

Turkey, Europe and the economic crisis

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Current status of negotiations

The opening of accession negotiations with Turkey was approved on October 3, 2005 as an open-ended process, intended to last ten to fifteen years.

During the initial phase, started in June 2006, negotiations focused on the issue of domestic reforms in Turkey – mainly concerning free speech and press, banning capital punishment, improving rights of minorities, the judicial system and the role of the military –, needed before membership would be granted, and on the issue of the recognition of North Cyprus Republic by Turkey.

They were not going on easily, and in December 2006 the European General Affairs Council decided to freeze 8 of the 35 chapters under negotiations concerning sectors of the *acquis communautaire* by which Turkey discriminates against North Cyprus Republic, until Turkey makes concrete progress towards the solution of the issue.

Together with the dispute on Cyprus, the slowness turned up in the domestic reform process, that the Turkish government had speeded during the last two years in order to reach the status of candidate country, was another reason manifested by the Eu to hamper the negotiations, but it has to be recorded that, after the crisis of the European constitutional treaty, the European leaders were afraid of approaching the perspective of a Turkey's entry which could enhance the Europhobia widespread in the public space of many member countries, a Europhobia addressing not the institution itself but the way how it should operate and the issue of the borders of Europe¹.

In 2007-2008 the Eu-Turkey negotiations made a slow progress with the opening of 5 chapters a year, while two new leaders in Cyprus, Demetris Christofias and Mehmet Ali Talat, started talking to each other. This positive connection, however, would have been stopped when presidential elections of April 2010 brought a nationalist, Dervis Eroglu, to Turkish Cypriot leadership.

¹ Birte Wassenberg, Frédéric Clavert, Philippe Hamman (dir.), *Contre l'Europe? Anti-européisme, euroscepticisme et alter-européisme dans la construction européenne de 1945 à nos jours (Vol. 1): les concepts*, Stuttgart, Frantz Steiner Verlag, 2010; Maurizio Mistri, *La crisi dell'integrazione europea e la Turchia. Una analisi istituzionalista ed una critica federalista*, Padova, Edizioni La Gru, 2010.

In 2008, after seven years of great performance, Turkish economy underwent a slowdown, caused by the consequences of the global crisis and by troubles in domestic politics. In March 2009 the party of Prime Minister Erdogan, Akp, won the municipal elections, but with a light poll; then the army started to look up again until when, on February 2010, 40 generals accused for plotting were arrested and now they are taken to Court.

Meanwhile, the economic and financial crisis has ravaged European economies and created huge social problems for European leaders to resolve. Under such circumstances it appeared difficult to push forward Turkish accession negotiations.

In order to sustain Turkish trust that, notwithstanding the situation, accession was the final objective in the negotiation process, on January 4, 2010 a new European Union strategy for Turkey's accession process has been approved by the Council of Ministers.

The document is aimed at clarifying the negotiation procedure at each step, better defining the responsibility of European bureaucracy as well as the rights and duties of Turkey in carrying on the process. It stresses the need for Turkey to comply with the political criteria and suggests how to speed up the political reforms and effectively monitor their implementation. Finally it announces the launching of a comprehensive and flexible Eu communication strategy to enhance communication between Turkey and the Eu and to increase public support for the Eu accession process of Turkey both in Turkey and in the Eu member countries, targeting those segments of public opinion that hold reservations against it².

On the other hand, however, European leaders have issued different statements: French President Sarkozy, who according to Ankara is asking Turkey for more than the *acquis communautaire* to join the Eu, repeatedly called on the Eu to offer Turkey a privileged partnership instead of the membership, and Chancellor Merkel too, during her visit to Ankara (March 2010), spoke of a special partnership as more suitable to the Turkish case, while British Premier Cameron during his visit to Ankara (July 2010) advocated Turkey's membership.

To sum up the state of the affair, at present 12 only of the 35 chapters are on the table and only 1 has been provisionally closed.

During all this difficult negotiations the Turkish government has gone on developing his new vision for the foreign policy of the country.

Turkey's Justice and Development Party (Akp), on power since 2002 and re-elected in 2007, has restored the concept, which briefly had surfaced in Turkish political discourse during the early Eighties, of a Neo-Ottomanism, emphasizing Turkey's historical roots and restyling national identity as the successor State of the Ottoman Empire. Hence it has focused on the former Ottoman space in the Balkans, the Middle East and Central Asia, displaying the flag of common Muslim values and cultural affinities for strengthening ties with Arab and Islamic regimes.

² Christiane Timmerman, Dirk Roelants & Sara Mels, *European and Turkish voices in favour and against Turkish accession to the European Union*, Bruxelles, P.I.E. Peter Lang, 2008.

In accordance with what was happening elsewhere after the end of the Cold War, it has tried softly to replace the religious factor in Turkish politics.

Fading the long historical connection with the Us and being disappointing the relationship with the Eu, looking for the country's security in a destabilised world and in a volatile region, it has designed to develop Turkish foreign policy towards its neighbourhood and religious brotherliness, notwithstanding some of those countries – namely Iran, Syria, Hamas, the Palestinian Authority – were not in good terms with the West, but paying attention in doing so not to undermine the course of accession negotiations. Hence, it has slightly improved the conditions of Kurdish minority, signed an agreement with Armenia for opening the borders, presented a proposal to its Parliament for modifying 26 Constitution's articles impacting particularly into the army and the judiciary, started a reconciliation process with Greece.

Moreover, it has kept active at the multilateral stage, looking for prestige, and in the regional sphere, where better relations with Arab and Islamic regimes could let him appear a useful mediator at the eyes of many European governments.

In 2010 Turkish government attained the nomination of Istanbul as European culture town, the presidency of the Assembly of the Council of Europe, the temporary membership in the United Nations Security Council. Being also a member of Nato, a G-20 founding member, and holding *pro-tempore* the post of Secretary general of the Organization of the Islamic Conference (Oic), at the global level Turkey has acquired a capability to make the difference that never had in its Republican history.

The results, however, of its frequent contacts not only with the Iranian, Syrian, Hamas, but also Afghan and Pakistan leaders have so far been unimpressive, since these intransigent actors didn't show any willingness to compromise on the hot issues at stake³.

Turkey's crucial role in the Great Middle East

Since the early Nineties, year by year, in the whole Middle East stability has been dismantled as a consequence of the collapse of the old international order, of the endless Israeli-Palestinian conflict, of the Iraqi wars, of the expansion of Iran's influence and military capability expectations, of Al Qaeda rooted to the spot, and lately as a consequence of the economic crisis combined with the information revolution.

In this volatile, yet strategic region, security in its more comprehensive sense of political, strategic, energetic, demographic, economic, cultural security is at stake, not only for Turkey and the Eu.

³ Tareq Y. Ismael and Mustafa Aydin (edited by), *Turkey's foreign policy in the 21st century*, Aldershot, Ashgate, 2003; Özlem Terzi, *The influence of the European Union on Turkish foreign policy*, Farnham, Ashgate, 2010; Allon Bar, *Turkish foreign policy survey: directions and dilemmas in 2007*, in «Perceptions. Journal of international affairs», Autumn-Winter 2006, pp. 1-20; Zerrin Savaşan, *Cfsp/Esdp and the new Eu treaty*, in «Perceptions. Journal of international affairs», Summer-Autumn 2007, pp. 1-25; Sedef Eylemer – Sühal Şemşit, *Migration-security nexus in the Euro-Mediterranean relations*, *ibidem*, pp. 49-70.

We will not deal, here, with the Arab awakening we are assisting at, neither with all features of security in the Middle East region, but only stress the Turkish geopolitical rise, increased by being on the route for the transport of oil and gas from the Central Asia and Caspian countries to the West, on the route of massive migration flows, and now enhanced by the weakness when not the fainting of other regional actors.

Following the end of the Cold War, the relations between Turkey and the former Soviet world have expanded gradually from the initial low-level commercial contacts (the suitcase trade phenomenon) into joint ventures and people migration. Afterwards, Turkey began to extend these policies of increasing economic integration and more visa liberalisation to the Middle East, with the purpose to promote 'a ring of friends'.

The recent activism and autonomy of Turkish foreign policy towards its neighbours, that Turkish Minister of Foreign Affairs, Ahmet Davutoglu, had presented as the policy of a central country in the midst of Afro-Eurasia, solely driven by the concepts of 'strategic depth' and 'zero problems with neighbours', has been perceived by many Western governments as a shifting away from secularism toward Islamism and a failing in partnership.

Turkey is large in size, large in population, economically healthy, militarily strong, and is situated at the crossroad between three continents, in control of one of the Mediterranean doors, in a politically hot spot of the world. It has the potential to be an effective trans-regional actor, promoting peace, prosperity and stability.

On the other hand Turkey is undergoing a process of transformation toward liberal democracy, which arouses political struggles between kemalist elites and conservatives Akp. Turkey is a deeply divided society. It is divided culturally, politically and geographically. The gulf between modern elites and mainstream society is far more profound than the difference of opinion created by greater democracy. On Eu membership, on relations with Iran and the Us, on the reunification of Cyprus and reconciliation with Armenia, Turks are poles apart.

Turkey is surrounded by countries where the democratisation processes haven't been completed or have faded and the Akp government does run the risk of succumbing to authoritarian and populist tendencies if it will not recognize the polarization of Turkish society and deal with it.

This set of circumstances – to which the burst of revolutions throughout the Arab world has to be joined – is likely to inward-focus the regional State, hampering the ambitious role it has undertaken to play in its neighbourhood. Perhaps a too ambitious one in an environment – the Black Sea and the Middle East – where great and middle powers, politics, economies and energy intersect each other.

Energy is a typical field of the difficulties Turkish foreign policy experienced to master very complex issues autonomously. In that case it was under the pressure of contradictory constraints, as the need of ensuring the country its own security of supply by which it was depending on Russian energy on the one hand, and its

policy seeking for Eu membership which would require contributing to reduce Europe's dependence on Russian energy on the other hand. In recent years, the concrete results of Turkey's energy policy have only been the South Stream project and the Blue Stream II project, supplementing Blue Stream pipeline under the Black Sea, signed with Russia to supply the Turkish domestic market and beyond. Due to the 2008-2009 financial crisis, new discoveries and technological innovation, the Nabucco project signed in 2009, which would allow direct access for Europe to Caspian gas resources, is far from being started building, and the pipeline designed to connect Iran and Turkey has been abandoned⁴.

Global crisis and its impact on Eu and Turkey

The present crisis took rise in the Us and the Uk as a financial crisis, in the last part of 2007, and spread thereafter into Europe and Japan.

Soon becoming economic, it worked its way from the advanced economies through the global economic system, but with an intensity variable according to factors such as the degree of trade and financial integration, the fiscal starting position, economic structure and policy responses.

The crisis has been conveyed through especially four channels: foreign trade, stock markets, foreign investments and bank credit, because of their worldwide interconnections.

The intervention of Central Banks to sustain the credit has stopped recession, but in order to diminish their public debt, enormously increased to counteract the crisis, many governments have adopted restrictive policies, which cannot help the recovery.

So the present phase is one of stagnation the economists consider could last from two-three years, when they are optimist, to no less than ten years, when they incline to pessimism.

The scenery will not be complete without mentioning the fact that the crisis has been intensified by the uninterrupted booming of Chinese economy which, driven by globalization, is overwhelming Western economy, and by the severe strain of American finances, exerted by the wars, which has paralysed the economic leadership of the West. Chinese rapid growth has increased international competition for raw materials and particularly energetic resources, that Chinese government absolutely needs to carry out the whole country's development on time to avoid national revolutions, and there is a strong rivalry between the big powers all around the world to win the countries possessing these commodities.

The crisis has hit hard the Eu, where the aggregate demand has shrunk, import-export has been reduced sharply and an unemployment at the rate of ten percent or more combines with stagnation.

⁴ Ahmet Evin, Kemal Kirişçi, Ronald Linden, Thomas Straubhaar, Nathalie Tocci, Juliette Tolay, Joshua Walker, *Getting to Zero. Turkey, its neighbors and the West*, Transatlantic Academy, 2010; Nathalie Tocci, Meliha Benli Altunişik and Kemal Kirişçi, *Turkey: reluctant Mediterranean power*, The German Marshall Fund of the United States and Istituto Affari Internazionali, 2011.

Turkish economy did not particularly suffer the Great Crisis of the years 2008-2009. The first three transmission channels of this deep slump from industrialized countries to emergent ones like Turkey did not significantly impact Turkish economy, while the fourth did it.

Actually the first channel, foreign trade, diminished in 2009, as table 1 shows, because of the decrease in industrialized-countries demand, but exports decreased much less than imports, reaching a net contribution of +2.7% to gross domestic product. In other words, exports' fall down following the slowdown of world demand was relatively small, because Turkish export to Europe, mainly agricultural products, has not been reduced too much and export to the Us was not important; but import really collapsed, most probably as a direct consequence of the decrease in bank credit.

It is worth of notice the fact that Turkish workers in Europe, most of them immigrated into Germany, which now is already expanding, have suffered from the crisis less than immigrants into other countries.

	2007	2008	2009	2010/1° quart	2010/2° quart
Import	11.6	10.7	-26.3	25.7	43.9
Export	14.9	14.7	-18.3	0.2	32.9
Net export (contribution to Gdp)	-1.2	1.9	2.7	-5.6	-1.6

Source: International Financial Statistics (2010)

Table 1 - Foreign trade in Turkey in the years of economic-financial crisis; per cent differences with respect to the same period of previous year.

The second channel, stock market, which strongly depends on Wall Street, had a scarce effect because of the poor relevance of stocks in Turkey. Nevertheless, in the Istanbul stock exchange (Ise) a new record was achieved in 2010: Index Ise-100, which had closed 2009 at 52825, reached 70000 points, with a capitalization of \$ 236 billion.

Likewise the third channel, foreign investments, in 2009 slightly decreased with respect to previous years, but yet with a positive change. Indeed, foreign direct investments (Fdis) have been continuously growing in recent years up to the peak of \$ 22 billions in 2007; they diminished in 2008 and 2009 but had a marked recovery in 2010 (+12%).

The case of private-equity investments is similar. According to a World Bank report, Turkey at present is the most attractive market for private-equity companies. From 2004 till now they have invested more than \$ 5 billions.

On the contrary, the Great Crisis produced strong effects through the channel of banks, which diminished credit between themselves (the three-months-interbank rate increased to 12.26% in 2008 from 7.25% of previous year) and even more to the private sector, as shown in table 2.

The severe decrease of credit to private sector impacted on the whole economic activity. From the supply side it mostly influenced the building sector (-10.1%) and to a lesser extent the industrial one (-6.7%), while from the demand side it particularly affected gross fixed investment (-9.1%) and less households' expenditure (-2.2%). Figures in the years of economic-financial crisis are reported in table 3.

	2007	2008	2009	2010/1°quart	2010/2°quart
Reference interest rate	15.25	15.00	6.50	6.50	6.50
3 months interbank rate	7.25	12.26	11.37	7.27	7.66
Credit to private sector	27.60	34.60	4.20	10.30	19.70

Source: International Financial Statistics (2010)

Table 2 – Indices of monetary and financial markets in Turkey in the years of economic-financial crisis; per cent differences with respect to the same period of previous year

The fact that the impact of the Great Crisis essentially was a psychological matter regarding the bank credit is shown by the quick recovery of economy to the situation before the crisis. Credit in private sector increased by 26.1% in September 2010, a value not much lower than that in the whole 2007 (+27.6%), even if Turkey was the only country in Europe where government did not support banks during the recession. Fifteen Turkish banks appear in 2010 within the top-1000 world banks, according to the financial magazine «the Banker». The resilience of the Turkish banking system to the financial crisis was largely the result of a series of reforms that have followed the 2001 crisis in Turkey.

	2007	2008	2009	2010/1°quart	2010/2°quart
Real Gdp	4.7	0.7	-4.7	11.7	10.3
Industrial sector in strict sense	5.8	0.3	-6.7	19.2	14.9
Building sector	5.7	-8.1	-16.1	8.3	21.9
Household consumption	5.5	-0.3	-2.2	8.5	6.2
Gross fixed investment	3.1	-6.2	-19.1	15.2	28.7

Source: International Financial Statistics (2010)

Table 3 – Some indicators of economic activity in Turkey in the years of economic-financial crisis; per cent differences with respect to the same period of previous year

After the end of the Cold War, the adoption of market economies and intensified globalization, together with increased energy export has made the Middle East a rapid growing economic marketplace. Turkey has benefitted of the new economic environment and its aggregate Gdp has grown up, becoming in 2008 twice that of Iran or Greece and half as big as Russia's.

Real Gdp in 2010 is more than twice that of 2007; productive sectors in industry and building are worth thrice. The strong recovery of Gdp in 2010 allowed the government to double the official growth target, for this year, to 7.5%.

A similar recovery is noticeable in labour market. Unemployment rate, which was at 14% in 2009, goes back in July 2010 to a value (11.7%) not very different from that in 2007 (10.2%).

Turkey is the fifth emerging market in dimensional terms (\$ 840 billions), after Brazil, Russia, India and China, but forms now the most dynamic economy among all of them, except China.

It has to be noted that in 2010 Turkey re-directed its interests towards North-Eastern and Southern markets in a neo-ottomanist perspective: indeed its exports grew by 37% towards Ukraina; by 54.2% towards Saudi Arabia; by 29.5% to Iran; by 48.7% to Israel; by 35.7% to Syria; by 62% to Turkmenistan; and by 55% to Kuwait.

This economic change has transformed Turkish migration flows. The total number of Turkish migrants has not changed much since the mid Nineties, but the destination countries are now the former Soviet republics or the Middle East; while incoming flows from neighbouring countries, especially from the former Soviet Republics, including Central Asia, have doubled in recent years.

Given the extension and the nature of its borders, which cannot be secured against illegal migrants, in 2005 the Turkish government has started a liberal visa policy toward most neighbours and even Russia (May 2010), diverging from the restrictive Eu Schengen system; consequently, many immigrants are legal and, at the same time, Turkey has become a country of transit illegal migration toward Western Europe.

Nevertheless Turkey too has been affected by the crisis, even if less deeply and more briefly. So Turkish economy did not fall down and is not stagnating, but is likely to go on expanding as in recent years it has been doing (between 2000 and 2010 it has expanded by an average of more than six percent points annually), thanks to the progress made in structural reforms and to the process of privatization that is carrying on; thanks also to the emergence of the 'Anatolian Tigers', the Anatolian cities (Kayseri, Konya, Yozgat, Denizli, Corum, Aksaray, Gaziantep) which have showed to have the capability for rising productivity and attracting capital.

Notwithstanding some uncertainties concerning public debt, inflation, widening current account deficit, unfolding of unemployment, the majority of the observers believe that, even if the rapid economic expansion of the early XXI century is unlikely to be repeated in the years to come, a positive trend of Turkish economy will be sustainable if Turkish government keeps on adjusting to a fundamentally different economic environment.

According to a school of economic thought, pioneered by the French Serge Latouche, the growth slowdown which affected the advanced economies is irreversible and people have to get accustomed to the idea of a *décroissance*

*sereine*⁵. Latouche is not in the mainstream of economic thought, however policy makers and indeed the population at large are realising that recovery is not likely to be a return to the conditions that prevailed for most of the first decade of the XXI century, because the global economic and financial environment has become much more difficult than before the crisis.

In a post-crisis global economic system external constraints to growth have become more stringent. The scope for export-led growth aimed at the Western and the Middle East markets has diminished, due to muted growth prospects over there. A reorientation of exports towards more rapidly growing emerging economies may offer compensation, but Turkey could benefit especially from a well-managed international economic integration and speeding up reforms that, removing economic and institutional rigidities, will bolster resilience and enhance conditions for foreign investment.

Merits and disadvantages of Turkey becoming a member of the Eu

The obstacles standing in the way of Turkey's membership are numerous, but not insurmountable by the political will.

For the Eu, at present, the main obstacles are serious social concerns in the member countries resulting from the crisis, the fear of extending persons' mobility to Turkey (and to its neighbours) that will imply a pressure on the labour market and problems of cultural integration, and the reluctance of the most influential leaders to open to a new member who has the ambition and the weight to rank among them.

From the economic point of view it is in the interest of both, the Eu and Turkey, to seek for compromise.

The Eu, which is the major trade partner of Turkey by far, needs to consider that Russia and especially China are increasing their shares in Turkey's trade. In 2008 Turkey recorded a trade deficit of nearly sixteen billions dollars with China, while bilateral cooperation agreements between Ankara and Beijing cover not only trade and energy, but also diplomacy, tourism, culture and the media. As it is known, China is eager to establishing in the Mediterranean ports.

Turkey needs to settle in a well structured regional economic system to succeed in its domestic policy projects. Turkey is between two geopolitical regions: one characterized by democracy on its West, the other by weak democracies or authoritarian or transitional regimes on its North, East and South. Turkey itself is a 'democracy in progress', and as such it will benefit from entering into a mature democratic context. On the other hand, being a model of democracy less aggressive than the Western one, more suitable to promote democratization in Muslim countries, its membership could be profitable for the Eu too. The influence of the Eu in its neighbourhood, particularly in the Mediterranean area, has decreased over the last decade, when Brussels was looking mainly eastward and inward, and it might be useful for the Eu to have a

⁵ Serge Latouche, *Petit traité de la décroissance sereine*, Paris, Mille et une nuits, 2007.

pivot over there running its neighbourhood policy, and Turkey is viewed already now as doing the European neighbourhood policy for the Eu⁶.

Turkish domestic policy is now passing through three critical moments: the referendum, held on September 12, 2010, on the authoritarian and centralizing constitution written under the supervision of the army in 1982 that Erdogan government wants to reform; the political election of June 2011, where the political forces competing for power in the country, the kemalist elites and the Akp conservatives, will strive to consolidate or to upset the result of the referendum, that handed a major victory of fifty eight percent votes to the Islamist rooted government and to the new class of pious entrepreneurs which is its most influent political base; soon after the presidential election of 2012, an election in which part of the execution power is at stake as the presidency, today belonging to the Akp, appoints the president of Yok, the powerful agency in charge of the universities, the general director of the State television network Trt, and three judges of the Constitutional Court.

Turkey is at a crossroad of its history: undergoing a concrete process of transformation, Turkey is becoming more European and more democratic, but at the same time more conservative and more Islamic, and above all more nationalistic. The evolution of this process will be shaped also by the conclusion of the accession negotiations.

The Lisbon Treaty has provided a more proper institutional frame for the European Foreign and Security Policy (Efsp) and the European Security and Defence Policy (Esdp), but the debate on the Eu as a global actor, namely if it is or can be a global actor at all levels of international action, is still alive.

To be a global player, the Eu needs to have, among other things, a global geopolitical dimension for which the membership of Turkey and a special relationship with Russia could fit: the first will grant the control of Eastern Mediterranean and of communication with the Far East, the second will provide an access key to the Pacific.

In particular, Turkey's entry into the Eu, strengthening the impact of Eu strategic influence and in some way reinforcing the possibility of compromising between the different views of the most influential actors, could contribute to upgrading the Eu from civil power to strategic player, capable to face the challenges for security arisen from its periphery.

In the working document on European Security Strategy, adopted by the European Council in December 2003, stability, freedom and prosperity are presented as the *raison d'être* for the Eu and the report of December 2008 on the implementation of this strategy confirms that in the European continent enlargement continues to be a powerful factor of stability, peace and reform.

So, the enlargement process will go on as soon as possible, and, as it has always happened in the Eu enlargement history, it will be driven by geopolitical considerations.

⁶ Sanem Aydin Düzgit and Nathalie Tocci, *Transforming Turkish foreign policy. The quest for regional leadership and Europeanization*, Ceps, November 2009.