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Germany's Role in EU-Turkey Economic Relations

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Introduction

Germany's positions towards Turkey highly influences European Union (EU)-Turkey relations in general and the EU's perception of Turkey's potential membership. This is due to Germany's strong economic and political weight in the EU but also its historical relationship with Turkey (Turhan & Seufert, 2015).

Germany and Turkey have a long-standing relationship characterized by strong economic, cultural, and social connections. Among these, the economic relationship is particularly important. Despite the decline in German exports to Turkey in recent years, Germany remains Turkey's most important trade partner and its largest foreign investor. The number of German and Turkish companies with German capital operating in Turkey stands at 7,300, and Turkish companies have been investing in Germany in sectors of strategic importance for both countries, such as the energy sector (Federal Foreign Office, 2019).

Therefore, it is necessary to discuss the aspects and dimensions of economic relations between the EU, Germany and Turkey. This will be done by looking into how Germany has shaped EU-Turkey economic relations, and by scrutinizing the limits and potentials of Turkey as an economic partner of the EU and Germany. This analysis will discuss this dynamic relationship by considering German discussions on the future of Turkey in Europe.

EU/German-Turkish Economic Relations: A Historical Overview

Turkey and Germany share a long-dating, exceptional relationship that has, since its inception, been shaped by economic interdependencies. Such interdependencies date back to 1761, when a treaty of commercial dialogue was signed between the Prussian Kingdom and the Ottoman Empire. Ever since that

moment, Turkey and Germany have kept a strong political engagement with each other, which has resulted in a dynamic relationship focused on economic cooperation (İnat, 2016; Turhan, 2018).

On 31 December 1995, the Turkish-German economic relationship entered a new phase when Turkey signed a Customs Union agreement with the EU. The Customs Union provides a common external tariff for all industrial goods, except for agriculture, services, and public procurement. In addition, the Customs Union foresees that Turkey has to align with the EU's *Acquis Communautaire* in several internal market areas, notably with regard to industrial standards (European Commission, 2020). The entering into force of the Customs Union, and the launch of the membership negotiations between Turkey and the EU in 2005, boosted trade dialogue between Turkey and Germany. From the signing of the Customs Union in 1995 to 2004, the trade volume between the EU and Turkey increased from €8.7 billion to €19.8 billion (Turhan, 2018). But most importantly, from the first half of the 2000s onwards — during a period of economic growth for Turkey due to post-crisis reforms and the start of its technical alignment with the Customs Union — Turkey saw an increase in trade with most EU member states but, above all, with Germany. In addition, investment from the EU, and particularly from Germany, accounted for the largest share of foreign direct investment in Turkey (BKP Development Research & Consulting; Panteia; AESA, 2016).

Currently, despite complications of the Turkish-German relationship, both countries remain deeply engaged in the economic sphere. Moreover, both countries share a common concern with energy dependency, and the EU has a special interest in both Turkey and Germany in this domain (Sengul, 2018; Turhan, 2018).

The EU-Turkey Customs Union

Mutual economic interests have been the greatest enhancer of the Turkish-German relationship, and since the Customs Union has entered into force, trade between Turkey and Germany has increased exponentially. However, German investment in Turkey declined when in July 2017 the Turkish government published a list that accused 680 Germany companies of being linked to the Fetullah Gülen movement. Eventually, Ankara backed down from its accusations against German businesses, which showed their importance for the Turkish economy (Szabo, 2018). But then, in September 2017, following a severe degradation of democratic norms and the rule of law in Turkey — and consequent increased investment risks for Germany companies operating in Turkey — the German government decided to raise financial pressure over Ankara by limiting government credit guarantees and by defending the EU’s decision to block the modernization of the Customs Union (Tastan, 2017; Szabo, 2018).

Currently, the modernization of the Customs Union is at a standstill. Progress has been non-existent because Turkey disregarded the legal basis of the existing trade agreement and has assumed an anti-Western foreign policy narrative that makes cooperation difficult (Ülgen, 2017; Pierini, 2019). According to a European Commission source, the aforementioned factors have negatively impacted EU-Turkey economic relations; Turkey’s industrial goods trade with the EU has suffered, specifically shipments going from the EU to Turkey, as has its automobile sector, which receives significant investment from European companies. As a major consequence of Turkey’s actions, the source argues that European and German firms will be less willing to invest in Turkey (Author Interview, Confidential, 2020).

Moreover, the source added that, under the current circumstances, the EU-Turkey economic framework for cooperation has been gradually shifting from a Customs Union to a broader but less deep free trade agreement, where there is no

strict regulation of customs. The source explained that “this will be the condition under which things will continue moving forward, most likely” (Author Interview, Confidential, 2020).

However, an upgraded Customs Union could be much more advantageous for Turkey, the EU, and Germany. It could play an instrumental role as the sole rules-based anchor of the Turkey-EU relationship because it has the potential to establish a rule-based form of economic governance that could lay the necessary foundations for the establishment of a more predictable environment for economic actors in Turkey, which would also enable important dynamics for Turkey’s political trajectory; and it would bring endless opportunities for increased economic cooperation between Turkey and the EU (Tastan, 2017; Ülgen, 2017).

As Turkey holds great economic importance for Germany both through bilateral trade and as a production base, modernizing the Customs Union would also bring great economic benefits for the Turkish-German relationship (Sengul, 2018).

The Customs Union should be modernized, and the US-EU Transatlantic Trade and Investment Partnership (TTIP), served as a ‘wake-up’ in this regard. If the EU entered this free trade agreement with the US, the Customs Union would have forced Turkey to eliminate tariffs with respect to imports from the US. However, the US would not have to give reciprocal treatment to Turkey. Under these circumstances, competing US products would no longer have faced tariffs, so that the relative competitiveness of Turkish counterparts would have decreased (Long, 2016).

Germany’s continued role in Turkey’s economy and in EU-Turkey economic relations

In September 2018, after one-and-half-years of political tensions, the Turkish Ministers of

Treasury, Energy, and Trade met with the German Ministers of Economy and Energy, and Finance. In this meeting, the ministers agreed to address problems of Turkish-German bilateral relations and committed to normalizing and improving political and economic relations through mutual visits and supportive remarks (Daily Sabah, 2018). This meeting highlighted a renewed Turkish-German commitment to expand commercial ties.

One week after the meeting, Turkish President Recep Tayipp Erdogan went on a state visit to Germany. On the last day of the visit, he stated that Turkey and Germany “need to focus on joint interests, leaving aside some recent differences of opinion.” This visit came a couple of months after Turkey endured a currency crisis that saw the Turkish Lira plunge 40 percent and highlighted, among other things, the importance of Ankara’s economic ties to Europe (Euractiv, 2018).

Later, in October 2018, a delegation of 100 businesspeople, including 35 representatives from Germany’s leading companies in Turkey, headed by Economy and Energy Minister Peter Altmaier, visited Ankara. The visit, which included a meeting with the Turkey-Germany Joint Economic and Trade Commission (JETCO) and an energy forum hosted by Turkish and German energy ministers, was described by the German Ambassador to Turkey as “a step to solve the current economic issues between the two countries,” as well as a way to ensure that German firms can convene with Turkish government officials (Sengul, 2018).

There are currently around 3.5 million Turks living in Germany, and 90.000 Turkish businesses are located there. On the German side, there are 7.200 German businesses in Turkey; Bosch, Siemens, and Mercedes all manufacture some of their products in Turkey, which then export worldwide. Both Germany and Europe see Turkey as a production centre and export base (Sengul, 2018).

However, over the course of 2019, Turkey implemented a series of foreign policy decisions

that created political tension between Turkey and the EU, and especially between Turkey and Germany. These tensions had a detrimental effect on Turkey’s economic ties with Germany: \$30.6 billion worth of trade in the first 10 months of 2018 decreased to \$27.3 billion in the first 10 months of 2019. Moreover, after Ankara launched the Peace Spring Operation in North Eastern Syria, Volkswagen postponed the opening of a new production facility in Turkey. Furthermore, the German government postponed both an energy forum and a JETCO meeting, which had been scheduled for October and November 2019, respectively (Akal & Serdar, 2020).

After Turkey’s Peace Spring Operation, bilateral economic cooperation deteriorated, and – despite Ankara’s continuous push to improve cooperation – Berlin has stood its ground. Nevertheless, in January 2020, German Chancellor Angela Merkel took part in a roundtable of the Turkish-German Chamber of Commerce and Industry, during which attendees discussed issues pertaining to the Customs Union, the German labour market, and German infrastructure investments in Turkey (Anel Group, 2020).

The gradually developing EU/German-Turkish economic relationship on the one hand and the declining political relationship between the EU and Turkey on the other have a negative impact on European companies that aim to conduct business in Turkey. The Gezi Part protests, for example, showed the economic implications of political instability; German companies stationed in Turkey suffered significant financial losses during this time (Turhan, 2015).

Taking the abovementioned analysis into account, one can conclude that the more politically stable and engaged with the EU Turkey is, the easier it will be for the EU and for Germany to do business with Turkey.

Opportunities Ahead, Expected Challenges, and Germany's Future Role

Energy is one of the pillars upon which Turkish-German economic cooperation is built. At the end of 2019, the two countries committed to promote cooperation in this sector by giving German companies that operate in the renewable energy sector greater presence in the Turkish market (Daily Sabah, 2019). According to the German Ambassador to Turkey, "renewable energy is a critical part of German firms' growth strategy in Turkey" (Sengul, 2018).

Turkey also has the potential to become an energy transit country for Europe. Through increased cooperation with Turkey, Germany might be able to reduce existing vulnerabilities in its energy sector (Nowak, 2015). Furthermore, because of Turkey's connection with strategic regions, the country can have an important role in promoting energy cooperation in Europe (European Commission, 2012; Nowak, 2015). Yet, tensions in the Eastern Mediterranean can potentially play a negative role in energy cooperation between Europe and Turkey.

According to an EU source, even though energy promotes economic cooperation between Turkey and Germany, locally generated renewable energy, unlike oil and gas, is "more a matter of domestic market and does not really have an impact in EU-Turkey economic relations" (Author Interview, 2020).

Nevertheless, according to this source, if someone can steer the EU-Turkey economic relationship in a certain direction, it is Germany. The future German presidency of the Council of the EU might present a good opportunity for Germany in this regard; however, Turkey needs to make political progress – and that is entirely in the hands of Turkey.

Conclusion

EU-Turkey economic relations have been strongly shaped by Germany. Germany opposes modernizing the Customs Union due to some of Ankara's internal and external political choices. Because of this, the EU-Turkey economic framework for cooperation is gradually moving from a customs union to a system of broader trade agreements, which limits Turkey's potential as an economic partner of the EU and Germany.

In order to achieve progress, Turkey and the EU need to recognize that Turkey will not become a member of the EU, despite the deep relationship Turkey has with Germany. Once they realize this, they can admit that the current Customs Union deal no longer brings enough advantages for Turkey, the EU, and Germany, and thus, needs to be modernized into a trade agreement that accepts the current political reality. However, in order to work towards modernization, Turkey needs to become more of a partner to the EU.

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