastics and finished goods, dried fruits and nuts along with paper and cardboard.[8]

Graph 1: Primary goods in Turkey's exports to the UK (2019, million dollars)

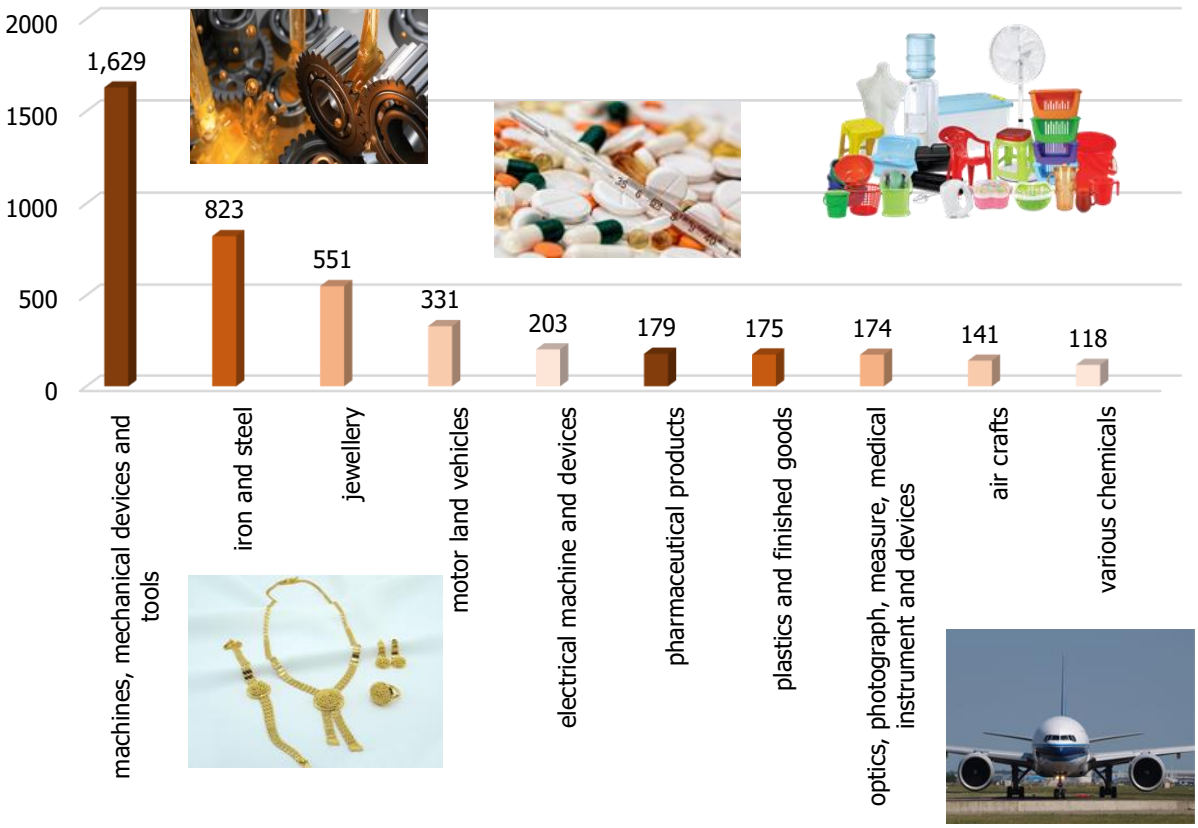


Source: Republic of Turkey Ministry of Trade

Subsequent to Turkey's exports to the UK, investigating Turkey's imports from this trade partner reveals that Turkey bought machines, mechanical devices and tools from the UK the most at the value of 1.6 billion dollars (Graph 2).[9] This import item was pursued by iron and steel, jewellery, motor land vehicles, electrical machine and devices alongside pharmaceutical products. After these, plastics and finished goods, optics, photograph, measure, medical instrument and devices, air crafts and various chemicals came to the forefront among the most purchased goods from the UK. According to the recent data published by the UK government, there were 7,600 businesses in the country that exported goods to Turkey in 2019.[10]

[8] Ibid.
[9] Ibid.
[10] Gov.UK, (2020), *Press release - UK and Turkey sign trade deal*, https://www.gov.uk/government/news/uk-and-turkey-sign-trade-deal Accessed: March 2021

Graph 2: Primary goods in Turkey's imports from the UK (2019, million dollars)

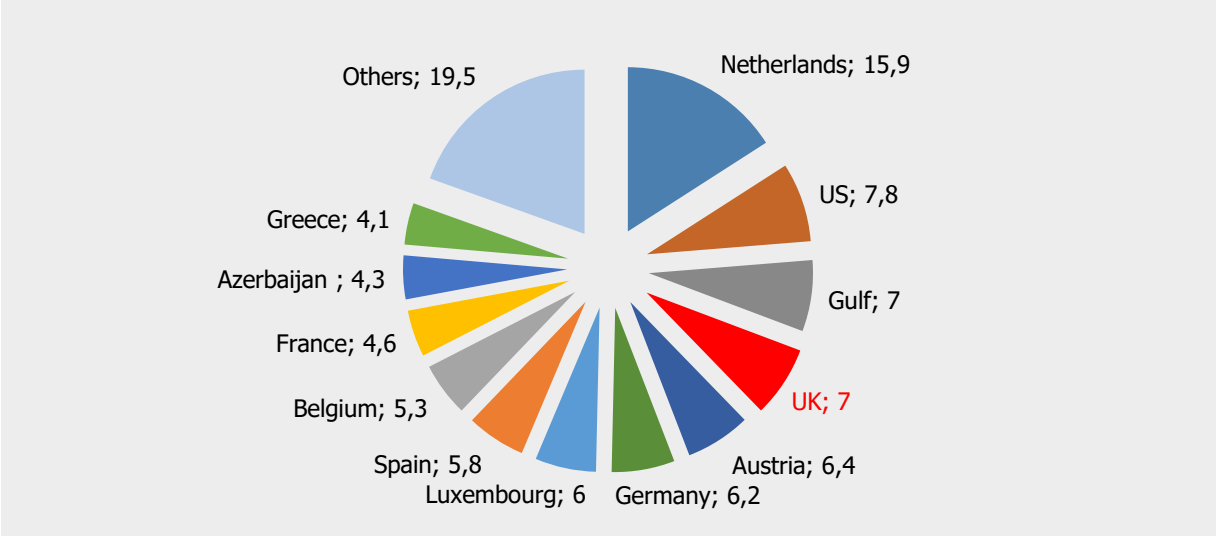


Source: Republic of Turkey Ministry of Trade

In addition to high trade volume of goods and services between the two countries, the UK has been a significant partner of Turkey in the area of foreign direct investment (FDI) for years. According to *fDi Markets*, Turkey became the seventh most attractive country for FDIs in Europe thanks to the opportunities its economy provides.[11] Whereas the total value of inward FDIs to Turkey between 1980 and 2002 was accounted for 15 billion dollars, it jumped up to 225 billion dollars in the period between 2003 and 2020.[12] Finance, manufacturing, energy and information and communication technologies (ICT) have encouraged the highest amount of FDI throughout the aforementioned period. Coming back to the point of Turkey-UK FDI relations, it should be noted that the UK has been on top of the list of the countries that have invested in Turkey during 2003-2020 period. To give more detail, the UK comes at third place in terms of ranking based on individual countries and fourth place in the overall ranking.

[11] fDi Markets, https://www.fdimarkets.com/ Accessed: March 2021
[12] *Türkiye Cumhuriyeti Cumhurbaşkanlığı Yatırım Ofisi, Türkiye'ye Uluslararası Doğrudan Yatırım*, https://www.invest.gov.tr/tr/whyturkey/sayfalar/fdi-in-turkey.aspx Accessed: May 2021

Graph 3: Inward FDIs into Turkey categorised by origin countries in the period of 2003-2020 (%)



Source: Türkiye Cumhuriyeti Cumhurbaşkanlığı Yatırım Ofisi

In accordance with the data of the Central Bank of Republic of Turkey (CBRT), the volume of the UK's FDIs in Turkey reached 6.9 billion dollars by the end of 2019.[13] While there are several important British companies investing in Turkey and procuring goods from our country, a lot of Turkish companies opening their distribution and sales channels in addition to their branches are located in the UK. Again the data of the CBRT reveals that the stock of Turkish FDIs in the UK by the end of 2019 arrived at 3.8 billion dollars.

The UK-origin investments in Turkey have been mostly directed to infrastructure, energy, food and tourism. Moreover, the possibility of accessing the markets of Russia, Caucasia and Central Asian Turkish Republics through Turkey has come forward as another prominent reason for investors in the UK to focus on Turkish market. Vodafone, HSBC, Marks & Spencer, British Petroleum (BP), Unilever and GlaxoSmithKline (GSK) are among the major British companies that have investments in Turkey for long years. In total, it is stated that there are more than 3,000 businesses from the UK that have been maintaining their operations in Turkey.[14]

[13] *Türkiye Cumhuriyeti Merkez Bankası*, (2021), *Uluslararası Yatırım Pozisyonu* https://www.tcmb.gov.tr/wps/wcm/connect/TR/TCMB+TR/Main+Menu/Istatistikler/Odemeler+Dengesi+ve+Ilgili+Istatistikler/Uluslararasi+Yatirim+Pozisyonu/ Accessed: March 2021

[14] TRT World, (2020), Explained: Historic Turkey-UK free trade deal, https://www.trtworld.com/magazine/explained-historic-turkey-uk-free-trade-deal-42789 Accessed: March 2021

Some examples of the UK firms that have investments in Turkey

Likewise, a great number of companies of which headquarters are located in Turkey have been continuing to set up offices, branches and stores in different parts of the UK, mostly concentrating in northern regions. Furthermore, Turkish companies and firms have established distribution and sales representatives in the UK, as well. The leading Turkish companies and firms that have made investments in the UK intensively throughout the years are Beko, Simit Sarayı, Vestel, Ziraat Bankası, İş Bankası and Barsan Global.[15] Moreover, a lot of Turkish companies and business people show great interests in fairs organised in the UK every year.

Some examples of the Turkish firms that have investments in the UK

2. The Scope of the Turkey-UK FTA

These elaborated economic and commercial ties between Turkey and the UK and thereby the indispensable weight of each country's in other's trade can be attributed to the benefits of the Turkey-EU Customs Union (CU) that has been in force since 1 January

[15] Ibid.

1996.[16] As in case of the other Member States, custom duties, quantitative restrictions and charges with equivalent effect on industrial goods and industrial component of the agricultural goods had been eliminated in Turkey's trade with the UK. Hence, the UK's exit from the EU by the end of 2020 put an end to the CU relation between Turkey and the UK which means that in the absence of a bilateral trade agreement, Turkey-UK commercial ties would be subjected to the World Trade Organisation (WTO) rules and procedures.[17]

Fortunately, the compromise reached between the EU and the UK on 24 December 2020 regarding the trade agreement that is going to determine the framework of relations in the wake of Brexit paved the way for Turkey to conclude a corresponding agreement with its long term trade ally, the UK. The negotiations between the corresponding authorities and organisations from Turkey and the UK had been launched well in advance. At the end of 2016, it was decided to form a working group to conclude an FTA between Turkey and the UK and bilateral negotiations started formally by the end of 2017.[18] However, Turkey-UK FTA could not be concluded before the agreement between the EU and the UK is due to Turkey's obligations stemming from its CU with the EU. Therefore, the realisation of the EU-UK Trade and Cooperation Agreement on 24 December 2020 has given wing to Turkey-UK FTA that has also the importance of the UK's first trade agreement after the one agreed upon with the EU.

On 29 December 2020, Turkey-UK FTA was signed at a video conference with the participation of Turkey's then Trade Minister Ruhsar Pekcan and the UK's International Trade Secretary Liz Truss.[19] The preferential trade agreement between Turkey and the UK that had been signed only three days before the end of the UK's Transition Period and entered into force on 1 January 2021 provided the uninterrupted continuation of the bilateral trade between the two countries. The acquisitions gained as a result of the Turkey-EU CU were stated to be preserved thanks to the timely conclusion of Turkey-UK FTA and these acquisitions are aimed to be further elaborated in the forthcoming years.

[16] European Commission, Turkey : Customs Unions and preferential arrangements, https://ec.europa.eu/taxation_customs/business/calculation-customs-duties/rules-origin/customs-unions/turkey-customs-unions-preferential-arrangements_en Accessed: March 2021

[17] Mondaq, (2021), Turkey and The UK Sign Post-Brexit Free Trade Agreement, https://www.mondaq.com/turkey/international-trade-investment/1023440/turkey-and-the-uk-s305gn-post-brex305t-free-trade-agreement- Accessed: March 2021

[18] *Dünya*, (2020), *7 milyar dolarlık ihracat, vergi duvarını aştı*, https://www.dunya.com/kose-yazisi/7-milyar-dolarlik-ihracat-vergi-duvarini-asti/605297 Accessed: March 2021

[19] Gov.UK, (2020), UK and Turkey sign trade deal, https://www.gov.uk/government/news/uk-and-turkey-sign-trade-deal Accessed: March 2021

Source: Republic of Turkey Ministry of Trade

In accordance with the statements of Minister Pekcan within the scope of the signature ceremony, 75 percent of Turkey's exports to the UK would have been subject to tariffs and it would have caused a loss of 2.4 billion dollars in case of no agreement between Turkey and the UK after the UK's withdrawal from the CU as of 1 January 2021.[20] For instance, tariffs on washing machines and televisions exported from Turkey to the UK remain at zero thanks to the brand new trade agreement despite the corresponding tariffs for these product groups are 2% and 14% under the WTO, respectively.[21] It means that Turkish exporters of these products would have shouldered the mentioned WTO tariffs unless any trade agreement had been concluded.

Similarly, textile would have been subject to 14% tariffs in case of no deal scenario when the WTO rules had been applied. The UK government has calculated that unless a trade agreement had been reached with Turkey, 139 million dollars (102 million pounds) would have been paid for the UK's textile imports from Turkey.[22] It is mentioned that Turkey-UK FTA has saved all automotive and electronics products along with textile and near-to-wear products from approximately 10% tariffs.[23] In short, in case of no deal scenario, almost two-third of Turkey's exports to the UK that is equal approximately to 7 billion dollars would have been imposed custom duties. Hence, Turkey-UK FTA is regarded as a "continuity agreement" to ensure the smooth maintenance of commercial relations between Turkey and the UK which has been an important export partner for particularly automotive, television, white goods and ready-to-wear products.

[20] Ibid.

[21] *AA*, (2021), *'Turkey-UK trade ties success story of modern times'*, https://www.aa.com.tr/en/economy/turkey-uk-trade-ties-success-story-of-modern-times/2126362 Accessed: March 2021

[22] Ibid.

[23] *Dünya*, (2020), *7 milyar dolarlık ihracat, vergi duvarını aştı*, https://www.dunya.com/kose-yazisi/7-milyar-dolarlik-ihracat-vergi-duvarini-asti/605297 Accessed: March 2021

What is more, a study conducted by the Economic Policy Research Foundation of Turkey (TEPAV) figured out that in case of hard Brexit which would prevent Turkey from concluding an FTA with the UK, Turkey might be affected both directly and indirectly.[24] Direct effects would stem from tax increases imposed on goods whereas indirect impacts of the no-deal scenario on Turkey might result from losses in preferences due to the UK's possible agreements with third countries. Within this context, while electronics, machinery and chemicals were found to have direct and indirect effects simultaneously, transportation equipment, ready-to-wear and textile sectors were calculated to be affected directly. In this case, TEPAV has concluded that 80% of total exports of sectors would be affected negatively and a loss of approximately 2.5 billion dollars might be assumed.

As mentioned by Turkey's then Trade Minister Ruhsar Pekcan on the margin of the signature ceremony, Turkey-UK FTA covers all industrial products as desired to be a tariff-free agreement throughout the negotiations. That is being said that tariffs on industrial products had been set to zero, existing concessions on basic crops and processed agricultural products were rescaled and reflected to the new trade relations between Turkey and the UK.[25] Moreover, within the scope of Turkey-UK FTA, tax exemption beyond the existing arrangement with the EU has been guaranteed for approximately 90 agricultural and processed agricultural products including chocolate, confectionery, biscuit, grape juice, food preparations and fresh fruits and vegetables as a result of the UK's changing tax structure.[26]

Statements made by the UK government indicated that the FTA with Turkey has the feature of being the fifth largest trade agreement subsequent to the individual agreements with Japan, Canada, Switzerland and Norway.[27] In total, before the end of its Transition Period of Brexit, the UK concluded trade agreements with 62 countries and the EU.[28] Broadly speaking Turkey-UK FTA involves the following chapters: (1) general definitions and initial provisions, (2) national treatment and market access for goods, (3) customs and trade facilitation, (4) technical barriers to trade, (5) trade remedies, (6) sanitary and phytosanitary (SPS) measures, (7) competition policy, (8) government procurement, (9) intellectual property rights, (10) administrative and institutional provisions, (11) exceptions, (12) dispute settlement and (13) final provisions.

Within the scope of Article 13.2 based upon review and further negotiations, it is stated that Turkey and the UK should start reviewing the FTA within at most two years following its entry into force to replace, modernise and expand.[29] This revision has to include but not be limited to trade in agricultural goods and services, investments, subsidies, sustainable development, environment, climate change, labour, anti-

[24] *TEPAV*, (2020), *Özel Sektör için Ürün Bazlı Brexit Rehberi*, 1581330901-0.TEPAV_Brexit_Raporu.pdf Accessed: April 2021
[25] Ibid.
[26] Ibid.
[27] Daily Sabah, (2020), UK to sign free trade deal with Turkey this week, https://www.dailysabah.com/business/economy/uk-to-sign-free-trade-deal-with-turkey-this-week Accessed: March 2021
[28] Ibid.
[29] Resmi Gazete, (2021), MİLLETLERARASI ANDLAŞMA, https://www.resmigazete.gov.tr/eskiler/2021/02/20210224M1-1.pdf Accessed: March 2021

corruption, digital economy, SME's and intellectual property.[30] It is also remarked that contracting parties should make efforts to launch further negotiations to replace or modernise all needed areas of the Turkey-UK FTA in addition to expanding the scope of the agreement to new areas agreed by the parties.[31]

One of the most important differences between a customs union and an FTA is that while the former does not require rules of origin to be applied during the trade between contracting parties, the latter brings this obligation to the forefront. Being defined by the WTO, rules of origin are "the criteria needed to determine the national source of a product".[32] The significance of the rules of origin stems mostly from the fact that countries often levy tariffs and restrictions on the goods of their trading partners based on the origin of the inputs of goods. While customs unions (that was the trade relations between Turkey and the UK before Brexit) does not necessitate the usage of rules of origin and it is enough for final goods to be produced in the country of trading partner, FTAs (current situation between Turkey and the UK) make essential that each component or part of the imported goods should be produced by trading partner. Therefore, importers from Turkey and the UK should be able to present proofs that their goods comply with the rules of origin requirements of the FTA for the implementation of preferential tariff rates. These proofs are going to derive from the declaration on origin by exporters in either hard or softcopy format.[33]

3. Future of Turkey-UK FTA and Modernisation of Turkey-EU CU

Turkey has 22 FTAs that are currently in effect, the latest one is the brand new FTA with the UK.[34] Apart from that, the rest are with the following countries or country groups: EFTA, Israel, Macedonia, Bosnia-Herzegovina, Palestine, Tunisia, Morocco, Egypt, Albania, Georgia, Montenegro, Serbia, Chile, Mauritius, South Korea, Malaysia, Moldova, Faroe Islands, Singapore, Kosovo and Venezuela.[35] Furthermore, the FTAs concluded with Lebanon, Sudan and Qatar are waiting for ratification. Adding the UK to this list is of utmost significance considering the facts that the FTA is one of the first trade agreements of the UK after Brexit and it has created an extremely positive image for Turkey on global markets that could play a catalyst role for our country particularly in attracting new investments. Furthermore, distressing uncertainties not limited for Turkey have been solved to some extent by guaranteeing the continuation of the preferential trade relation with the UK.

The expression indicating that the negotiations to expand the scope of Turkey-UK FTA would start in two years made tremendous impact especially around Turkish business circles. Despite of the jubilance Turkey-UK FTA has created in the business world, analysts and experts have been constantly emphasising that the brand new trade agreement should not be interpreted as a milestone step to carry the bilateral

[30] Ibid.
[31] Ibid.
[32] WTO, Technical Information on Rules of Origin, https://www.wto.org/english/tratop_e/roi_e/roi_info_e.htm Accessed: March 2021
[33] Ibid.
[34] Republic of Turkey Ministry of Trade, Free Trade Agreements, https://www.trade.gov.tr/free-trade-agreements Accessed: March 2021
[35] Ibid.

commercial relations between Turkey and the UK one step further.[36] It stems from the fact that whereas Turkey-UK commercial relations were subject to the CU before Brexit, a basic FTA that envisages lower level of economic integration in comparison to the CU has started to be the new realm of these relations anymore.

Instead, it is indicated on various platforms that "the old generation" FTA between Turkey and the UK which only covers the elimination of tariffs on certain range of goods should be advanced to a "new generation" trade agreement. Constituting the EU's trade perspective for almost the last 10 years, new generation trade agreements cover much more than tariff reductions such as trade in services and investments in addition to harmonisation of standards related to subjects like environment, labour and SMEs.[37] Considering relatively a larger scope of new generation trade agreements, the content of the Turkey-UK FTA remains very narrow and needs to be updated although it gives an immediate relaxation and provides the continuation of bilateral trade in the first step.

On the other hand, Turkey-EU CU, which has been in force for more than 25 years, is undoubtedly one of the cornerstones of bilateral commercial relations between Turkey and the EU. It has been implemented with the hope that Turkey's EU membership would occur in a short time period. Although this has unfortunately not been the case, it is a crystal-clear truth that Turkey-EU CU has brought a lot of benefits not only to Turkey but also to the EU such as the tremendous volume of rise in trade, Turkey's integration into the EU's supply chains and inflow of European investments into Turkey. However, some developments since Turkey-EU CU's entry into force drew attention to the fact that this special form of trade relation between Turkey and the EU needs to be updated. Among these developments, increasing recognition of design faults and inadequacies of Turkey-EU CU have been on the first rank. Moreover, the unprecedented speed of global trade since especially the beginning of the millennium has unveiled the limited scope of the CU that cannot respond to the requirements of the new era. Due to these developments, there has been a rising awareness that the CU should be modernised to find solutions for its faults and to make it more suitable for today's world.

Its modernisation has been on the table since the beginning of the 2010's although it was interrupted for several times due to political reasons. European Commission that has been waiting for the negotiating mandate from the Council published its impact assessment in December 2016 and confirmed that the expansion of the CU's scope to the areas of services, agriculture and public procurement would be beneficial for both sides.[38] Therefore, in a similar vein to the modernisation of Turkey-EU CU, widening the scope of the brand new Turkey-UK FTA should be aimed in order to carry the commercial ties between Turkey and the UK one step further. Additionally, the increasing number of the UK's FTAs threatens Turkey's exports and the narrow scope of

[36] Akman, S. (2021), Türkiye-İngiltere (Birleşik Krallık) Serbest Ticaret Anlaşması: Önemli Bir Adım, ama Yeterli mi?, Türkiye Ekonomi Politikaları Araştırma Vakfı

[37] European Commission, (2019), EU trade agreements: delivering new opportunities in times of global economic uncertainties, https://trade.ec.europa.eu/doclib/press/index.cfm?id=2071 Accessed: April 2021

[38] European Commission, (2016), COMMISSION STAFF WORKING DOCUMENT IMPACT ASSESSMENT Accompanying the document Recommendation for a Council Decision authorising the opening of negotiations with Turkey on an Agreement on the extension of the scope of the bilateral preferential trade relationship and on the modernisation of the Customs Union, https://trade.ec.europa.eu/doclib/docs/2017/january/tradoc_155238.pdf Accessed: April 2021

Turkey-UK FTA that is based solely on tariff elimination may pose the risk of preference erosion for Turkey by accelerating the UK's other trade partners' competitiveness.

It is indicated that Turkey's gain from its trade agreement with the UK would be larger if the FTA was transformed into a deep and comprehensive kind of new generation trade agreement by adding new areas to its scope. At this point, one of the most probable areas that would be beneficial for both parties seems to be the liberalisation of trade in services. Within this scope, it is good to acknowledge that more than 60% of Turkey's GDP is based on services. In a similar vein, the UK's share in global services export is 6.7% which has placed the country at the second rank on the list of the developed countries with regard to services export.[39] In today's world where 7% of the global GDP comes from services and the speed of servicification is very fast it gets more difficult to think of trade in goods apart from trade in services.[40]

With such a background, the data regarding services trade between Turkey and the UK reveals the importance of the parties for each other concerning this branch of trade. To elaborate, the UK is ranked as the third country regarding Turkey's both imports and exports of services. To make it clear, the value of Turkey's import of services from the UK, which has been around 1.8 billion dollars, has accounted approximately for 7.8% of Turkey's purchase of services from abroad which was around 24 billion dollars in total. Similarly, Turkey's export of services to the UK recognised as 1.9 billion dollars in 2019 and this trade volume corresponded to 5.7% of Turkey's total sales of services to other countries that were equal to almost 34 billion dollars in sum.

Table 2: Turkey's foreign trade of services

Services import				Services export			
	2017	**2018**	**2019**		**2017**	**2018**	**2019**
Country	*million dollar, %*	*million dollar, %*	*million dollar, %*	*Country*	*million dollar, %*	*million dollar, %*	*million dollar, %*
Germany	2,201 (9.9)	2,148 (9)	2,152 (9)	*Germany*	3,951 (12.7)	4,261 (12.8)	4,119 (12.2)
US	2,168 (9.7)	2,191 (9.2)	2,144 (9)	*US*	2,530 (8.2)	2,667 (8.0)	2,586 (7.7)
UK	2,170 (9.7)	1,853 (7.8)	1,873 (7.8)	*UK*	1,637 (5.3)	1,684 (5.0)	1,925 (5.7)
Ireland	1,357 (6.1)	1,490 (6.2)	1,518 (6.3)	*France*	1,088 (3.5)	1,126 (3.4)	1,233 (3.7)
France	1,058 (4.7)	1,151 (4.8)	1,204 (5)	*Iraq*	1,523 (4.9)	1,452 (4.3)	1,226 (3.6)
Panama	592 (2.7)	827 (3.5)	873 (3.6)	*Italy*	1,080 (3.5)	1,132 (3.4)	1,063 (3.1)
Netherlands	697 (3.1)	713 (3)	767 (3.2)	*Switzerland*	822 (2.7)	1,052 (3.2)	1.003 (3)
Liberia	503 (2.3)	682 (2.9)	747 (3.1)	*Russia*	849 (2.7)	968 (2.9)	962 (2.9)
Belgium	671 (3)	889 (3.7)	731 (3.1)	*Netherlands*	737 (2.4)	853 (2.6)	871 (2.6)
Italy	662 (3)	687 (2.9)	651 (2.7)	*Spain*	712 (2.6)	770 (2.3)	823 (2.7)
TOTAL	**22,326**	**23,858**	**23,952**	***TOTAL***	**31,000**	**33,403**	**33,759**

[39] UNCTAD, Total trade in services, https://stats.unctad.org/handbook/Services/Total.html Accessed: April 2021
[40] Ibid.

Source: Turkish Statistical Institute

Another significant area for the extension of the scope of Turkey-UK FTA is further liberalisation of trade in agricultural products. At the time being, the FTA covers only the industrial component of the agricultural products. However, as it is the case in the modernisation of Turkey-EU CU, the inclusion of all agricultural products to the scope of the existing trade relation was found to bring benefits to not only Turkey but also the EU by the works of the World Bank and the European Commission.[41] Regarding the agricultural policy of the UK after Brexit, it has been expected to be more flexible in comparison to that of the Union, so there has been a general expectation that the UK will be more likely to sit the table for the negotiation of trade in agriculture. Furthermore, the exit of the UK from the EU's Common Agricultural Policy has brought the decrease in some of the tariffs on certain agricultural products, which provides price advantage to all exporting countries to the UK including Turkey. However, Turkey's chance to go one step further and gaining more concessions regarding trade in agriculture with the UK will depend on further negotiations in the future.[42]

As in the case of the modernisation of Turkey-EU CU, public procurement which is one of the other areas of extension might be included in Turkey-UK FTA within the scope of future negotiations. In case of public procurement, Turkey's ongoing non-membership of the WTO's Government Procurement Agreement, the lack of transparency in public tenders, frequent changes in Public Procurement Law and regulations constitute obstacles for both modernisation of Turkey-EU CU and deepening of Turkey-UK FTA. Furthermore, electronic commerce that has increasingly been part of new generation trade agreements in recent years should be incorporated in future negotiations between Turkey and the UK after the issues such as data flow and security are properly regulated. In addition to all these areas, issues including competition, intellectual property rights and state subsidies need to be handled with a more comprehensive and progressive approach.

What is more, non-tariff barriers to trade such as standards in environment, climate and labour are of utmost significance for the future negotiations with regard to Turkey-UK FTA. As it is known, the EU has been prioritising the standards regarding environment and climate in its new generation trade agreements concluded or revised with third countries for the last years. For instance, signature of the Paris Agreement has been brought as a condition for concluding a trade agreement with the EU. Similarly, the European Green Deal presented at the end of 2019 by then brand new European Commission President Ursula von der Leyen has given the signal that green transition would be part of not only environment and climate policies but also all relevant fields including Common Commercial Policy.

Furthermore, respect for labour rights at the highest level has been part of the EU's trade agreements, so the Union wants to make its values and standards widespread among its trade partners. The UK, being an old member of the EU, was both accustomed to the Union's policy and needs to comply with the EU's rules as part of the EU-UK Trade and Cooperation Agreement. Therefore, future negotiations for deepening Turkey-UK FTA might be likely to bring more strict standards and rules for the areas covering non-

[41] Ibid.
[42] Ibid.

tariff barriers to trade particularly climate and environment. All in all, it seems that Turkey's preparedness for a tougher perspective in future negotiations concerning the FTA with the UK would simultaneously enable our country to get ready for the modernisation of its CU with the EU.

4. Conclusion

To sum up, it is obvious that the UK has been one of the most outstanding trade partners of Turkey. As of the beginning of 2021, the country has become the 2nd and the 11th trade partner of Turkey in terms of exports and imports, respectively. In the similar vein, both countries are very important for each other regarding the inflow and outflow of foreign direct investments such that there are important Turkish and British brands having established branches, offices and factories in other country for long years. All of these strong economic and commercial relations between Turkey and the UK were, among other factors, natural consequences of the well-rooted Turkey-EU CU that has been in force for more than 25 years. However, the exit of the UK from the EU and therefore Turkey-EU CU had created a widespread uncertainty stemming from not knowing the framework of the future commercial relations. Fortunately, the consensus between the EU and the UK on Trade and Cooperation Agreement has paved the way for the conclusion of Turkey-UK FTA on the last days of 2020.

Turkey-UK FTA, that was ebulliently welcomed, has provided Turkey the opportunity to protect its gains from Turkey-EU CU such as the elimination of tariffs and quotas on industrial goods and industrial component of agricultural products. However, the agreement includes a provision that foresees the launch of further negotiations to enlarge the agreement's scope in a way to include for instance trade in services and to contain additional provisions on new areas such as electronic commerce and climate. These are undoubtedly very important for Turkey to acquire more competitiveness in the UK's market. Furthermore, a possible enlargement of Turkey-UK FTA and its switch from a basic trade agreement covering only trade in goods to a new generation one consisting of trade in services and investments along with provisions on labour, climate, intellectual property rights and SMEs would strengthen Turkey's hand in the future negotiations for the modernisation of Turkey-EU CU that are hoped to start very soon.