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AFTER "MADE IN EU": WHAT COMES NEXT FOR EU-TÜRKİYE ECONOMIC RELATIONS?

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Made in EU: How did we get here?

Amid global economic uncertainties driven by the growing weaponization of economic interdependence, intensifying competition, and rising protectionism, the European Union (EU) has been embroiled in major debates on the future of its single market. In April 2024, former Italian Prime Minister Enrico Letta published a report on the EU's single market, highlighting the EU's declining share among the world's largest economies. In addition to the single market's "four freedoms" on the movement of people, goods, services, and capital, Letta suggests addressing this issue by adding a "fifth freedom" on research, innovation, and education and mobilizing both private and public financial resources to fund this.[1] Following this report, former President of the European Central Bank Mario Draghi published a report on EU competitiveness in September 2024.[2] The report took a much gloomier view of the EU market, highlighting the long-run economic stagnation and industrial decline faced by the EU, driven primarily by the EU's reliance on external markets in key strategic sectors, such as energy and security, as well as the EU's growing innovation gap with China and the United States in high-tech industries. To reverse these trends, Draghi suggests that the EU invest an additional EUR 750–800 billion into its economy annually, relaxing the EU's complex regulatory mechanisms, and supporting private investment with public incentives.

Following the Draghi report, the "Made in EU" debates began within EU circles in late 2024. While ''Made in EU'' clearly denotes the inclusion of EU-made industrial goods in the EU's public funding and support mechanisms, which non-EU countries would fulfil the EU-made criteria became a matter of debate due to the number of non-member states that have access to the EU's single market. Soon after, these debates received close attention from non-member states, particularly the EU's major trading partners such as Türkiye, the United Kingdom, and South Korea. The exclusion of key trading partners from such mechanisms would undermine their competitiveness, especially for countries that have a customs union with the European Union. Competing lobbying efforts inevitably unfolded. While some companies and countries in the EU advocated for a narrower definition of "Made in EU," exclusive of third countries in particular, others pushed for a broader definition. Those pushing for a broader definition primarily emphasized that such protective measures could lead to an imminent risk of countermeasures from third countries, some of which are a key component of the EU's supply chains for EU-based production.

Amid competing lobbying efforts in Brussels, the European Commission proposed the Automotive Package on December 16, 2025. Notably, it requires vehicles and their strategic components (e.g., battery cells and low-carbon steel) to be made in the EU for automotive producers to benefit from public financial support and flexibility in CO_2 reduction goals in automotive production. However, the Commission did not state whether "Made in EU" will be limited to EU member states or will also include key trading partners. It left this task to the Industrial Accelerator Act (IAA), which encompasses not only the automotive industry, but also steel, cement, aluminum, and net-zero technologies.[3] While the initial act was to be proposed in mid-December 2025, it was postponed to late February 2026 due to rival lobbying activities in Brussels. Competing lobbies delayed the process once again to early March 2026. The act was finally proposed on March 4, 2026, this time defining what "Made in EU" means, geographically: ''Content from partners with which the Union has concluded an agreement establishing a free trade area or a customs union, and where relevant obligations of the Union exist under that agreement, shall be deemed to be of Union origin.'"[4]

Based on this clause, Türkiye seems to be included in the definition of "Made in EU," owing to the EU-Türkiye Customs Union that was declared by the 1/95 Association Council Decision signed in 1995. This has major implications for the future of EU-Türkiye cooperation in three key political economy domains—public procurement, trade, and services—which are outlined below. Furthermore, the recently announced IAA and the "Made in EU" clause in particular bring about the need to revitalize talks on the modernization of the EU-Türkiye Customs Union, which would prove beneficial within the framework of this debate.

Public Procurement

The recently proposed IAA further "encourages greater reciprocity in public procurement, by providing equal treatment to countries that offer EU companies access to their markets."[5] Public procurement has been central to Turkish politics at both the municipal and national levels. Frequent modifications to the legal framework regarding public procurement underscore the central place it occupies in the Turkish economy. However, the EU-Türkiye Customs Union does not include public procurement, meaning that EU firms do not have automatic access to public procurement in Türkiye. The key question here is whether Türkiye would be willing to include EU firms in public procurement in Türkiye. Not doing so may lead to countermeasures on the EU side based on the EU's demand for reciprocity in public procurement in the IAA.

Trade

It is important to note that the IAA includes more than 70 other non-EU countries through free trade agreements that the EU has signed.[6] This inevitably means the inclusion of the Mercosur bloc and India in the definition of "Made in EU." The EU's recently signed agreements with Mercosur countries and India have been concerning to Türkiye for two reasons.

First, since Türkiye has not signed free trade agreements with the Mercosur bloc and India, the customs duties that Mercosur countries and India apply to Türkiye will remain unchanged. However, goods imported from Mercosur countries and India to Türkiye can enter Türkiye with zero customs duties via the EU market. This will increase Türkiye's foreign trade deficit with both Mercosur countries and India.[7]

Second, as Mercosur countries and India can now export goods to the EU with zero (or low) customs duties, this will negatively affect Türkiye's competitiveness in the EU market, which is Türkiye's primary export market.[8] For instance, Türkiye's automotive industry is a key pillar of the Turkish economy and Türkiye's relations with the EU.[9] Specifically, automotive exports rank first in Türkiye's total exports.[10] In 2025, Turkish exports in the automotive sector reached USD 40.8 billion,[11] with more than 60% of all exports in this sector destined for the EU.[12] Even without a free trade agreement between the EU and India, the EU has been one of India's largest export markets in the automotive sector in recent years. In 2024, India exported a significant share of its automotive components, including brake and suspension systems, steering mechanisms, and engine parts, to the EU.[13]

Free trade agreements signed with such major markets pose a risk not only to the competitiveness of Türkiye's automotive industry but also to the competitiveness of other sectors such as textiles that are exported to Europe.[14] Currently, Türkiye ranks as the EU's second largest importer in the textile industry, constituting 14% of the EU's textile imports.[15] In 2025, Türkiye's textile exports totaled USD 11.4 billion, with 40% directed to the EU.[16] At the same time, India was the EU's fourth-largest importer in textiles, corresponding to 7.3% of the EU's textile imports in 2025. India's share in the EU's textile market is expected to increase with the signing of the new free trade agreement, likely affecting Türkiye's market share.

Under these circumstances, although Türkiye's inclusion in the definition of "Made in the EU" is a positive development for its competitiveness within EU markets, it will also face fierce competition from alternative markets that are also included in this definition, such as Mercosur and India.

Services

For Türkiye to keep up with competition from new markets, it is necessary to address the current disadvantages Türkiye faces in the EU-Türkiye Customs Union—most importantly the fact that the Customs Union does not include services. This is particularly crucial for Türkiye as most EU member states define "truck transport" within the scope of the service sector. On this basis, Turkish truck transport to the EU has been subject to transit quotas imposed by several EU member states, including Greece, Bulgaria, Romania, Hungary, and Austria.[17] Generally, the allocated transit quota is lower than the number of trucks that need to be transported.[18]

In addition to the transit quota, countries such as Greece, Bulgaria, and Hungary charge transit fees on Turkish trucks. For instance, Greece charges EUR 100 per truck (round trip), while in Hungary this amount exceeds EUR 400.[19]

Transit quotas and transit fees inevitably create competitive disadvantages by increasing the price of goods transported by truck.[20] In this context, Türkiye argues that customs duties, which are prohibited by the Customs Union, constitute "taxes with equivalent effect" and "measures with equivalent effect to quantitative restrictions."[21]

Final Remarks: Back to the Customs Union

The EU-Türkiye Customs Union lies at the center of discussions on the future of European-Turkish economic relations. While there has been no progress in modernization talks since 2014, the ''Made in EU'' clause has the potential to revitalize these discussions. The Customs Union modernization agenda involves expanding the Customs Union to cover public procurement and the service sector, as it is currently limited to industrial goods and processed agricultural products. As noted, the exclusion of the service sector from the Customs Union undermines Türkiye's competitiveness, which will be further challenged by the EU's recent free trade agreements with new parties. The exclusion of EU-based companies in public procurement in Türkiye may threaten Türkiye's inclusion in the "Made in EU" clause as the IAA demands reciprocity in public procurement. Modernizing the Customs Union can address these issues.

Most importantly, modernizing the Customs Union will not only prove beneficial to Türkiye but also to the EU. Türkiye ranks as the EU's fifth-largest trade partner,[22] thereby representing one of the building blocks of European supply chains and production within the EU. Transit quotas and fees imposed on exports from Türkiye eventually place a burden on European supply chains that are closely integrated with Türkiye. Therefore, upgrading the Customs Union will yield benefits for both parties.

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Notes

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