

France and the Modernization of the EU-Turkey Customs Union

Interests and Obstacles



Aurélien DENIZEAU

Dorothee SCHMID

July 2020

The Institut français des relations internationales (Ifri) is a research center and a forum for debate on major international political and economic issues. Headed by Thierry de Montbrial since its founding in 1979, Ifri is a non-governmental, non-profit organization.

As an independent think tank, Ifri sets its own research agenda, publishing its findings regularly for a global audience. Taking an interdisciplinary approach, Ifri brings together political and economic decision-makers, researchers and internationally renowned experts to animate its debate and research activities.

The opinions expressed in this text are the responsibility of the authors alone.

This report is part of a joint endeavor of the Centre for Applied Turkey Studies (CATS) at SWP, along with Elcano Royal Institute (ELCANO), The Polish Institute of International Affairs (PISM), Istituto Affari Internazionali (IAI) and the Hellenic Foundation for European and Foreign Policy (ELIAMEP).

ISBN: 979-10-373-0211-3

© All rights reserved, Ifri, July 2020

How to cite this publication:

Aurélien Denizeau and Dorothée Schmid, “France and the Modernization of the EU-Turkey Customs Union: Interests and Obstacles”, *Notes de l’Ifri*, Ifri, July 2020.

Ifri

27 rue de la Procession 75740 Paris Cedex 15 – FRANCE

Tel. : +33 (0)1 40 61 60 00 – Fax : +33 (0)1 40 61 60 60

Email: accueil@ifri.org

Website: ifri.org

Authors

An expert on Mediterranean and Turkish issues, **Dorothee Schmid** is the Director of the Turkey and Middle East Program at the French Institute for International Relations (Ifri). Holding a Sciences-Po diploma and a PhD in political science, she started her career as a Country Risk Analyst for Crédit Agricole-Indosuez bank. Her current research focuses on the geoeconomics of the Middle East.

Aurélien Denizeau holds a PHD from Inalco University in the field of political science and international relations. His research focuses on contemporary Turkey, more specifically on the strategic vision of the AKP party, who has been in power since 2002.

Executive Summary

This report is part of a joint endeavor of the Centre for Applied Turkey Studies (CATS) at SWP, along with Elcano Royal Institute (ELCANO, Madrid), The Polish Institute of International Affairs (PISM, Warsaw), Istituto Affari Internazionali (IAI, Rome) and the Hellenic Foundation for European and Foreign Policy (ELIAMEP, Athens), to open perspectives for the modernization of the European Union-Turkey Customs Union (EU-Turkey CU). It addresses the case of France, clarifying the specific French outlook on the Europe-Turkey economic nexus and assessing French stakes in the upgrading of the current trade system.

While French business stakeholders see Turkey as a potential hub to develop activities in the Middle East and Central Asia, public authorities have become worried over France's growing trade deficit with Turkey. Moreover, a series of political crises have recently consistently harmed the perception of Turkey both as a market and as a partner. Some disagreements also remain concerning the areas that could be newly opened up for trade. If France and Turkey formally claim to be in favor of upgrading the EU-Turkey CU, concrete opportunities for progress are thus presently hindered by the degradation of the bilateral climate.

Table of Contents

- INTRODUCTION: THE IMPORTANCE OF ECONOMIC EXCHANGES
IN THE BILATERAL FRANCE-TURKEY RELATION..... 5**
- ECONOMIC STAKES FOR TURKEY-FRENCH RELATIONS..... 9**
 - Volume and contents of trade with Turkey 9
 - France’s investments in Turkey and vice-versa 13
 - Potential for growth of a modernized CU: Turkey’s role
in the supply chain and as a hub for regional markets..... 15
- FRENCH DISCUSSION ON MODERNIZATION OF THE CUSTOM
UNION: ACTORS, POSITIONING AND ARGUMENTS 19**
 - Level and degree of bilateral communication between business
organizations 19
 - The positioning of business actors..... 21
 - The political side of the negotiation 24
- CONCLUSION: AN ENDLESSLY POSTPONED PROJECT? 29**

Introduction: the importance of economic exchanges in the bilateral France-Turkey relation

Fueled by the positive memory of the historical alliance established in 1536 between the Kingdom of France and the Ottoman Empire, Franco-Turkish diplomatic links have traditionally been intense and rich. Relations have developed in various fields across the centuries, politics and economics generally going hand in hand – any degradation of the political climate implying psychological, but also legal and financial consequences on the business mood.

The central role of economic exchanges in the history of France/Turkey relations

The economic factor has been an important aspect of the Franco-Turkish relation from the very start. The Capitulations (*Ahidnâmes*), or contracts existing between the Ottoman Empire and European Christian merchants, were first generalized to France as an entire State with the Treaty signed on February 1st, 1536. Sultan Suleyman the Magnificent then offered to vessels flying the French flag the privilege of trading with all Ottoman ports, paving the way for Marseille's prosperity, and more widely sustaining France's commercial expansion in the whole Mediterranean. The development of trade in the Levant directly served France's other political goals: it allowed François 1^{er} of France to challenge again the domination of Charles V, Holy Roman Emperor and constant rival of the French King, while notably facilitating France's mission to protect Christian populations of the area.¹

The Capitulations were extended to other states and remained in place until the First World War. France by its own controlled three fifths of the total external trade of the Ottoman Empire at the end of the 18th Century. The progressive weakening of the Ottoman system all along the 19th century allowed for further substantial economic progress of European

1. J.-P. Farganel, "Capitulations", available on: <https://heritage.bnf.fr>.

powers, and the need for external financing to speed up modernization reforms gradually placed the Empire in a state of dependence on its creditors. In 1914, 60% of the Ottoman debt was owned by the French, who took an active part in the institutional management of the finances of the Empire.²

The reimbursement of the Ottoman debt, interrupted by the disappearance of the Empire and creation of the Republic of Turkey, caused tensions with the young Kemalist state until an agreement found in 1928 halved it and extended the payment deadlines. Despite the signing of a trade agreement in 1929, Franco-Turkish economic exchanges had then considerably declined. Bilateral trade only started picking up again in the 1960s, yet staying below the level of those between Germany and Turkey.

Systemic impact of politics on bilateral economic exchanges

Moreover, over the last decades, political issues have consistently remained at the forefront of the Franco-Turkish relationship. A multiplication of crises has repeatedly impacted the bilateral business perspective, especially for major contracts in sectors such as energy or weapon trade. Major disagreements, perceived by the Turks as deliberate offenses, have triggered the threat of trade sanctions that not fully materialized legally but played as turn-offs for economic stakeholders.³

The main topics fueling Turkish wrath towards the French have classically been the following: since 2000, the progressive recognition and juridification of the Armenian genocide issue by the French state; between 2007 and 2012, under president Nicolas Sarkozy's mandate, France's opposition to Turkey's accession to the European Union; and more recently, tensions occurring over the unfolding of the Syrian crisis with Ankara's amplified military involvement, rapprochement with Russia and fighting against the Kurdish YPG militias – and ally against ISIS for the French.

The current political dialogue between France and Turkey seems to combine all these negative political parameters, only adding to pessimism on the global economic outlook and the perception of a critical shrinking in business opportunities. Both conditions currently accelerate the decline of French appetite for economic stakes in Turkey. While economy has many

2. P. Guillen, "Jacques Thobie, Intérêts et impérialisme français dans l'Empire ottoman (1895-1914)", *Revue d'Histoire Moderne & Contemporaine*, No. 27-1, 1980, p. 155.

3. D. Schmid, see "The Level and Quality of the Franco-Turkish Economic Relationship: Asset or Liability?", *The Franco-Turkish Relationship in Turmoil*, EDAM Report, January 2007, pp. 50-52.

times played a positive role on diplomacy between the two countries, the historical dialectic between economic and political interests now seems blocked and not providing with a productive solution.

Place and meaning of the CU in the bilateral dialogue

The present study examines how France would contemplate the possibility of giving a new boost to bilateral trade within a reformed and modernized Turkey-EU CU. While this specific frame of EU-Turkey relation may have been perceived in the last decade as the most reliable channel to mobilize energies moving forward, the momentum seems to have been lost lately.

The analysis of economic figures and charts still seems indeed to show a true cooperation potential when analyzed at a global level, yet we see frustration gradually arising in France over the growing deficit and the evolving nature of trade with Turkey. At the same time, interviews conducted with representatives and observers from Franco-Turkish economic circles have highlighted the limits that political tensions can set to the ambition of reforming the CU. In short, the issue is considered by the authorities as simply frozen, and the conditions to unblock the possibility of a negotiation appear very difficult to meet for the time being.

Key findings:

- ▀ In 2018, France was Turkey's 6th trading partner and Turkey was France's 14th trading partner. French exports were worth \$6.7 billion (bn), and Turkish exports were worth \$7.6 bn, concentrating on industrial intermediary goods.
- ▀ Since 2016, France's trade deficit with Turkey has widened, confirming the evolution of their exchange pattern, itself a reflection of Turkey's evolving industrial growth model.
- ▀ With a market of 80 million (M) inhabitants and a good level of infrastructures, Turkey appears quite attractive to French investors and entrepreneurs, while Turkish investment in the French economy remains minimal.
- ▀ French economic players normally look at Turkey as a potential hub to develop activities in the Middle East and Central Asia, but Ankara's adventurous regional takes have weakened this inclination.
- ▀ The political risk forecast associated with Turkey in France has significantly darkened over the last 4 years, notably because of Turkey's involvement in conflict areas, and also because trust in the Turkish governance system has weakened.
- ▀ There are disagreements between France and Turkey concerning the areas that could be newly opened up for trade. France would like to open up the Turkish agricultural market, a prospect that worries Turkish farmers. On the other hand, France does not wish to open up the digital sector to Turkish companies.
- ▀ Formally, France and Turkey are in favor of the modernization of the EU-Turkey CU, yet the topic is of interest only to business circles and does not bear consensus neither with political decision-makers nor with the public.
- ▀ Political tensions between France and Turkey and the growing mistrust of the French public opinion towards free trade agreements in general do not provide a constructive framework for negotiations to modernize the CU.

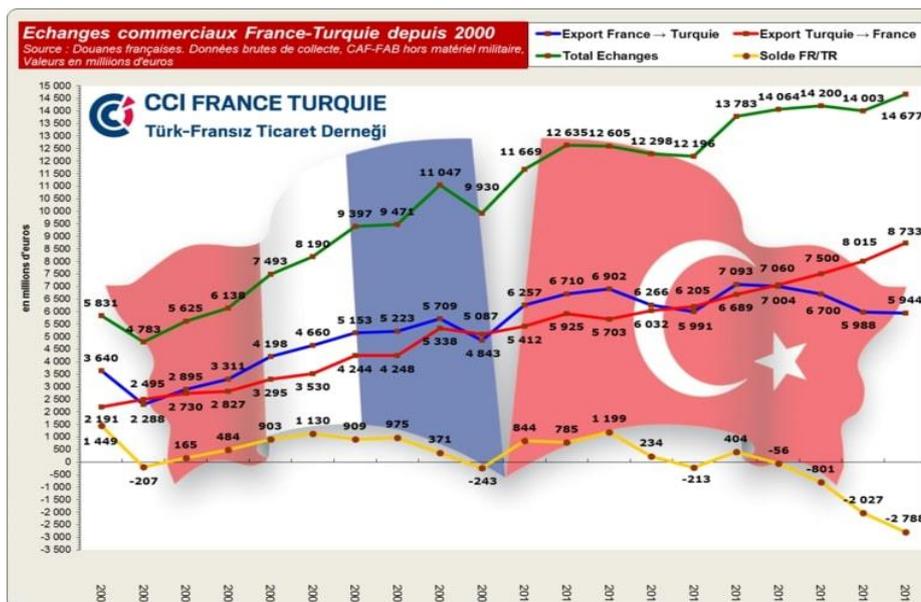
Economic stakes for Turkey-French relations

Trade exchanges between France and Turkey tend to grow over time, mirroring the increasing complementarity between the two economies. The structure of exchanges reveals at the same time a structurally increasing global deficit to the detriment of France, and a growing French dependency on Turkish industrial products. The progress of industrial integration matches the current needs of some French economic private actors, while the improvement of the quality of Turkish production nurtures rampant dissatisfaction at the French official level.

Volume and contents of trade with Turkey

Growing trade exchanges and enduring deficit

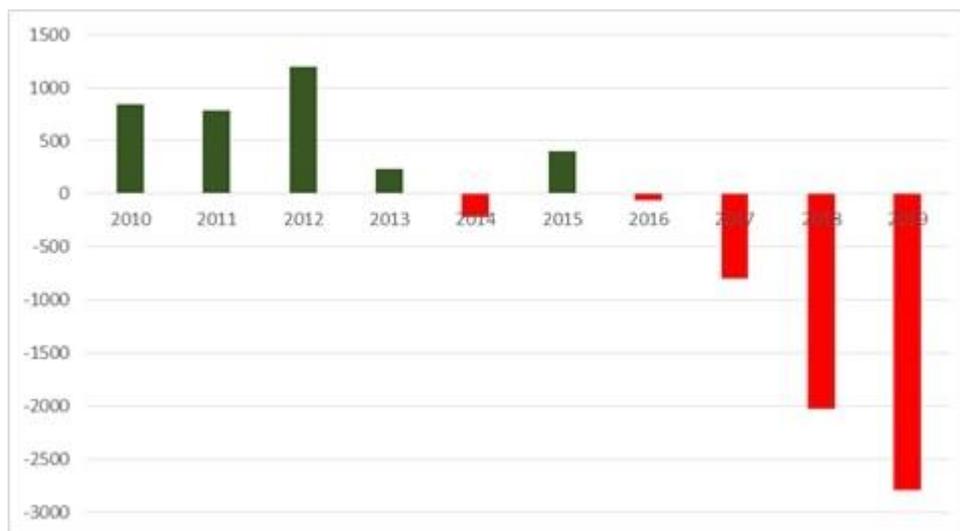
Graph 1: Trade exchanges between France and Turkey since 2000 (in € M)



Source: French Customs Statistics.

Bilateral trade between France and Turkey has steadily developed over the last decade, growing from €11 bn in 2008 to €14.2 bn in 2017. French imports from Turkey have grown at a faster pace (+40%) than our exports (+17%) in the same time span. The global balance registered a structural surplus in favor of France until 2008, which has become a deficit since 2009.

Graph 2: Evolution of the French trade balance since 2010



Source: Regional Economic Service of the French Embassy in Ankara, from French Customs.

The next two tables show Turkey's largest trading partners. Beyond situating France in the volume of the country's trade, it shows the degree of interconnexion between Turkey's economy and the main European trading countries. Russia, an important provider of energy for Turkey, only appears tenth in the ranking.

Table 1: Turkey's top trading partners (2018)

	Countries	Value in billion \$	% of total exports
1.	Germany	15.4	9
2.	United Kingdom	10.9	6.3
3.	Italy	9.3	5.4
4.	Iraq	9	5.2
5.	United States	8	4.7
6.	France	7.6	4.5
7.	Spain	7.6	4.5
8.	Netherlands	5.4	3.2
9.	Israel	4.4	2.5
10.	Russia	3.9	2.3

Source: Worldstopexport.com (www.worldstopexports.com).

Table 2: France's top trading partners (2018)

	Countries	Value in billion \$	% of total exports
1.	Germany	78.1	14.1
2.	United States	47.1	8.5
3.	Italy	42	7.5
4.	Spain	41.7	7.5
5.	Belgium	38.3	6.9
6.	United Kingdom	37.7	6.8
7.	China	23.4	4.2
8.	Switzerland	19.9	3.6
9.	Netherlands	19.6	3.5
10.	Poland	11.4	2.1
11.	Singapour	9.7	1.7
12.	Japan	8.6	1.6
13.	Portugal	8	1.4
14.	Turkey	8	1.2
15.	Hong-Kong	6.5	1.2

Source: Worldstopexport.com (www.worldstopexports.com).

Turkey still does not rank among the most important trading partners of France. Yet when President Recep Tayyip Erdogan chose France for his first official visit in year 2018, he made very clear his ambition to further expand trade with France, the official target then being to increase bilateral exchanges from €11 bn to €20 bn. The figure for 2019 is now €14,676 bn, in line with the desired trend then outlined.

Seen from the French side, the exchange trend is not perceived as entirely satisfactory, as the regular deepening of the deficit since 2016 has become a matter of concern. In relative terms it is worth noting that France's market share in Turkey's import is gradually shrinking (3.1% in 2019); by contrast, France's share in Turkish exports is gradually rising (from 4.1% in 2012 to 4.5% in 2019), confirming the structural nature of the deficit.

Sectoral trends: a qualitative appraisal

This deterioration is both reflecting the current weakening state of Turkey's economy itself and more structural trends.

France's exports to Turkey have indeed decreased in 2019 for the 4th consecutive year, notably echoing the rampant economic slump which is tightening the demand on the Turkish side. At the same time, the strong depreciation of the Turkish Lira has given a boost to Turkish exports vis-à-

vis external markets. The decrease of French exports in 2019 also appears to be mainly linked to the drop of exports in the aeronautic construction sector, after the gradual closing of commercial contracts concluded with Airbus since 2012.

According to the Treasury General Directorate, the major French export items to Turkey in 2019 still pertained to the category of aeronautics (€490 M); we then find iron and steel products (€455 M), accessories for vehicles (€420 M), pharmaceutical preparations (€339 M), vehicles other than railway and tramway (€310 M). The category of instruments and appliances for measuring, testing and navigation have finally significantly progressed (€162 M, +39.7%).

Major export items from Turkey to France in 2019 were vehicles other than railway or tramway (€2.9 bn), household appliances and electronical equipment (€517 M), clothing items (€468 M), automotive accessories (€458 M) and underwear items (€424 M). Turkish exports of steel products (€116 M) and petroleum refinery product (€63 M) also progressed.

In order to understand the substance of the increasing deficit, we thus need to focus on the deficit in the transportation sector, which again expanded substantially in 2019, reaching €-2,3 bn. The French global trade deficit vis-à-vis Turkey derives at 95% from the automotive sector, thus notably resulting from the choice to establish Turkey as an external workshop in the supply chain of France's relatively prosperous car industry. In parallel, the ups and downs of aeronautics figures account for much of the evolution of trade balance between France and Turkey for the last decade. Beside luxury goods, aeronautics is France's sector of excellence, indeed accounting for the country largest trade surplus globally: it represents 12% of the total of the country's exports of goods vis-à-vis the rest of the world in 2019. As the economic paper *Les Echos* puts it, Germany has the auto industry, France has Airbus. Yet this also makes France the most vulnerable country to the variations of the global demand for aeronautics, as shown by the particular case of its exchanges with Turkey.

France's investments in Turkey and vice-versa

French investment in Turkey: rising and diverse

According to the United Nations Conference on Trade and Development (UNCTAD) World Investment Report, Turkey is the second largest recipient of Foreign Direct Investment (FDI) in West Asia behind Israel.⁴ IMF estimates show that the main investors in Turkey are the Netherlands (\$21,780 M), Germany (\$8,809 M), Spain (\$8,494 M), Russia (\$7,969 M) and Azerbaijan (\$6,345 M).

The following chart represents French direct investment inflows in Turkey. Although France is not among the main players, the stock of French investments in Turkey has progressively consolidated since the 1990s; it kept growing since 2008 with stop-and-go phases, rising up to €3,442 M in 2018.

Table 3: France's share in FDI in Turkey

	Total FDI's (million \$)	France sourced Investment in Turkey	France's share (%)
2002	622	22	3.5
2003	745	120	16.1
2004	1,291	34	2.6
2005	8,535	2,107	24.7
2006	17,639	439	2.5
2007	19,137	367	2
2008	14,748	679	4.6
2009	6,266	617	9.8
2010	6,256	623	9.9
2011	16,136	1,000	6.2
2012	10,759	86	0.8
2013	9,878	217	2.2
2014	8,576	281	3.2
2015	11,939	167	1.4
Total 2002-2015	132,527	6,617	5

Source: Compiled from data provided by the Central Bank of Turkey, available on: www.tcmb.gov.tr, Ministry of Trade of Turkey, available on: <http://test.trade.gov.tr>.

4. See <https://unctad.org>.

Over 400 French business companies currently have an industrial or commercial activity in Turkey. Some big names have been there for long, like Renault, who concluded a partnership with the pension fund of the Turkish Army, Oyak, as early as 1969, and started producing cars in Bursa in 1971. BNP-Paribas, the first French Bank in terms of assets and profitability, seventh-biggest asset manager and Euro area's number one bank, is currently the 6th major player of the Banking sector in Turkey. ADP Group holds 46.12% of the capital of TAV Airport operator since 2017. The European missile consortium MBDA (British-French-Italian) has framed a project to produce a missile system in partnership with a series of Turkish companies and Thales, another major French player of the world defense industry. Engie and EDF were engaged for several years on the nuclear plant project in Sinop, but the perspective seems frozen at present.

Turkey appears attractive to French entrepreneurs and investors for many reasons. All observers and economic actors basically praise the same advantages. First, for consumer goods industries, Turkey represents a vast market, with a population of more than 80 million, whose needs for goods and services have increased in recent decades. It is also a country that is experiencing significant growth. For bankers, as a country risk analyst specialized in emerging markets puts it, "Turkey is a good destination because it has historically needed liquidity. It is rare in an emerging country to have a banking system of such quality, with professionals who know their field really well; apart from Turkey, this is only found in South Africa, Brazil and Mexico".⁵

Overall, Turkey is not a country where many industries delocalize, thus not really putting pressure on the French job market. Still, other qualities attributed to the Turkish context include the high level of qualification of the workforce, with French companies notably hiring an exceptional proportion of Turkish nationals as high executives; the availability of many basic products, as well as semi-finished products; a very rich agribusiness; and a solid subcontracting based on a network of dynamic small and medium-sized enterprises.

The low level of Turkish investment in France

According to the Banque de France, the stock of Turkish Direct Investment in France amounts to \$181 M. Turkey is only the 59th investor in France. Consequently, it cannot be considered as a significant player.

5. Interview with the author (Paris, December 12, 2018).

Table 4: Turkey's share in FDI in France

	TOTAL FDI's in France (million \$)	Turkey sourced investments in France (million \$)	Turkey's share (%)
2006	71,882.8	-5	-0.01
2007	96,245	1.4	0
2008	64,059.9	270.5	0.42
2009	24,224.8	-32	-0.13
2010	30,637.1	-35.8	-0.12
2011	41,023.7	-96.1	-0.23
2012	25,095.1	81	0.32
2013	34,263.9	152.7	0.45
2014	2,669.5	N/O	N/O
2015	45,354.4	217.4	0.48
2016	35,155.4	-105.1	-0.3

Source: OECD International Direct Investment Statistics, available on: www.oecd-ilibrary.org.

Potential for growth of a modernized CU: Turkey's role in the supply chain and as a hub for regional markets

The CU as a channel for rapprochement between Europe and Turkey

The recent debate on the CU between the European Union and Turkey originates in the history of the rapprochement that began several decades ago between the two. It was in fact through the 1963 Ankara Association agreement, signed by Turkey and the European Economic Community (EEC) of the time, an institution structured itself around a common market, that the prospects of merging commercial perspectives started.

On Turkey's side, the agreement, sought by the government of Adnan Menderes (1950-1960), and delayed for a while by the 1960 military coup, was a response to political needs – symbolically marking Turkey's belonging to the Western European camp – but also to economic ones. Anchoring Turkey to the European market was intended to boost its economy. In 1973, an Additional Protocol was adopted to complete and specify the stages of the process. However, it was not until March 6, 1995 that the Turkey-European Community Association Council moved on to

establish a CU, the decision being formally adopted on December 31, 1995 and taking effect on January 1, 1996.

This CU establishes a free trade area for all industrial and processed agricultural products, but does not include agricultural products as defined in Article 1 of the Amsterdam Treaty, nor coal and steel products as defined in the Treaty establishing the European Coal and Steel Community (ECSC). It also provides for the alignment of the Turkish Customs Code with that of the European Union – a process completed in 2000 – and a gradual adoption of European standards on industrial production, competition and intellectual property.⁶

Following the 2016 agreement to solve the refugee crisis, Turkey put forward the demand to update the CU, which has been in force for two decades and effectively needs to be completed and modernized. This revision is also wanted by several European partners. Moving forward in that direction can partially be considered as a substitute for the stalling accession negotiation: both sides can either be considered as buying time, or testing further the relationship through the tightening of economic links. Yet there are real interests at stake here, even if they are underlying for a country like France who does not hold Turkey as one of its top economic partners.

Turkey in the supply chain and the perspective on regional markets

As shown in the chart below, significant parts of Turkish exportations consist of intermediate goods: automobile parts, iron and steel bars or cables for instance.

6. “Turkey: CUs and Preferential Arrangements”. In Europa (online), available on: <https://ec.europa.eu>.

Table 5: Turkey's Top Ten Export Products

Rank	Products	2019 value (\$)	Change in regard to 2018
1	Cars	12,441,971,000	-4.40%
2	Processed petroleum oils	3,726,658,000	+ 62.60%
3	Jewelry	4,412,230,000	+ 15.60%
4	Trucks	5,309,800,000	-8.40%
5	Automobile parts, accessories	4,533,407,000	-3.70%
6	Women's clothing (not knit or crochet)	2,744,911,000	+ 7.40%
7	Iron or non-alloy steel bars, rods	3,363,334,000	-18.30%
8	T-shirts, vests (knit or crochet)	2,798,011,000	-2.60%
9	Woven textile floor coverings, carpets	1,908,491,000	+ 11%
10	Insulated wire / cable	2,142,588,000	-3.30%

Source: *World's Top Exports*, available on: www.worldstopexports.com.

Turkey has thus established itself as an important provider of intermediary goods, indispensable to EU industries. The improvement in Turkey's economic growth pattern over time, focusing on more sophisticated, value-loaded products, also explains the French growing trade deficit vis-à-vis Turkey. French Economic Services underline that the investment/trade positive dynamics has become less effective with time for French companies in Turkey, as Turkey's industry is by now able to sustain by itself the needs in feeding production lines, lowering the level of associated imports from France. China has also risen as a provider of intermediate goods in Turkey for French businesses who settled there. The evolution is particularly clear in three areas. In the automotive sector, France's exports to Turkey grow now more slowly than imports. The exports of French pharmaceuticals keep progressing below the growth of Turkish consumption. The worst-case scenario lies with the textile, clothing and footwear category, where the ratio of exports/imports is now one to ten.⁷

7. CCI France-Turquie, in cooperation with the Economic Service of the French Embassy, "La France en Turquie : Investissements français en Turquie, balance commerciale, emploi et compétitivité de nos entreprises", available on: www.cci.fr.

The Head of the Regional Economic Service in Ankara underlined that Turkey's geographical position was initially considered ideal for developing businesses in neighboring regions.⁸ The large weight of the Turkish domestic market allows French companies to firmly anchor there at first, and then move to more sensitive countries where it is difficult to operate directly, like Iraq. Turkey could also be a hub for Central Asia and Pakistan. This vision is in line with the ambitions of the AKP, the ruling party in Turkey since 2002. Ahmet Davutoğlu, a then adviser of Recep Tayyip Erdoğan, had theorized the idea of Turkey as a "center country" [*merkezülke*], a hub for economic exchanges.⁹

Nevertheless, Turkey's real attractiveness for French companies both as a base and as a potential hub to open new markets is currently challenged by a perception of growing political risk. At least since 2016, a sense of constant insecurity and structurally degrading economic governance has prevented new companies, especially small ones, to set foot in Turkey, and also led to the freezing of some investment projects.

Beyond recurring disputes with several European countries, the deterioration of Turkey's relations with some states in the Middle East and its involvement in a series of conflicts has seriously threatened the optimistic perspective of ever-growing regional integration. While Ankara defended ten years ago the idea of a Middle East free trade area, its poor relations with many local actors now limit its potential. In such a strained context, other regional options could appeal to the French entrepreneurs better than the Turkish one. The United Arab Emirates for instance appear as a good alternative hub to operate in the Middle East. Even companies wishing to work in Central Asia could eventually abandon the Turkish opportunity.

A French economic consultant based in Turkey explains that a growing number of French business operators now find it more interesting to establish contacts directly within targeted countries, rather than through Turkish intermediaries.¹⁰ However, the same analyst pointed out that in other regions of the world, it is the Turks who are seeking association with the French to facilitate their own penetration. This is particularly true in the Maghreb and Africa, notably because of the linguistic advantage one has working with a French partner.

8. Interview with Daniel Galissaires, Ankara, November 8, 2019.

9. A. Davutoğlu, "Türkiye merkezülke olmalı" [Turkey must be a central State]. *Radikal*, February 26, 2004.

10. Interview (Istanbul, November 1st, 2019).

French discussion on modernization of the Custom Union: actors, positioning and arguments

French economic actors interact with Turkey within a rather conventional and institutionalized frame, relying quite significantly on state strategies and resources. This might account for the high politicization we observe around bilateral economic debates. Turkey actually belongs to a category of country that enjoys an important and diversified enough relationship at diplomatic level with France, to allow for productive linkages when the political momentum is there. On the other hand, politicians currently tend to focus on tensions as an excuse to trade off business interests for the defenses of political stakes.

Level and degree of bilateral communication between business organizations

The France-Turkey economic relation is managed on the French side by a set of actors in a rather standardized scheme that offers no specific sophistication. This constantly reforming, flourishing and rather untidy system has well documented bureaucratic flaws.¹¹

In France

In Paris, the responsibility to foster France-Turkey economic relations relies mainly on the Economy and Finance Ministry (“Bercy”), in cooperation with the Ministry of Foreign Affairs (“Quai d’Orsay”). Turkey is dealt with at the MFA within the Europe Directorate, while Bercy has placed it within the “Turkey, Balkans, CIS and Middle East” unit.

11. A. Bentejac, J. Despots, *Mission d'évaluation sur l'efficacité du dispositif d'appui à l'internationalisation de l'économie française*, report, June 2013, available on: www.modernisation.gouv.fr.

MEDEF, the main French private business organization, also acts as an explorer of Turkish markets for French firms under its international branch (MEDEFI). They regularly organize missions for French businessmen in Turkey in close cooperation with the French Embassy there. The last one took place in November 2018, after a rather long interruption due both to a lack of interest and the degradation of the perception of Turkey at political level (a planned mission had been cancelled after the coup attempt of 2016). MEDEFI has established a mixed group of top business actors from both countries, the France-Turkey Economic Forum, which is currently presided by Jean Lemierre, Chairman of BNP Paribas, who holds 50% of Turkish TEB, operating in the retail, financing and investment sector. Let us mention that Jean Lemierre is a former French civil servant and former president of the European Bank for Reconstruction and Development (2000-2008). MEDEFI has partnerships with Turkish TÜSIAD and DEİK (Foreign Economic Relations Board of Turkey Dış Ekonomik İlişkiler Kurulu), depending on opportunities.

TÜSIAD itself has instituted in Paris in 2009 the Institut du Bosphore, a non-governmental organization (NGO) conceived as a think tank mainly aimed at keeping the debate about Turkish accession to the EU alive. It relies on its business base to reach out to political actors and play as “a driving force behind the discussions on Turkey in France”, organizing semi-public events both in Paris and Istanbul.

In Turkey

Locally in Turkey, several public and semi-public actors are operating in the frame of the CU regarding trade and investments. Firstly, the Embassy provides cross-cutting support, such as general information, economic data or even match-making services to economic actors who are willing to trade with Turkey. Since France declared “Economic diplomacy” as an official foreign policy priority in 2012, in order to improve France’s exporting skills, an Economic Counsellor is working at the Embassy in Ankara with the diplomatic services, but under the supervision of Bercy. The Regional Economic Service of the Direction Générale du Trésor (Bercy) also helps the entrepreneurs and investors to have access to the Turkish markets.

Business France, who has an office in Istanbul, is a public agency active under the supervision of both Bercy and the MFA; it performs the same role yet targeting more specifically the SMEs and mid-tier firms. The Chamber of Commerce are also public establishments acting as facilitator of exchanges, helping French firms with giving a push for implantation on local markets, by providing technical and informational support.

Established at the beginning of the 1970s, the Franco-Turkish Chamber of Commerce (CCFT) kept a low level of activity until it was revived in 2005, following the new impetus given by the accession of AKP to power and its pro-business policies. The CCFT remarkably makes a commitment to be both apolitical and secular.

The French Foreign Trade Advisors (CCEF – *Conseillers du Commerce extérieur français*) are volunteers coming from the local economic community, who share their business experience for the development of bilateral relations. They are appointed by the Prime Minister and claim to carry out concrete actions in partnership with public and private players promoting and supporting the internationalization of French companies. In Turkey, they offer sponsorship and mentoring to potential French investors. The head of the local Committee of the CCEF in Turkey is currently the Head of Retail & SME - International Retail Banking (IRB) at BNP Paribas Group.

The French Development Agency (AFD), a financing public company with a mandate focusing on economic development, has two large agencies in Ankara and Istanbul, playing an important role as advisor notably helping French firms to answer public bids. Proparco, the private sector financing branch of AFD, has its regional office in Istanbul, covering the Middle East, Central Asia, Caucasus and Eastern Europe.

One can also mention the platform Atout-France, providing sectoral support for tourism, which has an office dealing with Turkey in Dubai.

The positioning of business actors

Officially, Turkey is in favor of deepening the CU with the EU.¹² The intention also officially seems to be shared by France, yet the definition of the areas concerned raise issues.

Shared interest for the modernization of the CU

According to a study published by DEIK, the CU has helped to boost both the Turkish economy and that of its partners.¹³ From its implementation in 2016, it would have led to an increase of 0.722% in Turkish Gross Domestic Product (GDP) and 0.008% in European GDP. The difference between

12. “La Turquie veut actualiser l’Union douanière avec l’Europe”, TRT France (online), December 11, 2018, available on: www.trt.net.tr.

13. S. Ülgen, *The Business Case for a Turkey – EU CU 2.0*, Istanbul: DEIK, December 2018, available on: www.deik.org.tr.

these two figures must of course be assessed in the light of the respective economic weights of the EU and Turkey. The study also highlights the impact of the CU on the global competitiveness of European companies. The benefits are therefore shared, and France appears to be one of the beneficiaries of this situation. Open access to Turkish components would have increased its export gains by \$265,000 M for chemicals and \$205,000 M for the metal industry. It is therefore not surprising that within French political and economic circles, the official discourse towards the CU is overall positive. But at the same time, beyond the advantages highlighted, a more detailed analysis of the situation reveals certain shortcomings.

On October 31, 2019, the French Chamber of Commerce in Turkey, largely relying on the DEIK study, recalls the economic benefits that derive from the CU, also calling for its modernization.¹⁴ The first limitation it highlights is related to the areas concerned: only 20% of the Turkish economy falls within the scope of the agreement. However, its extension to new areas, such as agriculture, could bring greater benefits. The Chamber of Commerce recalls that the value added of Turkish products in French exports was \$1.7 bn in 2017, which is significant, but lower than for German (\$7.5 bn) or Italian (\$2.6 bn) exports. It therefore appears that the benefits derived by France from the CU could be greater.

The second limitation that is analyzed in a more summary fashion relates to the obstacles encountered by French companies. The implementation of the CU was intended to facilitate access to the Turkish market for European companies. However, in practice, the French business community deplores an environment that is still restrictive. The head of the regional economic service Daniel Galissaires mentioned many market access problems, such as tariff barriers or administrative complications in obtaining business licences. Such difficulties are often met even in areas such as the health or cosmetics sectors, which are included in the CU.¹⁵ Among other difficulties for French entrepreneurs, an economic consultant in Istanbul mentions the 1987 bilateral tax treaty between France and Turkey: article 7 of this convention stipulates that profits made by a French company established in Turkey may be taxed in France, but also (albeit to a limited extent) in Turkey; Article 10 proposes a similar rule for dividends withdrawn by shareholders. Thus, while this treaty was intended to avoid double taxation, it imposes a higher pressure on French companies in

14. “Les bénéfices attendus d’une modernisation de l’Union douanière entre l’UE et la Turquie”, CCI France-Turquie (online), October 31, 2019, available on: www.cci.fr.

15. Interview with the author (Ankara, November 8, 2019).

Turkey, therefore limiting the incentive effect of the CU¹⁶. A member of the French Development Agency also mentioned a certain tendency of Turks to favor their national companies in international tenders, a practice hindering the potential of European companies.¹⁷

Areas to include in a modernized CU

On the French side, the opening of the agribusiness sector to free trade is strongly desired.¹⁸ Given its large population, the Turkish market stands indeed as a very promising destination for French agricultural exports. In addition, France can expect to have access to Turkish agricultural products for processing and selling finished or semi-finished products. However, this perspective is particularly unwelcome in Turkey. As Nur Beler, Director in charge of European relations at TÜSİAD, explains, “Turkish farmers are very concerned about not being competitive with European farmers. That is why they are pushing for the agricultural sector to be excluded from a deepening of the CU”.¹⁹ Agriculture still represents 19% of the active population in Turkey in 2019.²⁰ The importance of this sector of activity is politically loaded as it concentrates part of the traditional AKP electorate. The Turkish government is therefore sensitive to the demands emanating from farmers and is very reluctant to open the agricultural market.

There is actually also reluctance on the French side for other matters, even if it means Paris is out of touch with other European states. Such is the case in the field of transports. According to the head of the French Embassy's economic service, there is not enough cohesion on a European scale regarding this sector of activity to include it in the CU. In other words, France prefers to preserve a bilateral approach and to prioritize direct cooperation with Turkey in this field. The digital sector is also considered as particularly sensitive and France does not wish to include it in the negotiations. More specifically, the EU's security architecture is seen as somewhat insufficient to set the necessary limits of such a cooperation. It became clear through discussions with representatives of the French private business sector that many entrepreneurs are concerned about the security of personal data.²¹ Indeed, President Erdoğan's desire to exert control over the Turkish digital sector leads to questions about the

16. Interview with a French consultant (Istanbul, November 1st, 2019).

17. Interview with the author (Ankara, November 8, 2019).

18. “Les bénéfices attendus d’une modernisation de l’Union douanière entre l’UE et la Turquie”, *op. cit.*

19. Interview with the author (Istanbul, 6 November 2019).

20. “Employment in agriculture (% of total employment) (modeled ILO estimate)”, In The World Bank (online), available on: <https://data.worldbank.org>.

21. Interview (Paris, March 11, 2019).

reliability of partnerships with Turkey in that particular area. Entrepreneurs fear that sensitive data relating to their customers or their economic strategy could be recovered by the Turkish security services. This reluctance from the French could raise tensions, as Turkey is increasingly focusing on digital technology to improve its growth model and closer cooperation with the European Union in this field could be a significant asset.

On the other hand, France is ready to negotiate the extension of the CU to the services sector, an option that is also particularly dear to the Turkish stakeholders.²² There is therefore a need to first frame the elements that could be part of a deepening of the CU, as major asymmetries in interest are spontaneously expressed in some areas, while others appear largely open for progression.

The CU is therefore heeded as a positive frame for the French economy but it is insufficient. It does not cover enough areas, and the persistence of many difficulties complicates the task of French entrepreneurs in Turkey. A kind of desire for cooperation is pushing economic circles to put pressure on French political representatives to deepen the CU and widen their room for maneuver in Turkey. But this is also where the difficulty arises: even if points of agreement do emerge, two other difficulties arise: the weight of political issues in the negotiations, and the difficulty of acting in coordination with European partners.

The political side of the negotiation

A political climate that has become structurally adverse to the negotiation

In France, the relevance of rising the issue of the CU is a very sensitive debate. Indeed, while economic circles are in favor of deepening exchanges, the public is largely reticent about any rapprochement between Turkey and the EU, a situation recently aggravated by the diplomatic tensions between Paris and Ankara. In short, the CU has at the same time partly failed or is not enough to meet the expectations of French investors and entrepreneurs in Turkey, but it appears very difficult to reform, particularly because of the political implications of any new negotiation with Turkey.

The Franco-Turkish relationship has currently more to do with political than economic stakes. Several issues pit Paris against Ankara, starting with the Syrian file. The Turkish operation launched on October 9,

22. N. Beler, interview (Istanbul, November 6, 2019).

2019 against the Syrian Democratic Forces (SDF), allies of Western countries, has been strongly criticized by France. By condemning this operation, seeking to have it sanctioned by the UN, and subsequently declaring that it put NATO cohesion in danger, French President Emmanuel Macron drew the wrath of his Turkish counterpart, Recep Tayyip Erdoğan. This crisis has aggravated the climate of mutual mistrust that has undermined Franco-Turkish relations for years. While the French denounce the growing authoritarianism of the AKP and the Turkish President, Turkey accuses France of supporting the Kurdish activists of the SDF, allied to the PKK (Kurdish autonomist movement, considered as terrorist by Turkey and the EU, and fighting against the Turkish state). Lately, developments related to the management of the Syrian refugee issue have only raised tensions between the two sides again.

Much like the former President Nicolas Sarkozy (2007-2012), many French politicians, especially on the right side of the political spectrum, have been openly against the accession process since 2005. With time, this positioning has progressively spread among the left.²³ Consequently, the CU is a non-starter for all political parties at present in France: it is not even envisaged as an issue per se. The CU is very scarcely mentioned in French political and media debates and in fact does not raise interest except in business circles.

These tensions have a direct impact on the negotiations for Turkish accession to the EU. A reform of it cannot be envisioned without taking these political issues into account. From a Turkish point of view, indeed, new negotiations with the EU cannot take place without first settling certain elements that have been blocked for years. As Aran Bozkurt, Director of the TEPAV Center for Multilateral Trade Studies explains: “Economic progress also requires political progress. Turkey expects symbolic gestures. For example, if the EU were to agree to abolish visas for Turkish citizens, as foreseen in the 2016 refugee agreement, Ankara would surely in return agree to be more flexible in renegotiating the CU”.²⁴ Turkey is all the more attached to these concessions since there is the feeling among its political and economic elites that the CU is being used as a means of pressure on it.²⁵

23. D. Schmid, “De l’élargissement à l’éloignement : la Turquie veut-elle toujours adhérer à l’Union européenne ?”, *Politique étrangère*, Vol. 75, No.1, March 2010, pp.13-24 ; “Turquie-Union européenne: l’heure du “plan B” ?”, *Le Point*, January 14, 2018.

24. Interview (Ankara, 8 November 2019).

25. Following a member of TÜSIAD, interview (Istanbul, 7 November 2019).

The effects of political blockades on the expectations of economic actors

This situation causes a certain pessimism among French officials. “As long as political blockages remain as serious as they are today, it is unlikely that the CU will evolve”, explains Daniel Galissaires.²⁶ He adds that, on the other hand, some breakthroughs on sensitive issues would facilitate the resumption of these negotiations: for example, a more open approach by Turkey on the Cyprus problem would establish a climate more favorable to an updating of the CU. Thus, despite pressure from economic circles, French political leaders are stressing the need for a prior resolution of bilateral problems in order to be able to launch in-depth negotiations.

The persistence of those political and diplomatic issues has a direct impact on optimism of economic actors. A representative of the French private sector also believes that there now seems to be a looming malaise related to all partnerships with Turkey.²⁷ Firstly, the country's economic situation does not seem stable, particularly with a fragile monetary system. Secondly, the concentration of political power in the hands of Recep Tayyip Erdoğan entails risks of abrupt policy changes, with consequences that are difficult to determine regarding the French economy and companies. Thirdly, the weakening of Turkey's position in the Middle East has encouraged some Turkish companies to relocate in Turkey, leading to greater competition. In that context, this representative of the private sector feels that French entrepreneurs still wish to remain in Turkey, but are not ready to make major new investments there.

New ideological debates and the position of civil society: free trade in question

The obstacles are not exclusively governmental, as the French civil society could also exert pressure. Turkey has largely become a subject of public critique linked to its policies vis-à-vis Syria. Furthermore, as a member of the French Development Agency explains, if serious negotiations were launched with a view to reforming the CU, they could bring along another type of opposition in France: the French political context appears not to be in favor of free-trade at this stage.²⁸

Indeed, the rise of environmental concerns and political debates that accompanied the signing of the free trade treaty with Canada (CETA)

26. Interview (Ankara, November 8, 2019).

27. Interview (Paris, March 11, 2019).

28. Interview (Ankara, November 8, 2019).

showed the potential for massive contestation of any free trade agreement in France, first hand by leftist movements, yet quickly enlarging to other actors of the political spectrum. The anti-capitalist left-wing, traditionally hostile to these agreements, has been reinforced by environmentalist movements, which fear their impact in terms of global warming or the destruction of natural habitats. On the other hand, there is also a right-wing hostility to free-trade agreements, which is based on sovereigntist ideas. The sovereigntist right-wing calls for strengthening the border with Turkey in order to avoid flow of migrants to enter the EU, and reducing economic cooperation. Finally, let us recall that on August 23, 2019, Emmanuel Macron himself made clear his opposition to the free trade agreement between the EU and MERCOSUR, in reaction to Brazil's deforestation policy. In this context, it is questionable whether the modernization of a CU with Turkey, whose policies to fight global warming are pointed out to be insufficient,²⁹ would be politically acceptable to European governments.

However, in French political circles, there is a hypothesis, often formulated very informally, in which civil society could accept deepening free trade: the idea that Turkey would renounce the EU accession process. A member of the diplomatic corps sums up this idea by saying: “With the environmental and social challenges, it seems increasingly difficult to get civil society to accept free trade agreements. But if the CU were ever to be presented as an alternative to Turkish accession, with a compensation given to the Turks, it is likely that it would receive more support in France”.³⁰ This hypothesis is never explicitly formulated in official speeches. Indeed, there is officially no link between the accession process and the CU issue. And this scenario seems very unlikely in the short term, since neither Turkey nor the EU want the break-up of accession negotiations. But this simple presumption is a reminder that France has established a close link between the reform of the CU, Franco-Turkish and Turco-European political problems.

A deepening of the CU requires both a consensus among European countries on what needs to be negotiated, but also a clear definition of their strategy. France is struggling in this respect, however, because it has not succeeded in getting the economic and political circles to agree on clear objectives.

This is where the problem of synergy between French industrialists, entrepreneurs, investors, political representatives and diplomatic representatives arises. Indeed, there is a desire for a common action

29. F. Adaman, M. Arsel, “Climate Policy in Turkey: A Paradoxical Situation?”, *L'Européen Formation*, No. 380, 2016, pp. 26-38.

30. Interview with the author (November 10, 2019).

strategy, illustrated, for example, by the initiatives of the Embassy's economic service, which organizes a "Regional economic service point" every month, enabling entrepreneurs to consult each other with a view to budget forecasts, and the political authorities to have an overview of French economic activity in Turkey. An executive of a French firm pointed out that the French economic world seems to him to be more united and supportive in Turkey than in other countries he has observed.³¹ Nevertheless, it seems that compared to its European partners, the French economic world shows a more fragile unity. "Solidarity is lacking," explains a French consultant in Istanbul, "there is no unity of action, some ambassadors are much more interested in political affairs than in economic affairs, and exchanges between companies are limited. Many act alone, on their own, they don't work in a pack like German or Italian companies".³² Without officially confirming this situation, Turkish members of TÜSIAD say unofficially that they have heard similar analyses. However, the country risk analyst whom we previously quoted puts this approach into perspective: "Basically, it is more a French problem, on a general scale, than a specificity of our companies in Turkey." This possible lack of unity could however give France a certain handicap *vis-à-vis* its European partners.

Relying on his contacts in the business world, the same economic consultant believes that few companies trust the European institutions to negotiate in their best interests. When a problem emerges, they tend to request the assistance of the Embassy instead. Daniel Galissaires for his part, gives the example of certain specific sectors, such as the health sector, which considers itself to be better protected by its sectoral representatives than by the European institutions. However, he pointed out that the Delegation of the European Union to Turkey remains a key player in the event of difficulties. Companies can count on it to bring certain disputes before the World Trade Organization (WTO). Nevertheless, even in this case, the role of the French State is often put forward, for example to defend the vision of economic circles before the European institutions.

This situation does not provide an ideal framework for negotiations. Indeed, the French business community remains attached to the role of the State in defending its interests, but at the same time, the synergy between political and economic players seems to be weakening. In this context, it is difficult for France to define clear objectives to present to its European partners.

31. Interview with the author (Ankara, November 8, 2019).

32. Interview with the author (Istanbul, November 1st, 2019).

Conclusion: an endlessly postponed project?

Even though the updating of the CU is desired by both French economic circles and their Turkish partners, obstacles are piling up and considerably delaying this ambition. The desire to deepen the union is not enough: there must also be a minimal consensus on the basis for negotiation. But on these bases, France does not seem ready. There are disagreements with Turkey on the issues that need further study. A certain lack of synergy in the French economic world is preventing the formulation of a clear strategy and further cooperation with European partners. Furthermore, the links between this matter and political issues considerably delay any progress. For now, the majority of public opinion seems to be hostile to a free-trade agreement, particularly with Turkey, whose political development is being regarded with concern. Moreover, French companies prefer to negotiate directly with their Turkish partners, rather than wait for a hypothetical change in the institutional framework. If Paris and Ankara manage to iron out some of their disagreements, perhaps they can work with other EU members to develop a framework for discussion. Without this, updating the CU will remain a much more fragile project, despite the benefits that France could derive from it.

