TÜRKİYE-EU TRADE RELATIONS: OPPORTUNITIES AND CHALLENGES

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The European Union has been facing increasing economic competitive pressure in recent years. The shift in global production hubs, the rapid expansion of Chinas industrial capacity, and the United States move toward increasingly protectionist industrial policies have called into question the sustainability of Europes economic model. In particular, the rise in production costs in Europe over the past decade, rising energy prices, and the shift of production to regions outside Europe in certain sectors have emerged as key factors weakening the competitiveness of the European economy. These developments have led to growing debates within the EU on how the European economy can adapt to global competition and how European industry can be strengthened.

The search for answers to these questions is clearly reflected in the new industrial policies developed by the EU in recent years. Various strategy documents prepared by the European Commission and the European Council identify increasing Europes production capacity, reducing external dependency in critical sectors, and making supply chains more resilient as key objectives. Official EU documents on industrial policy also emphasize that enhancing the competitiveness of European industry and strengthening Europes position in global production networks are among the main priorities.[1] In this context, sectors such as semiconductors, battery production, clean energy technologies, the defense industry, and the automotive sector are defined as strategic sectors for Europe.

One of the key elements of this strategy is the Made in Europe or Made in EU approach, which has recently come to the forefront. The fundamental aim of this approach can be summarized as encouraging production in Europe and ensuring that European public resources support products manufactured in Europe as much as possible.[2] Some policymakers in Europe argue that, particularly in cases involving state aid and incentives, priority should be given to products produced within Europe. The underlying rationale of this approach is to preserve production capacity in Europes strategic sectors and to prevent Europe from falling behind in global competition. In particular, the need to increase Europes production capacity in clean energy technologies, electric vehicle manufacturing, and high-tech sectors is frequently emphasized.[3] Such policies aim to reduce Europes dependence on major production hubs like China and to revitalize European industry. However, the EUs new industrial strategy has also raised some important debates. Foremost among these is the relationship between Europes protectionist industrial policies and its free trade policies. On the one hand, the EU develops policies aimed at maintaining production within Europe and promotes Europe-based production in certain sectors. On the other, the EU, as one of the longstanding advocates of the global free trade system, continues to sign Free Trade Agreements (FTAs) with various countries. This situation creates a contradiction within Europes economic strategy.

One of the most striking examples of this contradiction is the Free Trade Agreement (FTA) negotiations between the EU and India. Following nearly two decades of negotiations, significant progress has been made toward a comprehensive trade agreement, and on 27 January 2026, the parties signed the FTA. Under the agreement, the aim is to remove tariffs on approximately 90% of Europes exports to India.[4] This agreement will facilitate Indias access to the European market and, by increasing trade and industrial investments between Europe and India, holds the potential to strengthen both parties production and export capacities.[5]However, such agreements may also lead to increased entry of external competition into the European market.Therefore, the long-term sustainability of Europes efforts to maintain production within the EU while simultaneously promoting global free trade remain open to debate.

In recent years, the global economy has been evaluated not only through the lens of free trade but also in terms of the supply chain security. Supply chain issues experienced during the COVID-19 pandemic and developments such as the Russia-Ukraine war have shown many countries that relying entirely on production in other countries can be risky. As a result, a new approach to production strategies has emerged in recent years. This approach does not advocate relocating production entirely within national borders, but rather emphasizes the establishment of production networks among geographically closer and economically reliable countries. In academic literature, this approach is generally referred to as nearshoring or friend-shoring.[6]Under this model, countries prefer to establish production networks with nations that are geographically close and economically reliable, rather than moving production entirely within their own borders. When the economic strategy pursued by the EU in recent years is examined, it becomes evident that Europe is increasingly moving toward this model. Rather than attempting to carry out all EU production within Europe, the EU aims to establish a more integrated production system with countries that are close to Europe and have strong ties to the European economy. At this point, Türkiye emerges as a key actor. The Customs Union agreement between Türkiye and the EU, which entered into force in 1995, has created strong economic integration between the Turkish and European economies. Thanks to this agreement, customs duties on industrial goods have largely been eliminated, and Türkiye has become an important part of Europes production networks. Today, a significant number of European companies carry out certain stages of their production activities in Türkiye. Türkiye has become a major production hub for Europe, particularly in sectors such as the automotive, white goods, textile, and machinery industries. Given the goal of enhancing supply chain security in Europes new industrial strategy, Türkiyes role in this process is of great importance. Considering the high cost of keeping production entirely within Europes borders, countries like Türkiye, which are geographically close and possess a strong industrial base, offer important alternatives for Europe. Within the scope of the Industrial Accelerator Act draft published by the EU on 4 March 2026, it has been stated that goods and components produced in Türkiye may be considered Made in EU due to the Customs Union relationship.[7]Thus, Türkiye is evaluated as part of Europes production networks.

However, economic relations between Türkiye and the EU have not reached their full potential due to certain structural issues. One of the main issues is that the Customs Union agreement is outdated. Signed in 1995, this agreement is unable to fully adapt to todays economic conditions. For instance, the agreement does not cover the services sector or agriculture. Moreover, Türkiye does not have a direct say in the EUs trade policy decisions.[8] This situation creates trade diversion risks and adverse effects for Türkiye arising from the EUs free trade agreements with third countries, despite Türkiyes high level of integration with the European economy. For instance, while the EUs signing of FTAs with major economies like India indirectly binds Türkiye, Türkiye must conclude a separate FTA with the relevant third country to directly benefit from these agreements. In practice, however, such a step is rarely preferred by third countries, as they already have advantageous access to the EU market; as a result, Türkiye is unable to benefit from reciprocal trade advantages under these agreements and remains limited to opening its own market. In this context, an examination of the current economic relationship suggests that updating and expanding the scope of the Customs Union would contribute to a more balanced and efficient functioning of economic relations between Türkiye and the EU. Such an update would not only strengthen Türkiyes integration with the European economy but also facilitate the more effective implementation of the EUs new industrial strategy. Considering Europes strategy of establishing regional production networks and increasing its production capacity, Türkiyes inclusion as an important part of these networks could create new economic opportunities and strategic advantages for both sides. At the same time, in light of the EUs expanding network of free trade agreements with third countries, it is of critical importance for Türkiye to anticipate potential risks and shape its own industrial and trade policies accordingly in order to maintain its competitive position.

In conclusion, the industrial and trade policies recently developed by the European Union reflect a search for a new balance in global competition. While Europe seeks to strengthen its own production capacity, it also continues to expand its foreign trade network by signing FTAs with major economies such as India. However, this dual strategy creates new risks, particularly for countries like Türkiye, which are deeply integrated into the EU economy but excluded from decision-making processes. The EUs FTAs with third countries oblige Türkiye to align with these agreements, yet Türkiye is unable to derive direct benefits from them; as a result, it faces increasing competitive pressure from countries such as India, especially in sectors like textiles and certain industrial products. Therefore, Europes economic strategy does not merely aim to strengthen domestic production but also generates new competitive dynamics through external actors. In this context, the fundamental challenge for Türkiye is to go beyond merely preserving the current integration and take steps to balance this asymmetric structure. Updating the Customs Union, balancing trade relations with third countries, and developing policies to enhance competitive strength in strategic sectors emerge as critical necessities for Türkiye to strengthen its position within this emerging economic order.

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