

Three ways Brexit could hurt Turkey

Blog post by Associate Adviser Thomas Gratowski, 22 June 2016

While a lot has been written and said about the impact of Brexit on EU member states, less attention has been paid to Turkey. One of the few statements came last week from the head of the Turkish-British Business Council, Remzi Gür, who said that the country would not suffer any commercial or strategic losses if the UK left the EU. This might be an overly optimistic assessment, however.

First, Ankara could lose an important ally in its bid for EU membership. London has been a long-time supporter of Turkish accession to the EU and saw broadening the union as a hedge against deeper integration. David Cameron said as recently as in December 2014 during a trip to Ankara that he was there “to make the case for Turkey’s membership of the EU”. Admittedly, the Brexit campaign and the heated debate about immigration have somewhat constrained UK public support. Cameron backtracked on Sunday saying he would not support Turkish EU membership in the short term. Nonetheless, Turkish prospects for EU accession would be slimmer if it was left with the likes of France and Germany.

Second, a Leave vote would also hurt Turkish interests during trade negotiations with the EU. Both sides just agreed to upgrade the Customs Union, but the loss of a big supporter of trade liberalisation would tilt the EU towards more protectionist trade policy. For instance, the planned expansion of agricultural products covered by the Customs Union touches on an area where France has traditionally been defensive. Without London’s influence Ankara is likely to get a less favourable deal.

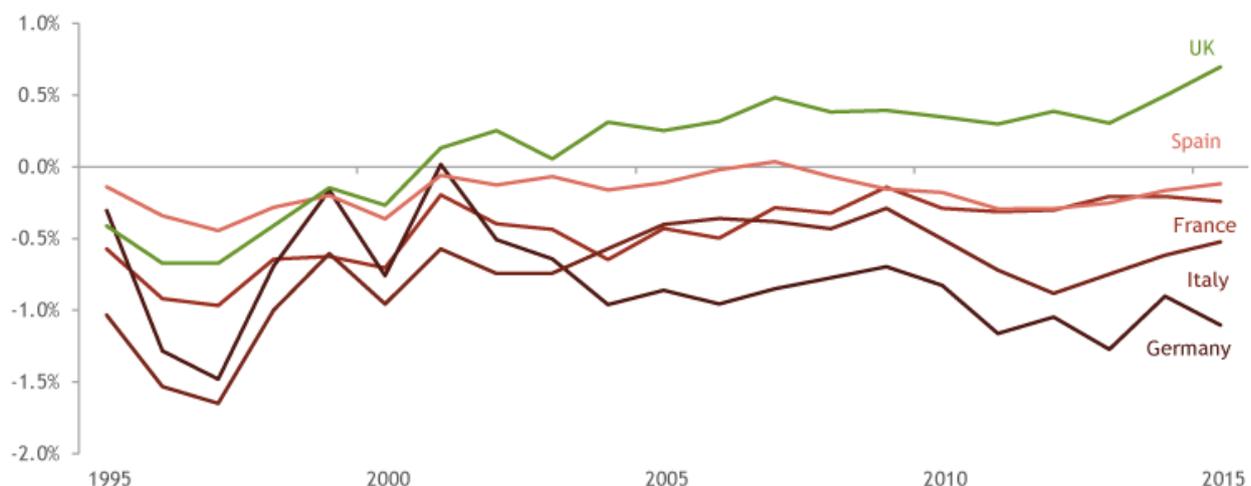


Fig: Turkey’s merchandise trade balance with the EU’s largest economies
(% of GDP)

Third, Turkey's favourable economic ties with the UK could be severely impacted. The EU-Turkey Customs Union effective since 1996 abolished most tariffs between the two countries and the UK has since become Turkey's third largest trading partner and the number two export destination for Turkish goods within the EU. Turkey's merchandise trade deficit with the UK of 0.4% of GDP in 1995 has been transformed into a surplus of 0.7% in 2015, the only surplus it has with a top-five EU economy (see Figure). However, almost a quarter of Turkish exports are related to the automotive industry where the re-imposition of tariffs between the UK and the EU-Turkey Customs Union would hurt. Turkish firms have also made sizable investments in the UK which over the last decade have rivalled those made in Germany - these could be harmed in case of Brexit. All this suggests Mr Gür and Turkish businesses should hope the referendum results in a vote to Remain.