

TURKEY IN EUROPE

THE ECONOMIC CASE FOR
TURKISH MEMBERSHIP
OF THE EU

EDITED BY ADAM HUG

PREFACES BY
RT HON DAVID MILIBAND MP
AND RT HON WILLIAM HAGUE MP

The Foreign Policy Centre



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New Europe



Turkey in Europe: The economic case for Turkish membership of the European Union

Edited by

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Prefaces by

Rt Hon David Miliband MP and Rt Hon William Hague MP

With contributions from:

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Contents

Preface: Turkey's Accession to the EU – The Business Case by Rt Hon David Miliband MP, Foreign Secretary	5
Preface by Rt Hon William Hague MP, Shadow Foreign Secretary and senior member of the Shadow Cabinet	7
Introduction: Turkey's future lies in Europe by Adam Hug, Policy Director, The Foreign Policy Centre	11
1. Turkey's economic integration with the EU: A case of win-win interdependence by Olli Rehn, European Commissioner for Enlargement	21
2. The Turkish Economy and the EU Connection: The case for moving beyond engineered uncertainty by Dr Mehmet Ugur, Jean Monnet Reader in International Relations, University of Greenwich	26
3. Trade, Investment and Migration by Professor Refik Erzan, Professor of Economics, Bogaziçi University, Istanbul	37
4. EU and Turkey: In search of an almost perfect equation by Dr Bahadır Kaleagasi, TUSIAD (Turkish Industrialists' and Businessmen's Association) representative to the EU and BusinessEurope	43
5. Turkey: Trade and EU Accession by Sir Julian Horn-Smith, UK co-chair, Turkish British Business Council	50
6. Turkey and the EU: the Business Case for Membership by Roland Rudd, Chairman, Business for New Europe.	52

7. Turkey and EU Energy Security	
by Dr Gareth M Winrow, independent analyst and formerly Professor of International Relations Istanbul Bilgi University	57
Conclusion: Making Turkish membership a reality	
by Adam Hug	67

Preface: Turkey's Accession to the EU – The Business Case

Rt Hon David Miliband MP, Foreign Secretary

With annual growth rates of 7.5% over the last five years, Turkey's economy has been the envy of many EU Member States. Turkish people have felt the benefits, with per capita income having doubled since 2003. Add to the picture a young, well-educated population, the importance of Turkey to our energy security, and its success as a democratic majority-Muslim state and the conclusion is clear: we have in Turkey a partner of immense promise.

EU Member States have already reaped the benefits that flow from ever closer ties with Turkey. European businesses have been quick to capitalise on impressive growth: EU-Turkey trade has more than doubled since the Customs Union came into force in 1996. In foreign policy, too, Turkey and the EU have developed real synergies: Turkey has supported the EU's Common Foreign and Security Policy, Turkish troops serve alongside EU countries in Afghanistan, and it was Turkey who provided the heavy lift capability to allow French troops to deploy with EUFOR in the Democratic Republic of Congo.

The prospect of EU membership has helped galvanise the reformers in Turkish politics. The decade from 1995 to 2005 – which some call Turkey's 'golden age' of reform – saw improvements in human rights, civil liberties, governance, religious tolerance and increasing economic liberalisation. This reform trajectory is likely to continue as long as the EU membership perspective feels real.

Turkey's accession negotiations have been ongoing since 2005. There are challenges to be met, of course; deepening democratic stability is one, responding to the recent global financial shocks another. And Turkey is the first to acknowledge that there is much more to do before it is ready for membership. But the EU's relationship with Turkey is based on an interdependence that is both geostrategic and economic

so a loss of momentum is in no-one's interests. This study clearly makes the business case for keeping the EU's door wide open. It deserves to be read.

Preface

Rt Hon William Hague MP, Shadow Foreign Secretary

Turkey's journey towards EU membership has been exceptional: no country has had to sit longer in the EU's waiting room. In every other accession process the opening of proper accession negotiations put to bed the question of whether the applicant state would ever be allowed to join. Yet the debate on Turkish membership is regrettably still far from settled in some Member States.

This debate is usually framed in geopolitical terms and around the politics of identity. Those are, indeed, the central issues EU countries have to consider as they ponder an enlargement that would unquestionably expand the EU beyond Europe's geographical borders as traditionally understood. However, as this collection of fascinating and highly topical essays shows, they should not obscure the significant mutual economic benefits Turkey's entry to the European Union would bring, nor the importance of having Turkey as a vital energy hub within the European Union.

Energy security is the subject of the day, and impossible to ignore after the Georgian crisis. The role Turkey can play in helping EU member states secure their supplies is crucial and the alternative if Turkey had less reason to think well of EU nations should be considered very seriously.

It is worth stating briefly the Conservative Party's view of why the political case for Turkish EU membership is so strong.

There are signs that the length of Turkey's wait for EU members to deal with their qualms may be wearing down her patience. It is important to remind those who already enjoy the benefits of EU membership how fundamental Turkey's EU membership is to the European Union's future and what Europe stands to lose by rejecting it.

For the European Union it is a question of Europe's orientation, of its relationship with the Muslim world and even of what it means to be

European. If the European Union rejects Turkey it would be a statement that the Union's future is inward-looking, fearful of the world beyond its borders. It would confine Europe's ambitions to the maintenance of a small but perfect garden where the European social model, whatever that may mean, could be cultivated in peace. With the rise of new economic giants Europe's relative weight in the world is shrinking. Hoping to build a fortress Europe would be a very dangerous ambition for countries that need to make a living in a globalised world.

Worse, some would inevitably take such a decision as a sign that the European Union was, at bottom, an exclusively Christian club. In this future European Union there might be room for a couple of small countries with Muslim ties – Bosnia, Albania and Kosovo – yet Turkey's rejection would likely be read as meaning that the EU saw the membership of any large Muslim nation as a threat to European identity. This would not only damage Europe's relations with her Muslim neighbours but send a dangerous message to our own Muslim citizens.

Most fundamentally of all, Turkey's rejection would mean that the European Union had chosen for itself a definition based on geography and a narrow view of historical identity, not shared values. The European project was founded with a mission to root permanently Europe's highest ideals – friendship between nations, freedom, democracy and the rule of law – in the European political landscape and make a return to the horrors of totalitarianism and war impossible. It is that mission and the enriching of those peoples that have pursued it that has made the European project such a powerfully attractive force to so many societies with such a positive and transformative effect. There could be no stronger statement that those ideals do not cease to be relevant beyond the geographers' Europe than Turkey's inclusion in the European Union.

If the dangers of rejecting Turkey should be clear to EU members the benefits are as obvious as they are dramatic. As has been widely said, Turkey can be a bridge between Europe and the wider Muslim world. Given that so many of the problems we face originate in the Middle East, Europeans would be foolish not to avail ourselves of so effective

an interlocutor, not least with Iran. Turkey's cultural ties with Central Asia will also become increasingly important. A European Union with Turkey as a member could not but help actively engage with the world beyond Europe's borders.

A very great deal has been written about the alleged clash of civilisations between the Muslim world and the West. Turkish membership of the EU would instantly and decisively prove the Muslim and Western are not mutually exclusive categories. The presence of a large democratic, secular, Muslim country in the EU would not only assure Muslim citizens of EU countries of their place in Europe but provide a model of potentially enormous significance to the wider Muslim world.

The prospect of Turkish accession has already produced international gains. It has provided a highly constructive context for talks on the reunification of Cyprus, without which the Annan plan's rejection might have proved fatal. What may be the beginnings of the normalisation of relations between Turkey and Armenia has certainly been eased by Turkey's European aspirations.

So there are the very weightiest reasons why any supporter of the European Union should want Turkey as a member.

What, then, is in it for Turkey? Anyone wondering about the economic benefits will find themselves enlightened by the experts the Foreign Policy Centre has assembled for this publication. On the political benefits Turkish citizens are, of course, best placed to set out that argument. An outsider may only offer his view. It is my view that, in common with other accession states, a Turkey that fully met the EU's accession criteria would be in every way a stronger society with the systems of governance that will be indispensable in succeeding in the twenty first century. Since Ataturk fathered modern Turkey the course of modernity has not always run smoothly. There is every evidence that, as elsewhere, EU membership would ease the path of progress.

It will be no surprise to the reader, then, that the Conservative Party would be as strong a supporter of Turkey's European ambitions in government as we have been in opposition. A Conservative

Government's support would be all the more effective for representing continuity in British policy: enlargement generally and Turkey in particular is one area of EU policy where there is an unusual cross party consensus.

We acknowledge that there will be thorny issues. We must ensure that the accession criteria are judged with no prejudice against Turkey but also rigorously. The free movement of workers is a matter that will have to be handled with great care, with proper regard to the rights that are due to every EU member and the potential economic impact of free movement within a Union of wide economic disparities. The Common Agricultural Policy and regional funding are likely to need further changes if the EU's budget is to cope with what would be a big enlargement. Member states will also naturally want to see a settlement in Cyprus in place as well.

Turkey will be the largest single country to have joined the EU since the United Kingdom, and that too will be an issue. Despite its dynamic economy it is probable that Turkey will take its seat at the European table combining a large and growing population with a GDP per head below the European average. That may create some understandable wariness in some EU partners and is one reason why the Conservative Party is highly sceptical of the Lisbon Treaty's vote weighting system in Council. The Nice Treaty's more flexible system is better designed for such an entry.

Yet with a modicum of good will, political determination and intellectual application all these issues can be dealt with. The European Union's enlargement has been and continues to be the most ambitious international project in structured co-operation of our century. Its political and economic success has been astounding. This pamphlet powerfully adds to the case for Turkey's inclusion in that project. So I am delighted to commend these thoughtful and informative contributions to anyone interested in a subject so important to the future of many nations.

Introduction: Turkey's future lies in Europe

Adam Hug

Turkey is central to the future development of the European Union. The eventual decision by the existing EU member states to accept or reject Turkey will have significant ramifications for the type of organisation it will become. Put crudely, Turkish membership will signify a choice for Europe between becoming an outward-looking union at peace with its internal diversity that prioritises the economic and security needs of its members, or an insular, almost parochial grouping, searching for an imagined cultural homogeneity.

This pamphlet argues that to win the debate in favour of Turkish membership, we have to clearly lay out the practical arguments showing how both the EU and Turkey would be more prosperous and secure if accession is successful. It draws together the thoughts of leading politicians, academics and business people from Britain and Turkey, each of whom highlight the challenges and opportunities posed by the accession process.

Several contributors to this pamphlet have described Turkish membership as a 'win-win' or even a 'win-win-win' situation, but it is clear that victory will be hard fought. The depressing facts are that the majority of European public opinion opposes Turkish membership and leading politicians in member states including France, Germany and Austria have publicly stated that they do not see Turkey as a future member of the Union.

President Sarkozy has publicly stated 'that Europe must give itself borders, that not all countries have a vocation to become members of Europe, beginning with Turkey which has no place inside the European Union.'¹ Angela Merkel's Christian Democratic Union (CDU) was elected in 2005 on a pledge to block Turkish accession, but the challenges of coalition government and diplomatic pressure have tempered her objections to the progress of accession negotiations.

¹ <http://www.turkishpress.com/news.asp?id=159133>

Both leaders have pushed for a nebulous 'privileged partnership', with Sarkozy seeing Turkey playing a key role in his pet project, the Union for the Mediterranean. Fears over Turkey played a role in the significant gains made by the far right in the recent Austrian general election.

A consistent majority of Europeans polled by the official Eurostat survey are opposed to Turkish membership. The 2006 Attitudes towards European Union Enlargement special survey showed that 'according to the present public opinion in the European Union, of all the candidate and potential candidate countries, Turkey's accession generates the most disapproval. Only 39% of those polled are in favour of Turkish entry to the EU with 48% opposed even if it complies with all conditions set by the EU.'²

The Eurostat poll shows that, unsurprisingly, Austria (81%), Germany (69%), Cyprus (68%) and Greece (67%) have large majorities against Turkey joining the EU. The United Kingdom is one of a smaller group of countries with a small majority of people, 42% to 39%, in favour of Turkish accession. As important as public opinion, is the vocal support the Turkish case receives from all major political parties, as demonstrated by the contributions from Rt Hon David Miliband MP and Rt Hon William Hague MP to this pamphlet.

The majority of EU citizens interviewed (52%) see the accession of Turkey as mainly in the interest of the country itself, 20% would see a mutual interest to both the EU and Turkey for its entry in the European Union and 7% see it as primarily being in the EU's interest.³ However, when Turks are asked the same question, more believe Turkish membership is in the EU's interest (34%) than in the mutual interest (30%), or primarily in Turkey's interest (13%).

Turkish support for membership has waned in recent years, in part as a result of the sluggish progress of the accession process, but also as a result of the public opposition of some EU leaders as already mentioned. Polling conducted by A&G Araştırma has shown that the proportion of Turks who definitely supported EU accession peaked in

² http://ec.europa.eu/public_opinion/archives/ebs/ebs_255_en.pdf

³ http://ec.europa.eu/public_opinion/archives/ebs/ebs_255_en.pdf

2004 at 67.5%, before slumping to 30.1% in January 2008. However, its poll in April 2008 found an increase in support for the EU with 41.9% of Turks believing that Turkey “should definitely” join.⁴ These findings are consistent with the June 2008 Eurostat survey that found 58% of Turks believing that Turkey would benefit from membership of the EU, up 5% on its previous poll.⁵ The A&G research showed that support for EU membership increased most amongst supporters of the AK party, perhaps as a result of the EU’s support for the Government around the court case that decided its future earlier this year.

The challenge set before advocates of Turkish membership then, is to transform a climate of cynicism and opposition that afflicts both the European public and political elites, to ensure membership is granted once Turkey meets the strict criteria required for entry. The price of failure will be severe. As Foreign Policy Centre Director Stephen Twigg argued in 2005, ‘history will not judge us kindly if we fail to treat Turkey with respect, and in so doing signal to our own ethnic minorities that we have little faith in their capacity to integrate, or of others to follow them. Translated from political rhetoric into social reality, privileged partnership is a shabby offer to make to millions of Turks that already live in Europe. What will future generations say about us if we turn our backs now, with so much at stake, and so much to gain, on the best Muslim friend we have?’⁶

We must challenge the perception of Europe as a ‘Christian Club’, implied by such figures as former French President and President of Convention on the Convention the future of Europe Valerie Giscard D’Estaing who said that Turkish membership ‘would be the end of Europe’ and was advocated by ‘adversaries of the European Union’⁷. This will require a sustained application of rational argument. Although out of touch with the reality of many culturally and religiously diverse member states, and drawing on a narrow view of Europe’s complex history, this negative perception appeals to a strain of insularity and

⁴ http://www.jamestown.org/edm/article.php?article_id=2372963

⁵ http://ec.europa.eu/public_opinion/archives/eb/eb69/eb_69_first_en.pdf

⁶ Turks in Europe: Why are we afraid? Stephen Twigg in Schaefer, Austin and Parker, Foreign Policy Centre, September 2005

⁷ <http://news.bbc.co.uk/1/hi/world/europe/2420697.stm>

zenophobia that may grow comforting in these challenging economic times. That is why this pamphlet makes the case that Turkey's future is in Europe and that its membership would significantly strengthen the EU's security and prosperity. As Commissioner Rehn has said previously, 'if we succeed, if Turkey succeeds (in becoming a member of the EU), Turkey can become an even more important bridge of civilizations than it is today.'⁸

The case for membership

Turkey has been at the heart of European security since the Cold War, joining NATO in 1952 and guarding Europe's south eastern flank against the Soviet Union. Today it sits at the gateway to the Middle East, the Caucasus and Central Asia, a key strategic player in all three regions. As Dr Gareth Winrow explains in this pamphlet, the area where Turkey can perhaps contribute most to European security in the future is energy, where it is the key alternative transit route to Russia for Caspian oil and gas and the swiftest option for Northern Iraqi crude. Professor Erzan has also highlighted the issue of migration, which has both economic and security aspects. It is essential that Turkey and the EU work together to manage migration, both from Turkey's own youthful population, and from neighbouring countries in the Caucasus, Central Asia and the Middle East. Erzan argues that the economic benefits of Turkish membership may well lead to lower migrant flows to the EU than would be the case if Turkey remained outside, with significant numbers moving to the EU illegally.

However this pamphlet's primary focus is on the economics of accession. Anyone visiting the newer EU member states in Eastern Europe cannot help but notice the transformative effect that the accession process and subsequent membership has had on their economies and societies. Contributors to this pamphlet clearly argue that the preparations for and the first steps of the accession process have already significantly strengthened the Turkish economy and that the recent slowing of economic reforms and Turkish pessimism over the status of the accession process are inextricably linked.

⁸ <http://www.dw-world.de/dw/article/0,2144,2557936,00.html>

In addition to the accession-driven reform process that is significantly affecting the Turkish economy, legal system, political life and institutions, Turkey is already benefiting from membership of the Customs Union with the EU, which it joined at the end of 1995⁹. Turkey is also receiving EU Instrumental Pre-Accession Assistance (IPA) of €1.76 billion between 2008 and 2010 to 'support the stability of institutions so as to guarantee fundamental rights and freedoms, democracy, the rule of law, human rights and the respect for and protection of minorities, and promotion of the EU-Turkey Civil Society Dialogue'.¹⁰

The key dynamics of the economic relationship between Turkey and the EU are clear. The EU is the market for 56% of Turkish exports, ten times that of any other export destination¹¹, while Turkey is the EU's fifth largest export market. European firms annually invest over €3 billion in Turkey¹², and Turkey's youthful population of 72 million, half of which are under 30, remains an important source of migrant workers who are able to 'infill' where there are European labour shortages. After economic setbacks in 1994 and at the turn of the millennium, Turkey has grown at an average annual rate of 6.8%¹³. According to the World Bank, the political stability and economic integration that eventual Turkish membership would provide should boost its GDP per capita growth by 1.5% per year¹⁴, and allow it to expand as a market for European goods.

⁹ Some contributors have dated the customs union as starting in 1996. The Commission notes the date as the 31st December 1995, a Sunday, so its implications will only have been felt in 1996. Readers can take their pick.

¹⁰ IP/08/1425 'Commission adopts multi-annual planning of financial assistance to the Western Balkans and Turkey, European Commission, 29th September 2008

¹¹ <http://www.economist.com/countries/TURKEY/profile.cfm?folder=Profile-FactSheet>

¹² EU Trade 2006 http://ec.europa.eu/trade/issues/bilateral/countries/turkey/index_en.htm

¹³ 'Keeping the door wide open: Turkey and EU accession', Business and Enterprise Select Committee, June 2008 <http://www.publications.parliament.uk/pa/cm200708/cmselect/cmberr/367/367i.pdf>

¹⁴ Fadi Hakura, Chatham House <http://www.icea.co.uk/archive/ICEA-%20The%20Turkish%20EconomyPresentation-14February2006.ppt#280,28,Slide28>

Areas of concern

As our contributors point out, the short to medium term outlook for the Turkish economy is, like most of the world in the current economic climate, uncertain and with specific areas of concern. The House of Commons Business and Enterprise Select Committee produced an important report in June 2008 entitled 'Keeping the door wide open: Turkey and EU accession' which makes a strong case for Turkish membership of the EU. However, drawing upon a range of submissions made to the Committee, it highlights several areas of concern. It notes IMF and OECD projections prior to the autumn 2008 financial crisis that forecast real growth in Turkey falling, from 5.0% in 2007 to 4.0% in 2008, or even slightly below, before rising slightly to around 4.5% in 2009. The report noted that, according to submissions from officials at the Department for Business, Enterprise and Regulatory Reform, Turkey's trade balance was 'worrying' and its 'large current-account deficit and heavy reliance on short-term capital inflows could leave the economy vulnerable to sharp changes in investor sentiment'.

Like many other countries in recent times, Turkey has been struggling with the inflationary pressures of high food and fuel prices, exceeding its inflation targets. Inflation year on year to May 2008 was running at nearly 11%, exceeding targets for the second year in a row, which led the Governor of the Central Bank to raise the target from 4% to 7.5%. However, these current difficulties must be considered in the context of inflationary rates of 65%, experienced as recently as the late 1990s.

There remain significant political challenges that Turkey must face up to if it is to be ready for membership. The ramifications of the attempted 'judicial coup' that took place early this year have yet to fully dissipate. Prosecutors in Ankara came within a whisker of removing the current Justice and Development (AK) Government, elected only a year previously with 46.6% of the vote, on charges that focused on moves to allow women to wear the hijab in universities. Although the attempt to dissolve the AK party failed, the majority of judges voted in favour of the dissolution, only failing to meet the required qualified majority level needed by one vote. Had it succeeded, it would have

dealt a hammer-blow to hopes of Turkish membership in the foreseeable future. The keepers of Turkey's secularist traditions must adapt to the basic requirements of democracy and respect for human rights that form the fundamental core of EU membership, and see Atatürk's vision of a modern, Europeanised Turkey be realised within the EU.

Despite recent progress, including legal changes to enhance compliance with EU norms, restrictions on freedom of speech and the press remain in statute, including Article 301 of the Turkish penal code, under which a person who publicly denigrates the Turkish nation, government, military, judiciary or other institutions can be jailed for up to 2 years, as used to prosecute writers such as Orhan Pamuk. Such restrictions are fundamentally incompatible with membership of the EU and are to the detriment of Turkish democracy. However, in this and the other main challenges Turkey faces, it is the rigorous criteria provided by the EU accession process that will be an immense force for change.

According to the International Crisis Group, 'the golden years of the EU accession process, 2001-2004, had a striking impact in calming the relationship between the government and Turkish Kurds.'¹⁵ However, it is essential that there is continued progress on legal reforms and that changes are clearly implemented on the ground. The Kurdish Human Rights project highlighted continuing concerns over language rights, noting that students remain unable to be taught the Kurdish language in state schools, that local and regional governments are prevented from using Kurdish in the provision of services and the language cannot be used in election campaigns.¹⁶ Furthermore, there has been a notable upsurge in clashes between the Turkish Army and the Kurdistan Workers Party (PKK) in 2008, both in Turkey's Kurdish regions and in incursions into Northern Iraq. Turkey will need further support from the EU in tackling the PKK, but the fight against terrorism must not obscure the need to continue to improve conditions on the ground for Turkish Kurds. Full protection of minority rights must remain a key condition of Turkish accession.

¹⁵ Turkey and Europe: The Way Ahead, Crisis group Europe Report No 184, August 2007
¹⁶ In conversation with KHRP Turkey and Iraq Desk Officer Mustafa Gundogu

Our contributors

This pamphlet has brought together some of the leading politicians, academics and business people from the UK, Turkey and the European Commission to set out the key challenges that lie ahead in the Turkish accession process, and to make the case in favour of membership.

As **Rt Hon William Hague MP** and **Rt Hon David Miliband MP** have shown in their prefaces, there is considerable political support for Turkish membership in British political circles. Their sentiments are echoed in the following pages by **Commissioner Olli Rehn**, who has long been a vocal advocate of Turkish membership in his role as Enlargement Commissioner. He provides an overview of benefits of the current Customs Union and the economic linkages European companies have made with Turkey. He argues that liberalisation of services and public procurement achieved by accession would 'provide new opportunities to EU companies and help generate growth and jobs in Europe' and that this needs to feature more prominently in the public debate around Turkish accession. He says that the EU is 'committed to the (accession) process' and he looks forward to opening new negotiations on the new chapters of the process later this year. However, the Commissioner also believes that Turkey needs to do more in order to open new chapters, noting the delays to reforming state aid that have blocked opening the competition policy chapter, and similar action needed to open chapters on taxation, social policy and employment. He believes 'a determined and steady effort towards reforms remains the most effective way to convince the EU's citizens that Turkey's membership will be a win-win operation'.

Dr Mehmet Ugur sounds a note of caution, arguing that the impressive commitment to economic and institutional reform shown by the AK Government during the early years of its first term, 2002-2005, has not been matched in later years. He believes that it is the stalling of reform, as well as the turbulence in the global markets, that is behind the lower rates of growth, higher inflation and interest rates in the Turkish economy. He argues if the virtuous cycle of reform, economic growth and progress towards accession is undermined by a weakened commitment to deliver reform or EU membership, it could

undermine the economy and strengthen opponents of Turkish membership in Turkey and the EU. If Turkey is denied membership Dr Ugur believes the EU would face uncertainty and risk areas including trade, financial flows, energy and migration with co-operation limited or non-existent in the wake of rejection. The short-term political opportunism in both Turkey and some EU member states is creating a period of 'engineered uncertainty' that will harm the long-term interest of both.

Professor Refik Erzan argues that were the prospect of EU accession to be taken off the table, the existing terms of the Customs Union might come under threat, as Turkey must abide by the EU's preferential trade deals without reciprocity from the third party countries. He points out that Turkey has a key role to play in Sarkozy's Med Union, one that is contingent on continued progress towards accession. As previously mentioned, he argues that 'if Turkey loses the membership perspective, the EU may end up having more immigrants than it would under a free movement of labour regime with a prosperous EU member Turkey'.

Dr Bahadır Kalegasi, representing the Turkish Industrialists and Businessman's Association TUSIAD, describes the accession process as a 'long and narrow road'. He argues that the Turkish public is more aware of European politicians making negative noises about Turkish membership than the positive ones, and combined with the failure to reach a resolution over Cyprus, this has severely undermined the previously dominant pro-European voices in Turkey. Kalegasi sees Turkish membership giving the EU greater access to a key emerging market, acting as a net generator of jobs in the major EU economies, enhancing energy security, reinforcing the Lisbon agenda, helping debunk the 'Clash of Civilisations' narrative, and strengthening the EU's internal security against the challenges of organised crime, illegal immigration and terrorism from the Middle East, Russia and Central Asia. He sees the key challenges for the Turkish government and business community as including delivering greater democratic stability, public service reform, reducing the informal economy, boosting agricultural productivity and comprehensive education reform. He believes economic growth should enable Turkey to be ready for EU membership between 2015 and 2017.

Sir Julian Horn-Smith believes there are enormous opportunities for increasing UK trade and investment in Turkey, many of which are linked to the accession process. He welcomes the commitment of the Turkish government and the new Turkish Investment Support and Promotion Agency to supporting investors and believes the UK can help Turkey in areas including corporate governance, regulatory frameworks and public/private partnerships. He is convinced that the accession process is a 'win-win' situation for European business.

Chairman of our partners Business for New Europe, **Roland Rudd** notes that polling conducted for his organisation showed 67% of British business leaders supported Turkish accession on meeting the accession criteria, with only 22% opposing the idea. He points out that there were many who opposed the idea of the EU's eastward expansion in 2004, only to be proved wrong by its success. He praised the growth in FDI in Turkey from \$1 billion in 2004 to \$20 billion in 2006, including the investment made by the 450 British businesses with a presence in Turkey, and highlighted Turkey's important role in EU energy security.

Dr Gareth Winrow focuses on Turkey's ability to strengthen the EU's energy security, arguing that Turkey can be a crucially important energy hub for new routes of oil and gas bypassing Russia. He notes Turkey's proximity to 72% of the world's proven oil and gas reserves, the moves underway to develop the key port of Ceyhan and the Baku-Tbilisi-Ceyhan (BTC) pipeline that has operated since 2006. He examines the centrality of Turkey to the success or failure of the Nabucco gas pipeline and notes that Turkey's plans to receive gas from the pipeline at a low cost which it could then resell to European markets at a higher cost would contravene the principle of the energy acquis. He believes Turkish diplomacy may be critical to the viability of Nabucco by ensuring Turkmen and Azeri participation in the scheme, providing the volumes of gas required to make it viable.

Turkey's economic integration with the EU: A case of win-win interdependence

European Commissioner Olli Rehn

When the EU opened accession negotiations with Turkey in 2005, it was the culmination of many decades of progressive economic integration. The start of negotiations was also a recognition of the growing interdependence that benefits both sides.

The EU signed an Association Agreement with Turkey in 1963. The Customs Union between the EU and Turkey established at the end of 1995 then aimed to deepen trade and economic relations. The Customs Union is an essential part of our bilateral relations, as it has created a large integrated market where common standards for goods apply in many sectors.

Implementation of the Customs Union has caused a qualitative and quantitative jump in the integration of our economies. Since its establishment, trade between the EU and Turkey has almost tripled as European and Turkish companies took advantage of this large, integrated market. The EU has become an important and stable market for Turkish exporters.

Through setting up cross-border networks, the business community has given substance to the enlargement process. EU-Turkey trade has reached almost €100 billion in 2007 and continues to grow. The EU is now by far the most important trade partner of Turkey and Turkey is the seventh biggest trade partner of the EU. About half of Turkey's trade is with the EU.

Foreign Direct Investment (FDI) from the EU into Turkey has increased sharply in recent years, rising from about €450 million in 2003 to almost €9 billion in 2007 – a twenty-fold increase. More specifically, FDI inflows grew from an average of 0.5% of GDP in the 1990-2004 period to about 3.5% of GDP in 2006-2007 and they were sufficient to finance the current account deficit. EU FDI in Turkey represents around two-thirds of total FDI inflows in the last six years.

Mergers and acquisitions involving EU and Turkish companies have increased dramatically. Major European companies have long-standing and well-established trade relations with Turkish partners in all sectors of the economy. Some examples are Renault, FIAT, Siemens, Bosch, Nokia, Carrefour, Metro, Fortis, HSBC – but there are many others.

At the same time, Turkish companies are becoming all the more active in the EU; for example, there was the acquisition of Godiva chocolates by the Uelker group and the acquisition of Bloomberg and Grundig in Germany by the Turkish Koç group.

The EU's relationship with Turkey today

The EU shares numerous interests with Turkey. Turkey is a partner of key strategic importance for all European citizens, in terms of security, stability, prosperity and energy supply. The recent crisis in the Caucasus has highlighted once again Turkey's strategic potential for the secure and regular supply of hydrocarbons to the EU. Turkey is and remains the only serious alternative route for our energy supply. It is now high time to move on with projects such as the Nabucco pipeline, which is in both the EU and Turkey's interest.

The Commission is encouraging Turkey to engage seriously in the discussions in view of making Nabucco operational as of 2013. Too much time has already been wasted when we urgently need to ensure future energy security for both the EU and Turkey. Let me also renew once more the European Union's standing invitation to Turkey to join the European Energy Community, which offers concrete benefits to the whole of Europe in linking up the infrastructure that will ensure our future energy security.

Turkey's assets for the EU are numerous. It is the 15th biggest economy in the world with a GDP of about €424 billion and a huge market of 71 million people. Turkey is a big export-oriented emerging industrial economy and a rapidly developing information society. It is, for example, the biggest manufacturer of TV sets and buses in Europe, the third steel producer and has an internationally competitive automotive industry.

Turkey has a young and dynamic workforce – the average age of the population is 28 years. Located at the crossroads of Europe and Asia, with good connections with the Balkans, the Black Sea, the Middle East, Russia and Central Asia, Turkey can help the EU develop relations with other important markets and regions.

The liberalisation of services and public procurement – which are not covered by the Customs Union – would provide new opportunities to EU companies and help generate growth and jobs in Europe. Turkey has already become a key element of Europe’s competitiveness in the global economy. However, these elements do not feature often enough in the public debate in the EU about Turkey’s accession process.

At the same time, the EU is a strategic asset for Turkey as well. With its internal market of more than 500 million people, regulated by a solid system of common rules and standards which provide for a transparent and level playing field, the European Union is a huge market and an anchor for reform, modernisation and stabilisation of the Turkish economy. It is also the right channel for further integration of the Turkish economy in global markets, the global economic system, and a source of prosperity.

Deeper economic integration of Turkey in the EU should be a joint objective. Such integration will make both sides stronger. The accession negotiations offer the best instrument for this purpose as they help to ensure a level playing field and a society where the rule of law applies. The deeper economic integration of our relations is a challenge and a source of strength at the same time.

Progress in accession negotiations

The EU accession process is ongoing despite obstacles. We are committed to the process and we are honouring our commitment. We expect the same from Turkey. So far we have opened negotiations on eight policy areas (called “chapters” in EU parlance) and we look forward to opening new ones later this year under the French Presidency. A number of other chapters could also be opened if Turkey meets the relevant conditions set by the EU – the “opening benchmarks”.

Turkey has been working with uneven energy to address them. For the first time last June, Turkey managed to meet the opening benchmarks for two chapters – Intellectual Property Law and Company Law – and negotiations were thus opened on these two very important areas. For these chapters, Turkey now needs to implement the relevant action plans and meet the commitments it has undertaken.

But Turkey needs to do more in order to open new chapters. The core principle of the accession process is that progress in the negotiations follows progress of reforms in the candidate country. The accession process therefore takes place first and foremost in Turkey rather than in Brussels.

An example is the chapter on competition policy. One of the benchmarks for the opening of this chapter is the establishment of a truly independent, functioning state aid monitoring and enforcing authority which will ensure that state subsidies do not distort competition in the market. And yet, the draft law on state aids, which would create such an authority, has been blocked for years in Turkey.

A draft law, containing all the essential elements required by the *acquis*, recently left the office of the Prime Minister to go to the Parliament. The Commission hopes that the Turkish Grand National Assembly will swiftly adopt a State Aid Law in line with the Customs Union requirements.

There are other important chapters where Turkey needs to make the necessary efforts to meet the opening benchmarks. Important examples are taxation, social policy and employment – for which Turkey needs to adopt a law on trade unions which respects ILO standards. On environment, Turkey needs to adopt an Action Plan of alignment with the *acquis*.

Action on these chapters is needed now if we are to maintain a steady momentum in the accession negotiations. In this respect, I also count on the Turkish business community, which has a crucial role to play. It can encourage the government to make the necessary progress and meet the relevant conditions.

As in all previous enlargement negotiations, the Commission is there to help Turkey in its efforts. In addition to our strong political ties with Turkey, we are supporting the process through a substantial and comprehensive pre-accession financial assistance, currently the biggest of the EU to a non-Member State, totalling €4 billion in the period 2007-2012, having started at around €500 million in 2007. The aim of this assistance is to help the Turkish authorities integrate and become acquainted with the EU legislation, standards and rules and thus ensure fulfilment of the accession criteria.

Conclusion

The opening of Turkey's accession negotiations with the EU three years ago created confidence inside and outside Turkey and promoted trade and FDI. A revitalisation of Turkey's long-awaited reforms to accelerate the country's democratic and economic transformation will contribute to the furthering of our business and economic ties and will attract even more investment.

Continuation of structural reforms is of vital importance in order to ensure the sustainability of economic gains achieved in recent years and to shield the economy from the shock of the financial crisis. We want to see Turkey focus with determination on its European journey, with a clear sense of direction and a quicker pace.

Turkey is not undertaking the reforms just for the sake of joining the Union. Rather, preparing for future membership means creating new opportunities for citizens in a more open society, enhancing prosperity, strengthening stability, and alleviating global and regional tensions.

As European Commissioner responsible for enlargement, I have faith in this process resulting in success and bringing benefits for all. However, it is mainly Turkey who holds the keys to this process. I personally believe that a determined and steady effort towards reforms remains the most effective way to convince the EU's citizens that Turkey's membership will be a win-win operation.

The Turkish Economy and the EU Connection: The case for moving beyond engineered uncertainty

Dr Mehmet Ugur

Introduction

The Justice and Development Party (AKP) recorded a stunning election victory in 2002 by differentiating itself from the old guard through an explicit commitment to better economic governance and extensive reforms in the context of EU conditionality. The commitment, so long as it was credible, has paid handsome dividends for the party and the country: the AKP has won two further elections (the local elections of 2004 and the general elections of 2007) with increased support; and the Turkish economy grew at rates of five percent or higher each year from 2002 to 2007.

The AKP government must be congratulated for creating a virtuous cycle of reform and economic growth from 2002-2005 by aligning itself with the twin conditionality of the IMF and the EU. Nevertheless, after 2005, this virtuous cycle has come under significant pressures – originating from both domestic and international sources. This article will first provide a summary of what has been achieved. It will then elaborate on the relationship between Turkey's economic performance and the credibility of the government's reform commitments in the context of the accession process. Finally, it will demonstrate that weakened commitment to reforms and EU membership may cause the virtuous cycle to unravel – leading to less impressive economic performance in Turkey and strengthening the hands of Turkey-sceptic politicians, as well as public opinion in the EU.

Growth and stability at last . . .

Throughout the 1980s and 1990s, the Turkish economic policy framework was conducive to populism and rent-seeking* behaviour.

* To explain to non economists, rent seeking is when an individual, organization or firm seeks to make money by manipulating the economic and/or legal environment rather than by trade and production of wealth.

As a result, Turkey's macro-economic performance has deteriorated overtime and the prospect of EU membership has become increasingly elusive (Ugur, 2004). Average growth rates have declined from 4.76% in the 1970s to 3.93% in the 1990s; whereas the coefficient of variation of GDP growth (a measure of volatility) has increased from 51% over the same period.

There is significant evidence indicating that GDP growth volatility is caused by weak institutional quality and that such volatility (either by itself or in combination with weak institutional quality) is conducive to lower per-capita GDP growth (Hnatkovska and Loayza, 2005; IMF, 2003; Rodrik et al, 2004). In the light of such findings, it would not be off-the-mark to describe the 1990s as a lost decade for economic development in Turkey.

To its credit, the AKP campaigned for the 2002 elections on the basis of a pro-EU, pro-reform and pro-stability platform. Its economic policy was essentially in congruence with the newly-established IMF-sponsored stabilisation programme, which consisted of fiscal discipline, central bank independence, implicit inflation targeting, flexible exchange rates, and extensive structural reforms ranging from banking through corporate governance to public administration. In addition, the party leader, Mr Recep Tayyip Erdoğan, engaged in face-to-face diplomacy with European leaders in order to assure them of his personal commitment, as well as AKP's determination, to maintain the 'EU perspective' as a policy priority.

Hence, three factors – IMF and EU conditionality; the explicit manner in which the AKP government has committed to 'own' their prescriptions; and the prospect for starting EU accession negotiations by 2005 – have all combined to create a unique environment for economic recovery and performance since 2002. As a result, the rebounding that usually follows a deep recession such as that experienced by Turkey 2001, was followed by sustained recovery and high growth rates until 2007 (see table 1, section 1 below).

Table 1: Basic Economic Indicators: Turkey 2001 – 2007

Section I	2001	2002	2003	2004	2005	2006	2007*
Real GNP growth rate (%)	-9.5	7.9	5.9	9.9	7.6	5.9	5.0
CPI inflation (%)	68.5	29.7	18.4	9.4	7.7	9.7	8.4
Unemployment rate (%)	10.4	11.0	10.3	10.3	10.2	9.9	9.5
Average real interest rate (%)	35.5	30.5	33.9	15.3	6.0	11.6	7.0
Section II							
Public sector primary balance (% of GNP)	5.5	5.1	6.2	7.2	6.8	6.6	6.7
Interest payments (% of GNP)	22.6	17.6	15.4	11.7	7.9	7.4	7.6
Public sector balance (% of GNP)	-17.1	-12.5	-9.1	-4.6	-1.2	-0.8	-0.9
Net debt of public sector (% of GNP)	90.4	78.4	70.3	64.0	55.3	44.8	41.0
Section III							
Current account balance (% of GNP)	2.4	-0.8	-3.4	-5.2	-6.3	-7.9	-7.3
National saving rate (% of GDP)	19.0	21.0	20.0	22.0	18.0	16.0	n.a.

* = Estimate Source: IMF (2007a) and <http://www.hazine.gov.tr/stat/e-gosterge.htm>

From 2002-2007, national income grew at an average annual rate of approximately 7% and inflation fell from about 30% in 2002 to 7.7% in 2005, before increasing again to 9.7% in 2006. The government delivered on its commitment to maintain a primary public sector surplus (public sector balance excluding interest payments) of approximately 6.5% – as envisaged under IMF conditionality. Thanks to sustained fiscal discipline, high growth rates, and the appreciation of the Turkish Lira, the ratio of public debt to national income has fallen from around 78% in 2002 to 41% in 2007. Finally, as growth resumed and stability set in, the cost of disinflation (in terms of high real interest rates) began to fall.

The AKP government's positive impact on growth and stability has two sources. First, the AKP lent crucial support to a fledgling stabilisation

process that had started only one year before the party assumed power. The stabilisation programme that followed the February 2001 crisis was overseen by technocrats such as Mr Kemal Derviş (who was transferred from the World Bank to become Minister of Economic Affairs from May 2001 to August 2002) and a number of key economic policy actors such as the then Central Bank governor Mr Süreyya Serdengeçti and a number of senior Treasury staff. Without AKP ownership, this stabilisation programme and the reform process it triggered could have been derailed and a situation similar to the aftermath of the Argentine crisis may have developed in Turkey.

Another contribution that the AKP government should be credited for was the priority it accorded to democratisation reforms in the context of EU-Turkey relations. Before the elections in November 2002, AKP had campaigned on a pro-EU membership platform. Its campaign was crucial in lending legitimacy to and fostering domestic ownership of the democratisation reforms required under the Copenhagen criteria. In addition, its reform efforts from 2002–2004 went a significant way towards satisfying the conditions for the start of accession negotiations by the end of 2005. All major international organisations (the IMF, the World Bank and the OECD, etc), as well as major international banks and rating agencies welcomed the EU accession process as an anchor for stability and sustained economic growth in Turkey. These upbeat assessments have constituted positive signals that influenced the risk assessments and decision-making of international as well as domestic investors in Turkey. These positive signals were made possible and credible mainly because of AKP government's commitment to the EU perspective as an anchor for policy reform.

The importance of governance quality and long time horizons

Although these contributions of the AKP government are essentially uncontroversial, there are mounting concerns that the AKP government has begun to commit two types of 'sins' – one in its economic policy and one in its relations with the EU. The economic policy 'sin' consisted of over-selling the success while overlooking the significance of long-standing structural weaknesses of the Turkish economy. These weaknesses consisted of historically high levels of dependence on external finance and poor indicators of economic

governance and institutional quality. The second 'sin' is the shift, since mid-2005, towards a shorter time horizon in its commitment to 'Europeanisation' reforms and EU perspective.

Deepening current account deficits and declining saving rates are two major indicators of structural vulnerabilities that the AKP government tended to underestimate (Section III in Table 1 above). While the current account deficits have increased from less than 1% of GDP in 2002 to 7.3% in 2007, the national saving rate as a proportion of GDP has declined from 21% in 2002 to 16% in 2006. Both of these trends point to increased reliance on external finance and, as such, they point to the risk of vulnerability to adverse shifts in external financing conditions (IMF, 2007b).

Of course, Turkey's dependence on external finance has its own history and the AKP government's economic policy cannot be held solely responsible for its increasing severity. However, the AKP government's policy has also had an effect. The AKP government's success in reducing inflation has been obtained at the cost of high real interest rates, which led to over-valuation of the Turkish currency and deterioration in current accounts. In addition, the less than impressive method employed by the AKP government in its appointment of the new Central Bank (CB) governor in 2006 led to some doubts about his independence. As a result, the governor has had to sanction a series of interest rate hikes in order to assert his credibility (see Table 1 above).

The explicit inflation targeting regime had a bumpy start in 2006, with evident failure to hit the target in 2006 and 2007 (see Table 2 below). Not only did actual inflation turn out to be higher than target inflation, the expected inflation at the beginning of each of those years was higher than the actual as well as the target inflation rates. This combination, coupled with increasing real interest rates, point to a widening credibility gap (between actual and expected inflation) and an increase in cost disinflation. Of course, the failure to achieve the inflation target in 2006 and 2007 was also related to developments beyond the control of the government: increased oil and food prices, adverse capital movements and depreciation of the Turkish currency that occurred in the summer of 2006. However, the adverse effect of

these external developments was exacerbated by the loss of credibility suffered by the Central Bank as a result of the opacity with which the government appointed its new governor.

Table 2: Inflation and real interest rates: Turkey 2002-2007

	2002	2003	2004	2005	2006	2007
Target inflation (%)	35	20	12	8	5	4
Actual inflation (%)	29.7	18.4	9.3	7.7	9.6	8.4
Expected inflation (% at start of year)	48.3	24.9	13.1	8.4	6.5	6.8
Actual – Target inflation (%)	- 5.3	- 1.6	- 2.7	- 0.3	+ 4.6	+ 4.4
Actual – Expected inflation (%)	-18.6	- 6.5	- 3.8	- 0.7	+ 3.1	+ 1.6

Source: <http://www.tcmb.gov.tr/> and <http://www.treasury.gov.tr/stat/e-gostergeeng.htm>

One would be forgiven for treating these as one-off errors of judgement had they been not associated with what looks like a more calculated change in the government's approach to accession negotiations with the EU. From 2005 onwards, the AKP's commitment to reform and EU membership began to falter for two observable reasons. One reason was the negative signals from some member-states such as France and Germany, which have been toying with the idea of 'privileged partnership' that falls short of full membership. Although one should treat this barren policy vision as proof of the mediocrity that has afflicted European politics in the post-9/11 world, it did have the expected effect of weakening the AKP's resolve and strengthening the hands of the Euro-sceptic Turkish groups that had lost some influence from 2002-2005.

Yet, the unimaginative nature of European politics may have been a convenient excuse rather than a determining cause for the shift in the AKP's stance towards EU accession. There is evidence suggesting that the AKP government has begun to discount the long-term benefits of Europeanisation reforms and EU membership more heavily from mid-2005 onwards. Ironically, this shift happened soon after the victory in the local elections of 2004, which should have been treated as confirmation of popular support for the AKP's pro-reform and pro-EU agenda. On the contrary, the AKP began to weaken its ownership of

the Europeanisation reforms. Instead, it felt obliged to satisfy the demands of its conservative/religious core supporters concerning issues such as the wearing of the headscarf in public places, facilitating the access of vocational religious school graduates to higher education, and increasing the legitimacy of religious values/norms as reference points in the conduct of social life.

It is important to note here that the AKP has always been known to be sympathetic to these demands since its establishment, but it in fact did not fight the 2002 elections with a manifesto that articulated these demands. On the contrary, the election manifesto was coloured with demands for democratisation reforms and closer integration with the EU. Despite this, the AKP government demonstrated a clear change in priorities in March 2005 – when it defended the violent intervention of the police against women demonstrators and branded the critics of the heavy-handed tactics as ‘informing agents’ working for the Europeans! Therefore, it is not surprising that the AKP has begun to distance itself not only from the liberal-democratic forces (who are a vocal minority in support of closer integration with the EU), but also from TUSIAD (the leading umbrella group of large businesses in Turkey) whose pro-reform and pro-EU commitment has proved longer-term compared to that of the AKP government.

The significance of this policy shift lies not only in its undermining of the credibility of the reform commitment, but also in halting or reversing the improvement in Turkey’s economic governance and institutional structures. According to International Country Risk Guide (ICRG) ratings, Turkey has graduated from having a ‘high risk’ (a rating of 50-59.5) to a ‘moderate risk’ (a rating of 60-69.5) status under the AKP government. This is a significant improvement overall, but its significance is dampened by a continuously low rating with respect to corruption and bureaucratic quality. The government has direct control over these indicators, but both have remained below the levels from immediately before the crisis of 2001. (ICRG, 2006)

Another source of information is the World Economic Forum’s Global Competitiveness Index. Turkey’s score on this index has improved slightly – from 3.86 in 2001 to 4.25 in 2007. However, this improvement in the score was not associated with a significant improvement in the

rank, which improved by only 1 point from the rank of 54 in 2001 to that of 53 in 2007. Still another source of information is the World Bank governance indicators, according to which Turkey has recorded a modest improvement in government effectiveness, but suffered a modest deterioration in regulatory quality. In addition, the World Bank indicators indicate that Turkey's governance ratings in 2007 have been lower than those of central and Eastern European countries.

Such poor indicators of governance and institutional quality have been associated with relatively poor indicators of competitiveness too – especially with those over which the government can be expected to have an influence. The competitiveness indicators in which Turkey scores less favourably than her overall rank would suggest include: macroeconomic stability indicators, microeconomic efficiency indicators and institutional quality indicators (see <http://www.gcr.weforum.org/>). Of course, one should not read too much into such indicators, which tend to be endogenous to economic performance itself. In other words, the indicators tend to improve during periods of growth and they tend to deteriorate during periods of crisis/recessions. However, this endogeneity problem points to a more rather than less serious shortcoming in AKP performance: the AKP government has failed to secure improvement in governance and institutional quality indicators despite the upward bias built into the indicators from 2002-2007 when growth rates were high.

This is not surprising because, since 2005, the AKP government has moved away from its manifesto commitments to cater for the demands of its core supporters, has begun to discount the benefits of EU accession more heavily, and has crowded the policy agenda with issues that the party leadership consider necessary to counterbalance the influence of 'nationalist' opposition – within and outside the parliament. Stated differently, the AKP government's commitment to reforms and EU accession has suffered a significant loss of credibility – irrespective of what the government claims about its commitment to these goals.

Conclusions

As the World Bank (2006) has indicated, Turkey's economic performance since the 2000/2001 crisis has been 'very strong' and the country has undertaken an extensive range of reforms. The AKP should be credited for lending credibility to the reform commitment and for contributing to Turkey's economic performance in terms of growth and stability. Also, the EU should be credited for managing the pre-accession process from 1999-2004 effectively and for coming up with an accession offer.

However, post-2005 developments tend to be less impressive on several fronts and the virtuous cycle of: credible commitment – extensive reform – strong economic performance, began to show signs of unravelling. Accession negotiations with the EU could have been used as a platform for reversing this trend and encouraging ownership of institutional renewal in Turkey. However, neither the AKP government nor the EU has risen to this challenge in a convincing manner – with inevitable loss to both parties.

The loss to Turkey is already highlighted by TUSIAD, which is now depicting a less than optimistic picture of economic conditions in Turkey. According to TUSIAD (2007), the Turkish economy is heading towards lower rates of growth, more difficulty in lowering inflation, uncertainty in international markets, high interest rates, and inadequate employment creation. Part of the reason for these trends lies outside Turkey, in the form of increasing commodity prices and ongoing financial turbulence. However, the other part can be related to the AKP government's failure to demonstrate a long-term commitment to policy reform and institution-building in the context of integration with the EU. It is now more difficult to establish credibility, even if the government tries to revive the accession process as an anchor for policy reform and institution-building. The ineffective attempts by the Foreign Minister, Mr Ali Babacan, to resurrect the accession process is due to the difficulty of re-establishing credibility rather than personal incompetence.

The loss to the EU may be less apparent, but it is by no means less significant. A Turkey that is not firmly integrated within the EU will be

a major source of uncertainty and risk in areas ranging from trade through financial flows and energy to migration. A Turkey within the EU will still pose some challenges in these areas but there will be well-established channels of communication and rules for discussing and resolving the issues that may arise in these areas. Therefore, any risk associated with Turkish membership (including the immigration risk!) will be easier to manage and minimise when Turkey is fully integrated within the EU. It does not require too much imagination to see that no government in Turkey will ever be inclined to take a cooperative approach to EU concerns in any area (including energy, security, and migration) should the EU decide to keep Turkey out.

In the light of the analysis above, it is difficult to be optimistic about the immediate future of EU-Turkey relations. On the contrary, it appears as if mediocrity in European politics has combined with the short-term opportunism of the AKP government to create a period of engineered uncertainty. This situation serves the interests of a wide range of political actors on both sides. On the Turkish side, it enables the Euro-sceptic opposition to claim 'victory' against EU interventionism and the AKP as its domestic extension. It also enables the AKP to diffuse the nationalist claim that the government has 'sold out' to the EU. On the EU side, it enables the Turkey-sceptic camp to claim victory in its efforts to block Turkish membership while it frees the camp in favour of Turkish membership of the inconvenience of having to make the case for the membership of a country that is perceived to be an awkward partner. For the time being, actors who do not benefit from this period of engineered uncertainty (ordinary people and business organisations) are forced to watch the unfolding events from the margins.

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Trade, Investment and Migration

Professor Refik Erzan

Turkey's economic integration with the EU can be described as *more than a common market short of free labour mobility*. The 1996 Customs Union was envisaged in the initial Association Agreement of 1963. As Turkey has opened up its capital account in 1989 and later reformed its FDI legislation, foreign firms enjoy virtually national treatment.¹⁷ This also effectively entails an open market in services. Mobility of persons, on the other hand, is severely limited by the restrictive immigration policies and visa requirements of the EU countries. Nevertheless, the stock of three million immigrants in the EU originating from Turkey – mostly the inheritance of the 1960s *guest worker* episode – yields a significant two-way flow. Furthermore, there are an increasing number of EU ex-patriots in Turkey.

The Turkish economy demonstrated remarkable performance in the aftermath of the 2001 crisis and the subsequent reforms. During this period, Turkish GDP grew at an average annual rate of about 7 percent. The EU has provided an important anchor in this process. The decision to start membership negotiations in December 2004 and the implementation of this decision in October 2005 boosted the FDI inflow.

The purpose of this essay is to highlight the scope of EU-Turkey bilateral economic relations, specifically in trade, investment and migration, to underline the interdependencies involved.

Trade

The EU is by far Turkey's biggest trading partner, accounting for nearly half of its international trade. The Customs Union in 1996 with the EU for manufactured goods has increased the openness of the Turkish

¹⁷ The 2003 FDI law guarantees treatment of foreign investors as national investors, abolishes the minimum capital limits, grants full convertibility in transfers of capital and earnings, allows property ownership without limits and recognizes right to international arbitration.

economy by substantially increasing penetration ratios¹⁸ in almost all industries. In manufacturing as a whole, this ratio has jumped in a couple of years from about 20% in the early 1990s to over 35%.¹⁹ Judging by the relatively stable share of the EU in Turkey's trade during that transition, it was the general liberalisation effect that dominated. Thus, the surge in trade was largely the result of *trade created* rather than *diverted*. The Customs Union also boosted Turkish exports.

In terms of the EU's external trade, Turkey ranks as the 7th largest partner in imports after China, US, Russia, Japan, Norway and Switzerland – with a 3.3% share, and fifth in exports after the US, Switzerland, Russia and China – with a 4.2% share.²⁰ These shares have been on an increasing trend. Furthermore, in particular sectors they are considerably larger. For example, 15% of EU imports in textiles and clothing and 11% of transport equipment originate from Turkey. Nine percent of EU exports in iron and steel go to Turkey.

Turkey has been growing at a greater pace and its total trade has been expanding considerably faster than the EU's external trade.²¹ As a result, the share of EU in Turkish imports somewhat declined (from 50% in 2004 to 41% in 2007 – partially, but not entirely due to the increase in the oil bill). Arguably, had it not been for the Customs Union, this decline could have been greater. There was a smaller fall in this share on the export side from 58% to 56%.

As Turkey has been getting richer and its trade openness has been increasing at a rate several times the rate of growth in income, its economic ties with its non-EU neighbours have also been transforming rapidly. Turkish exports are no longer competing, but rather complementing her EU neighbours' exports. Turkish firms invest in Egypt to take advantage of lower wages and the African market. Turkey builds and operates airports in Georgia and uses them as local

¹⁸ Penetration ratio is the share of imports in apparent consumption which in turn is measured as production plus imports minus exports.

¹⁹ See, e.g. TEPAV (2007), particularly Erzan *et al* (2007).

²⁰ For consistency, all trade figures since 2003 recalculated for EU 27, are from DG Trade (2008).

²¹ The potential for Turkey's further openness is explored in Dervis *et al* (2004).

hubs. Whether it is a 'bridge' or a 'model', in the Mediterranean and the Black Sea basins, in the Middle East and Central Asia, Turkey is a rising star. Turkey owes this to performance, boosted by the prospect of EU membership acting as an anchor.

Investment

About half of all firms in Turkey with foreign origins are from EU countries. From a very low base of less than one billion US dollars annually, there has been a major surge in FDI inflows into Turkey, peaking at about US\$20 billion in 2007. More than two thirds of this flow originated from EU countries.

Outward FDI stocks from the EU in Turkey have jumped by over 220% or nearly €23 billion during the period 2001-2006, reaching €33 billion in 2006.²² With a further €13 billion in 2007, it is estimated that the current figure has exceeded €50 billion.

With the recent wave of FDI, the focus has shifted from manufacturing to services, particularly telecommunications and finance, giving EU firms a strong presence in a very rapidly growing market.

The aggregate rate of return on FDI earned by EU investors in Turkey was higher in most periods compared to the average returns in other extra-EU countries.

From 2001 to 2006, Turkish FDI stock in the EU increased nearly four-fold, exceeding €11 billion. Investment went mostly to the old EU-15 countries. Among the new EU members, Bulgaria and Romania were the main recipients.

Migration

There are about three million immigrants originating from Turkey in the EU. Under the strict rules in most EU countries, the legal inflow is

²² Eurostat (2008).

currently limited to family formation and union. These policies deny the mutual benefits of appropriate labour mobility.

Europe will be facing a major labour shortage due to its ageing and declining population²³. The recent wave of enlargement did not change this as the newcomers' demographic profile was not much different. Turkey, with its young population, would make a difference in this transition. Turkish demography offers a window of opportunity in terms of working age population which should be exploited by both Turkey and the EU.

A recent study by Erzan *et al* on the migration potential from Turkey to the EU observed that: 'In the debate about Turkish EU membership and free movement of labour it is often overlooked that the EU cannot exercise a zero migration policy even if permanent safeguards were used. Even under the currently prevailing strict regime, there is an annual net migration from Turkey to the EU -15 in the order of 35,000 people. Any slowdown or suspension in Turkey's accession process is likely to lead to lower growth and higher unemployment in Turkey. Moreover, the reform process might slow down or be partially reversed. The consequence of such a combination would be a drastically higher number of potential migrants. A considerable proportion of them would be finding their way into the EU – as experience has shown, irrespective of legal restrictions. It is thus possible that if Turkey loses the prospect of membership, the EU may end up having more immigrants than under a free movement of labour regime with a prosperous EU member Turkey. Moreover, the composition of this migration would be less conducive for the EU labour markets – and for integration into the host societies.'

The experiences of Greece, Portugal and Spain indicate that a successful accession period with high growth and effective implementation of the reforms reduces and gradually eliminates the migration pressures. There is no *a priori* reason why Turkey would not go through a similar experience.²⁴

²³ See, e.g. Holzmann *et al* (2004) for EU labour force projections.

²⁴ Summary, Erzan *et al* (2006).

Conclusion

As the membership negotiations are bogged down, the Customs Union remains the most important instrument between the EU and Turkey. However, there is an inherent asymmetry in this. Turkey implements the EU trade regime without taking part in the decision-making process. Furthermore, Turkey has to abide by all the preferential and free trade arrangements that the EU grants to third parties without reciprocity from them. To gain reciprocity, Turkey has to negotiate separately with each and every third country. Thus, the Customs Union severely limits Turkey's trade diplomacy, particularly in its neighbourhood.

The 1996 Customs Union decision was taken by Turkey in accordance with the Association Agreement of 1963, with the prospect of membership of the EU. If that prospect fades away, this asymmetry may not be tolerated.

The EU is searching for greater engagement in the Mediterranean and the Black Sea basins, where Turkey is a regional power. As France has realised in its recent Med Union initiative, Turkey's support is essential in this region. That support is contingent on the prospect of Turkish membership of the EU being continued.

The recent jump in the level of FDI to Turkey accompanying the membership negotiations demonstrates the actual business potential in Turkey for EU firms. The future of these flows will also depend on Turkey's EU membership prospects being maintained.

The pressure for immigration from Turkey is closely related to political stability and economic prosperity within the country. A high growth scenario for Turkey – for which the EU anchor is crucial – is the best guarantee against any massive outward population movements. Failure on these counts has in many previous cases proven how porous Turkey's borders can be.

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EU and Turkey: In search of an almost perfect equation

Dr Bahadır Kaleagasi (TUSIAD)

The Turkish business community supports Turkey's EU membership process because it is a win-win-win case: for Turkey, for the EU and for the world.

However, the European debate on Turkey's EU membership often deviates from its two main axes – European values and the EU's future – towards a web of emotional or secondary arguments based on identity, geography and religion.

Turkey's initial membership application was received, which confirms its qualification as a European State, with the unambiguous reference to its membership of the Council of Europe. Following this, all the relevant EU institutions also approved her candidacy. After several turbulent periods, the membership process finally reached the stage of accession negotiations in 2005, during the British presidency of the European Union. By this point however, it had become clear that this would still be a "long and narrow road" as the popular Turkish poet Asik Veysel had defined the human life.

Public mood

In recent years, many leading European politicians, from Gordon Brown and David Cameron to Jose Luis Rodriguez Zapatero, and from Silvio Berlusconi and Kostas Karamanlis to Günter Verheugen, Carl Bildt and Javier Solana, have repeatedly stressed how important Turkey's contribution will be to the European Union's evolution as a global actor. Many other politicians, including Nicholas Sarkozy, expressed views hostile not only to Turkey's European prospects, but which also acted to provoke a certain Turcophobia in their country.

Back in Turkey, the public has understandably been more sensitive to the negative voices than the positive ones. An increasingly Euro-sceptical mood with nationalist emissions has been the corollary

of this trend. The Turkish public's deep frustration over the EU's inability to keep its promises on Cyprus had already severely damaged the formerly commanding position of pro-European trends in Turkey.

The EU first asked Turkey explicitly to adopt its own policy in supporting the UN peace initiative in Cyprus, 'or else'. Turkey did support this plan; Cypriot Turks voted 'yes' for peace, for reunification and for Europe. But the last minute change of mind by the Greek Cypriot government resulted in a non-vote in the southern part of the island and in the accession to the EU of a divided country.

The EU then said 'sorry' to Turkey. Brussels asked Ankara to treat Cyprus as an EU member but without worrying about the Turkish Cypriots' destiny since an EU law was in preparation to put an end to the isolation of this community who had done nothing wrong other than taken for granted the EU's capacity to respect its commitments. However, once again the EU failed to keep its promises and the Greek Cypriot government vetoed this EU draft regulation.

Consequently, Turkey found itself in a trap, which benefited anti-European and anti-democratic voices in Turkey, whose best friends have been Mr Papadopoulos and the promoters of demagoguery on Turkey's European vocation. It would be premature though, to pass final judgments, since history teaches us that politicians change quite frequently as does public opinion.

Accession equation

The legitimate efforts to escape the emotional outbursts and increase the degree of rationality in Europe's 'Turkey debate' are often expressed by European politicians or analysts in relatively simple terms:

"A Turkey which will fulfil the criteria of membership will bring the EU to the critical size that it needs to be to face the global challenges of the 21st century".

In deconstructing this statement, we find three major elements of the

equation that will allow the enlargement of the EU's economic, regulatory, political and security areas to Turkey:

- Firstly, the candidate country, Turkey itself has to be ready. This means broadly more in terms of democracy, economic growth, social development and legislative harmonisation, and less in terms of the potential problems resulting from accession. The Turkish government's detailed action plan adopted in April 2007 offers a realistic road map in this respect. It requires the enhanced implementation of democratic reforms, an extensive mobilisation of the bureaucracy, openness to consultation of the major stakeholders from civic society, business and social life, and a sustainable communication strategy, both at the national and European levels.
- Secondly, the EU itself ought be ready to attain a better degree of economic competitiveness and growth, succeed in institutional reforms, enhance political cohesion among members, and preserve the universalism and the credibility of the European democratic ideals. These are Turkey's conditions for opting to become a full EU member.
- Thirdly, and probably most importantly, the international context will continue to justify an enlarged European single market and effective political unity on the world scene.

A Turkey which will be ready for EU membership, is expected to contribute to the future success of the European project in several dimensions:

- Turkey's young, vibrant, rapidly emerging and geo-strategically well-located market will strengthen the European single market's global competitiveness in the face of the emerging Asia-Pacific economic zone. It will also help and revitalise the transatlantic relationship.
- As in the case of the EU-Turkey Customs Union, further integration will be a net generator of jobs in the EU's largest national economies, such as the UK, Germany and France.

- The strategic location of Turkey will secure alternative European energy sources and supply routes and will be an asset for the Union's common foreign policy.
- A rapidly emerging entrepreneurial market and information society in Turkey will benefit Europe and the Lisbon agenda.
- The vacuity of the 'clash of civilizations' scenarios will be highlighted, as the Pope's recent visit to Turkey illustrated how relevant Turkey's constructive role might be in the post 9/11 world.
- Turkey's cooperation will greatly enhance the EU system of internal security against organised crime, illegal immigration and terrorism, as well as Europe's security policies in the Middle East, Russia, Central Asia and beyond.

Over the next decade, the Turkish governments' major challenges and thus priorities for the business community will be:

- To enhance democratic stability in better implementing the EU reforms.
- To reform the public service to make it more efficient, transparent and accountable.
- To adopt the country's economic governance to the requirements of post-September 2008 global shocks: credibility, confidence, rapid-reaction capacity and international communication ability.
- To maintain economic growth and job creation as a sustainable long-term trend.
- To implement the EU legislative harmonisation programme with political leadership, discipline and transparency.
- To reduce the informal economy.
- To boost agricultural productivity and rural development.
- And to introduce a comprehensive reform of the educational system.

TUSIAD will closely monitor the government's policies and actions with the aim of leading Turkey towards better global competitiveness and a more integrated European future.

Economic road ahead

The global financial crisis may finally trigger an "it's the economy stupid" momentum in Europe's Turkey debate. Assuming that within less than a decade we will have an EU that is economically, and thus socially more self-confident and institutionally more efficient, rationality may eventually and sufficiently prevail. In this respect, today's major economic trends will shape the framework of the accession negotiations.

When in early 2008 Turkey had entered into a phase of political turmoil over the closure case of the ruling AK Party by the Constitutional Court, the Turkish economic system had the chance to prove its stability and relative independence from the political crises in Ankara. Over the past five years, Turkey has scored a cumulative growth of about 35%. Most of this phenomenal growth is attributable to productivity increases. Turkey has generated 1.2 million jobs in 2006-2007. The speedy integration of the Turkish economy with European as well as global markets also put tremendous pressure on inefficient firms, small retailers and uncompetitive businesses. But as was predicted by many analyses of the Turkish economy published in 2004, the industrial sector successfully carried the burden of growth with modernisation and capital investment as well as the Customs Union with the EU since 1996.

Privatisation revenues in 2006 exceeded 20 billion euros and the mess in the financial sector has been almost thoroughly cleaned up. Turkey's exports grew by 54% over the same period. Imports have similarly grown by about 104%. Needless to say, as a major trading partner of the EU, this growth performance means more trade and jobs in EU member countries. In 2006, the share of industrial products in Turkey's exports have reached 90%. These are mostly automotive, electronics, household appliances, textiles, etc.

This is basic data that most political decision-makers in Europe do not know about Turkey, let alone the average European citizen. Much of the economy is no longer agricultural but there are still structural problems linked with the rural economy. The size of Turkey's workforce engaged in agriculture is no longer above 50 per cent, as it was in 1989, but is less than 30 per cent. Agriculture's share of GDP is below 10% and, to re-emphasise, more than 90% of Turkish exports are industrial goods. The rural workforce of over 10 million people is larger than the population of several EU member states and their income levels are far below even the average for Turkey. Making the shift away from traditional agriculture and into modern economic activity requires enormous and prolonged structural reforms, but also it represents a window of new market opportunities for the EU.

With more than 60 percent of the population under the age of 35, the domestic market has great potential for growth; its labour force is hard working and cost-effective; and its unique location gives it access to Europe, Central Asia and the Middle East. More than 6,000 foreign companies have invested in Turkey. The government has, among other measures, decided to cut income and corporate taxes in order to attract more than 12 billion euros of foreign investment over the next three years. The Turkish economy is clearly modernising much faster than anyone expected a generation ago. It has now attained a scale whereby it is a very significant trading partner for other European countries. The accession process is expected to increase FDI inflows to Turkey. Meanwhile, the boom in tourism continues with over 20 million visitors per year, although this is still well below the country's huge potential in this sector.

Another piece of recent good news is the steady increase in the registration of patents, designs and trademarks. As a result of the accession process to the European Union, Turkey has made major advances in intellectual property law. Representatives of the Turkish ICT sector claim to have transformed Turkey into a European technology production and services hub.

Turkey has definitely become the most vibrant, attractive, innovative and 'trendy' emerging market in and around Europe. With an average growth rate of 4-7 percent projected for the next 10 years, Turkey is

expected to attain fifty percent of the EU's average per capita income by 2015–2017. This is also now the target period to complete the journey in the orbit of membership.

Turkey: Trade and EU Accession

Sir Julian Horn-Smith

For the past two years, I have had the privilege of chairing the UK side of the Turkish British Business Council (TBBC), a high-level, private sector-led grouping which meets every six months to review and promote trade and investment opportunities between the UK and Turkey. My interest in Turkey stemmed from my former position as Deputy Chief Executive of Vodafone when I led Vodafone's entry into the Turkish market and its US\$4.2bn acquisition of Telsim.

I therefore strongly welcomed the House of Commons Business and Enterprise Committee's recent positive report, "Keeping the door wide open: Turkey and EU accession". I gave evidence on behalf of the TBBC to the Committee last April. There are indeed enormous opportunities for increasing UK trade and investment in Turkey, and many of these are linked to the process of Turkey's application to join the European Union.

Despite the political turbulence earlier this year, investors have benefited from a much improved business environment in Turkey. The government has persevered with efforts to reform the economy with IMF and EU support. Tremendous progress has been made since the 2001 banking crisis, and Turkey is now a major global player, as demonstrated by the level of foreign direct investment it attracted in 2007. The on-going process of adapting legal and regulatory standards to EU criteria is also a comfort to investors.

Turkey is not a traditional market for the UK, and perhaps not the easiest one for a first-time exporter. But the excellent political relations between the UK and Turkey, the progress of economic reform, and Turkey's strategic position as a stepping stone to other regional markets make it an attractive proposition, and one that UK plc has not devoted sufficient attention to.

Over the last two years, the Turkish British Business Council has tried with minimal resources both to highlight some of the opportunities for

greater UK engagement, as well as bringing to the attention of the Turkish authorities some of the challenges faced by existing UK investors.

We have been encouraged by the commitment of the current government and the new Turkish Investment Support and Promotion Agency in improving the business environment in response to investors' concerns. This remains work in progress, and the Business Council will continue to add value where it can. In areas such as corporate governance, regulatory frameworks and public/private partnerships, there is much experience that the UK can usefully share with our Turkish counterparts. There are also major opportunities to help raise technical and vocational training capacity, and to respond to environmental sector upgrading where UK technology and expertise is greatly needed.

I remain concerned that compared to our major European partners, UK exporters to Turkey have been under-performing. This is despite some very major UK investors such as Tesco, BAT and BC Partners having recently moved into the Turkish market through acquisitions. At our last meeting of the Business Council in Istanbul, we were briefed on forthcoming projects, including privatisation plans for maritime ports and transport, where there are good opportunities for the UK to engage.

The role of the Business Council is to add value to the government-to-government relationship, and to ensure that the voice of business is loudly heard. I am personally convinced that Turkey's EU accession process is a "win-win" situation for business. UK Plc can and should increase its share of this strategic and high-growth emerging market, provided we all pull together. The Council will therefore be looking both to business and government to support and engage with our activities over the coming months. There is much we can do together.

Turkey and the EU: the Business Case for Membership

Roland Rudd

There are few issues more important for the future of Europe and the international community than Turkey's relationship with the European Union. Of course, the country has been an associate member of the EU and its predecessors since 1964, but a landmark occurred in October 2005 when the EU rightly opened accession negotiations with Turkey.

The issue has split Europe. Many in the UK, particularly politicians and the business community, have been supportive of Turkey's membership, and the accession talks were launched as a result of the British government's push in 2005. On the other hand, British public opinion appears less enthusiastic. Elsewhere, in Europe's corridors of power, leaders have been less keen than British politicians. French President Nicolas Sarkozy has been outspoken in his opposition to Turkey's full membership, as has Angela Merkel, the German Chancellor (although the German Foreign Minister, the Social Democrat, Frank-Walter Steinmeier, has argued for Turkish accession). Their reservations are surpassed by other member states such as Austria, which tried to block the accession talks, and where the climate of opinion on Turkish accession is implacably against.

While there are many opponents of Turkish membership across continental Europe, British political opinion is strongly supportive. There are not many issues which unite the three major parties, but this is one. As a business-based organisation, Business for New Europe believes it very important that this cross-party support holds, and sends the right signals to the British people and civil society, as well as other national governments across the EU. It is true that British public opinion has become increasingly lukewarm towards Turkish membership. Whereas once there was a clear majority in favour of Turkish membership, now the public seems far more equivocal. A 2006 poll showed 42% of the British public supporting EU membership for Turkey, with 39% opposed (Eurobarometer, Attitudes towards

European Union enlargement, July 2006). In a climate of rising concern about migration, this is perhaps not a surprise.

Of all the constituencies in the UK, the most steady in its support for Turkish accession has been the business community. British-based companies have experienced first-hand the benefits of cross-border trading and investment. They point to the success of previous EU enlargement for economic growth and productivity. They see that a larger European market, already the largest in the world worth an estimated \$17.6 trillion, would provide more opportunities. Polling commissioned by Business for New Europe from May this year shows 67% of British business leaders think that Turkey should be allowed to become a member of the EU if it can meet the same requirements as other new member states, with only 22% disagreeing.²⁵

The lesson of previous enlargements is encouraging. Before the 2004 enlargement, which brought in ten new member states to the EU fold, many argued that it was the wrong decision. Some affirmed it was too early to admit a number of former Communist states to the EU, while others claimed that the EU should remain a club of Western European states. Yet the enlargement of 2004 has been a spectacular success. The new member states have galvanised the EU. Their membership has been of benefit to themselves, but also to established member states and to the Union as a whole. It has reunited Eastern and Western Europe, creating new commercial and consumer opportunities for people everywhere. Business now has access to an enlarged market of 500 million people. The markets of Eastern Europe are growing at a much higher rate than the EU average, and have provided very useful pools of labour for the British and other economies. With their burgeoning growth and skilled labour, these markets are not merely emerging – they have emerged.

Of course there are some serious obstacles to EU membership, but many of these will be addressed by the reform process initiated by accession. There are several reasons why BNE is committed to Turkish accession. First, the move would boost the EU's single market, by at

²⁵ Continental Research, <http://www.bnegroup.org/info/info.htm>

least 70 million people (Turkey's population is projected to grow from 70 million today to 85 million in 2030). It is true that since 1995 there has been a Customs Union between Turkey and the EU, which abolished barriers to trade in goods. Therefore significant trading links have already built up: the EU is Turkey's biggest trading partner, being responsible for 42% of Turkish imports and 52% of its exports. The move to a fully-fledged single market encompassing Turkey would be a significant further step, moving from trade in industrial goods to free trade in services, capital and labour.

Second, EU membership will advance foreign investment, and help British companies with investments in Turkey. The last three years have seen a huge upsurge in foreign direct investment (FDI), coinciding with the beginning of accession talks in 2005. Annual FDI was \$1 billion or less until 2004 but by 2006 it had increased to a staggering \$20 billion. Of the 15000 foreign companies that have invested in Turkey, the majority come from EU countries. In this context, Britain has become a significant investor in Turkey. There are over 400 British companies operating in Turkey, including some very large companies such as Vodafone and Aviva. The UK government has rightly identified Turkey as one of 17 markets on the UKTI High Growth Markets Programme. Foreign investors have been attracted to Turkey by its dynamic domestic economy and other factors such as its location and relatively low labour costs. Certainly the accession process has helped with investor confidence, and EU membership would consolidate these economic and investment ties. As President Barroso said in his address to the National Assembly in Ankara in April 2008: "Economic interdependence is another important force in EU-Turkey relations. The European Union is by far Turkey's main trading partner. Trade with the EU represents 50% of Turkey's trade volume and Turkey is the EU's 7th trading partner, before Canada and India for example. Today, 80% of the inward investment coming into Turkey comes from the European Union. This implies that thousands of jobs in Europe and in Turkey today, depend on our relationship continuing to grow".²⁶

Third, the EU can tap into Turkey's rapidly advancing economy. Its rapid economic growth of around 7% per annum has made it the sixth

²⁶ President José Manuel Barroso speech, 10 April 2008

largest economy in the EU. A study by PricewaterhouseCoopers forecasts that in the years up to 2050, Turkey's average annual per capita GDP growth would be 3.4% which compares positively with the projected rate of 1.9% for the G7 group of countries. A specific trend that illustrates Turkey's rapid economic growth is the increase in GSM users from 15 million in 2003 to 58 million in 2007. The economy has been reforming, including moves to make the central bank independent and a privatisation programme of state-owned companies. Of course the progress in recent years is likely to be slowed down by the credit crunch and prevailing global economic gloom. Like nearly every national economy, Turkey's economy is likely to see slower growth, and will be adversely affected by the dip in the European economy, on which it is so dependent.

Fourth, Turkish membership of the EU would also have consequences for the European labour market. With an average age of 29 and 65% of the population below 34 years of age, Turkey has a disproportionately young population, which offers exciting economic opportunities in the future. Turkish migrants to the UK and other member states could be timely, considering the demographics of the European continent, which has a low birth rate and an ageing population. While many Turks would be likely to move to Mediterranean countries for climate and cultural reasons, Turkish migrants to the UK could help fill low-skill jobs and public sector jobs but also highly-skilled posts too.

Fifth, Turkey's is in an important strategic position, as a gateway to the energy rich Middle East. As an example, the delayed Nabucco pipeline project will transport gas from Azerbaijan to Austria via Turkey and other EU member states. As the Centre for European Reform has argued: "[Turkey] could add to the EU's energy security by acting as a bridge to the resource-rich regions in its neighbourhood. Turkey's development as a European energy hub seems natural, given its location between countries that harbour 70 per cent of the world's oil and gas reserve to its east, north and south, and one of the world's biggest energy markets in the West".²⁷

²⁷ Centre for European Reform essay, *'Turkey's role in European energy security'*, December 2007

If Turkey is to join the European Union, an important series of reforms need to take place, including those to its judicial system. However, clearly this will not happen overnight but there is scarcely a more important challenge for the EU over the coming decades. We hope that British politicians of all parties and the business community remain committed to the goal of Turkish accession.

Turkey and EU Energy Security

Gareth Winrow

Increasingly concerned over issues of energy security, EU officials are repeatedly urging that Europe should diversify both its sources of energy and the routes along which this energy is delivered. Particular attention is focused on natural gas imports, given the anticipated declining production of natural gas in Europe. In the immediate aftermath of the Russian-Georgian conflict in August 2008, the alarm has been raised that Europe is in danger of becoming too dependent on natural gas imports from an increasingly emboldened and assertive Russia – although, as noted in the conclusion, one may seriously question whether Russia would actually threaten to suspend gas deliveries to Europe. According to Eurostat, the EU's statistical office, in 2006, EU member states received 33% of their crude oil imports and 40% of their natural gas imports from Russia.²⁸

In contrast to crude oil, gas is still mostly delivered by pipeline to fixed customers in a regional rather than global market. Unlike crude oil, natural gas projects are planned well ahead and supply contracts concluded in advance. In the natural gas trade there are much closer ties binding the supplier with the consumer. Aware of these issues, and Europe's concerns, policy-makers in Ankara are arguing that Turkey can become a crucially important energy hub through which new sources of energy, including natural gas, may be delivered to Europe along routes which will bypass Russia.

Energy security and Turkey's strategic location

In a paper published in 2004, it was noted that Turkey lay adjacent to states or regions possessing 71.8% of the world's proven gas reserves and 72.7% of the world's proven oil reserves. The paper added that as

²⁸ *Alexander's Gas & Oil Connections*, News and Trends Europe 13/14, 7 August 2008, "EU Reports on Energy Imports and Production" at <http://www.gasandoil.com/goc/history/welcome.html>

many as ten gas-producing states, holding over 35% of global proven gas reserves, had or would be expected to have an interest in channelling their exports to Europe via Turkey.²⁹

Hydrocarbons produced in the Caspian region, the Gulf and North Africa could be transported to Europe across Turkish territory. Ankara's close and warming relations with states in these regions could create a more peaceful and stable environment which would encourage energy companies and banks to invest in new pipeline projects. For example, Turkish officials are promoting an initiative known as the Caucasus Stability and Cooperation Platform, and within the framework of this, are exploring the possibilities for normalising their relations with Armenia. In a recent interview with *Newsweek*, Turkey's President Abdullah Gul, noting how the Caucasus are important for energy resources and for the transportation of energy eastwards to Europe via Turkey, argued that Turkey was seeking to promote stability in the area in order to create the right climate for economic cooperation.³⁰

New pipelines running through Turkish territory could also help Turkey to diversify its sources of energy and become less dependent on Russia for natural gas imports. An insignificant gas producer itself, in 2007 Turkey imported approximately 36.5 billion cubic metres (bcm) of gas to meet its rapidly growing energy needs, of which over 23 bcm originated from Russia.³¹ In spite of the impressive rapprochement between Ankara and Moscow in recent years, reflected in expanding economic ties and the substantial numbers of Russian tourists flocking to Turkey's beaches, Turkish policy-makers are wary of becoming over-dependent on Russia to satisfy their energy needs. The interests of Turkey and Russia in the wider Black Sea region could clash in the future, for instance over Nagorno-Karabakh or the Crimea. On the other hand, Gazprom's enthusiasm to gain more access to Turkey's

²⁹ John Roberts, "The Turkish Gate: Energy Transit and Security Issues," *Centre for European Policy Studies, EU-Turkey Working Papers*, no.11, October 2004, p.1.

³⁰ Rana Foroohar, "The Last Word – Pulled from Two Directions," *Newsweek*, 13 October 2008 at <http://www.newsweek.com/id/162306>

³¹ See the section on Natural Gas Trade on the website of the Turkish Petroleum Pipeline Corporation (BOTAS) at <http://www.botas.gov.tr>

market, with regard to the privatisation of natural gas grids and the development of natural gas storage facilities, could give Turkey some leverage in its negotiations with Russia.

Turkey: energy hub or energy transit state?

An energy transit state merely collects revenues for the transportation of hydrocarbons across its territory. An energy hub is perceived as much more prestigious and involves more economic and social benefits. It usually refers to a central market place where, in addition to pipelines, storage facilities, refineries, terminals, petrochemical units and other energy-related businesses may be located which offer jobs and boost the local economy. Officials in Ankara repeatedly emphasise how Turkey is becoming a crucial energy hub with the Turkish Mediterranean port of Ceyhan, for example, destined to become a new Rotterdam, with new docking ports and enlarged storage units.³² Given its strategic location, it is argued by Turkish policy-makers that, as an energy hub, Turkey would enable the EU to enhance its energy security by diversifying the sources and routes of energy imports.

Concerning crude oil, Ceyhan is becoming a key port through which increasing volumes are transported to outside markets in Europe. In addition to Iraqi crude, oil from Azerbaijan is now exported to EU member states via the port after the Baku-Tbilisi-Ceyhan (BTC) pipeline became operational in May 2006. The BTC, with a current annual capacity of 50 million tons (mt), was the first major oil pipeline in the region to be constructed which bypassed Russia. If Kazakh decision-makers abide by their commitment to provide the BTC in future with crude from their oil fields, the long-term profitability of the pipeline would be ensured.

Much less clear, though, is the future of the planned 50-70 mt/y capacity \$1.5-2 billion Samsun-Ceyhan oil pipeline which would connect Turkey's Black Sea and Mediterranean coasts. A much-publicised ceremony for laying the foundation stone for this pipeline was held in April 2007 and a \$35 million feasibility study was

³² "Ceyhan dreaming to be Rotterdam of its Region," *Turkish Daily News*, 8 July 2008.

completed the following November. However, hitherto, there is no throughput guarantee for this pipeline. Turkish energy officials had been led to believe that Kazakhstan, and also Russia, would provide volumes to fill the pipeline, but Moscow has since thrown its weight behind the alternative Burgas-Alexandroupolis pipeline project which would connect the Bulgarian Black Sea coast with the Greek Aegean coast. Russian policy-makers have been pressing their Kazakh counterparts to commit volumes to this alternative project. Ankara is attempting to win over Moscow by including the Samsun-Ceyhan oil pipeline in a package which would also entail the extension of the Blue Stream pipeline (which delivers Russian natural gas to Samsun) to Ceyhan to enable gas to be delivered to Israel. Moscow could also be attracted by the possibility that certain amounts of crude transported along the Samsun-Ceyhan pipeline could be carried to markets in India via a pipeline connection running to and then across Israel to the Red Sea. The Turkish Energy Market Regulatory Authority has also granted a license to the Calik Energy Group and the Indian Oil Corporation to construct a new refinery at Ceyhan. If realised, the Samsun-Ceyhan pipeline project would enable Turkey to become an energy hub for the delivery of further amounts of Russian, as well as Kazakh crude, to European and other markets.

Regarding natural gas, the Baku-Tbilisi-Erzurum pipeline has been carrying gas to Turkey since July 2007 from Azerbaijan's Shah Deniz field in the Caspian Sea. It could carry as much as 30 bcm/y when the Shah Deniz project moves into its later stages of development. The Turkey-Greece Interconnector pipeline was opened in November 2007 and currently delivers small volumes of Azerbaijani natural gas to the Greek market. There are plans to extend this pipeline to Italy so that eventually 3 bcm/y of natural gas will be conveyed to Greece and a further 8.5 bcm/y to Italian consumers. Much more ambitious is the projected Nabucco pipeline which would carry 31 bcm/y to Europe via a pipeline running through Turkey, Bulgaria, Romania, Hungary and Austria. A consortium of six companies, including BOTAS (the Turkish Petroleum Pipeline Corporation), has been established to develop Nabucco, which has been given priority status by the EU. However, this €7.9 billion project has encountered delays, in part because of Ankara's insistence that it should not merely be a transit state,

collecting revenues for the movement of this substantial volume of natural gas across its territory.

Turkish energy officials have been insisting that 15% of the gas transported on Nabucco should be allocated to Turkey at a low price. This could enable Turkish consumers to be less dependent in future on Russian natural gas imports. In addition, these officials are pressing for Turkey to have the right to re-sell the remaining gas volumes at a higher price to markets downstream³³.

European consumers, however, want to buy the gas directly from the supplier. Ankara here appears to be acting against the principles of the energy *acquis* and the EU-sponsored Energy Community Treaty with regard to transit issues and the development of an integrated energy market. Turkey, though, has refused to ratify the Energy Community Treaty and has not been able to open the energy chapter in its EU accession negotiations. In early October 2008, Mihaly Bayer, the special envoy appointed by the Hungarian authorities to promote Nabucco, declared that Turkey's demands risked holding up the signing of intergovernmental agreements on the pipeline and jeopardised the financial feasibility of the project³⁴. Earlier in February, Jozias van Aartsen, the EU's coordinator for natural gas projects in southern Europe, had warned that Turkey's position concerning Nabucco would demonstrate what sort of future relationship Turkey wanted with the EU³⁵.

Clearly, Turkish energy officials need to quickly back down and realise that acting as a transit state for the transportation of natural gas in the specific case of Nabucco would not run counter to Turkey's ambitions to be an energy hub for the movement, storage and processing of hydrocarbons more generally. Indeed, there are reports that the Turkish Ministry of Foreign Affairs has been attempting to persuade their

³³ Sezer Kilic, "Rus dogalgazina alternatif arayisi," ("Seeking an Alternative to Russian Gas") *NTVMSNBC*, 3 September 2008 at <http://www.ntvmsnbc.com/news/458088.asp>

³⁴ "Turkey's Gas Request blocks Nabucco, says Hungary," *Turkish Daily News*, 4 October 2008.

³⁵ Ed Crooks, "Turkey pressed for Support on Gas Scheme," *Financial Times*, 10 February 2008.

colleagues at the Energy Ministry to adopt a more flexible position with regard to Nabucco³⁶.

The EU also has a role to play. Indications that the energy chapter would soon be opened in accession talks with Turkey would put pressure on Ankara to ratify the Energy Community Treaty and assume a less rigid stance over Nabucco. France had been hoping to open this chapter in the period of its EU Presidency, but Cyprus has continued to block the start of talks because Ankara has opposed Cypriot plans to drill for oil offshore within its territorial waters. But, signs of possible movement in negotiations between the Turkish Cypriots and the new President of the Republic of Cyprus, Demetris Christofias, could result in Nicosia allowing Ankara and Brussels to open the energy chapter.

Nabucco vs South Stream

It is imperative that the issues of pricing and transit with regard to Nabucco are swiftly resolved with Ankara, bearing in mind that Moscow is promoting a rival natural gas project known as South Stream. This latter scheme, co-sponsored by Gazprom and the Italian energy company ENI, would entail the construction of a \$20 billion, 30 bcm/y pipeline running under the Black Sea to Bulgaria. One branch would then transport gas to Greece and Italy, and another branch would cross central Europe to Austria. Both Nabucco and South Stream are competing to secure access to natural gas from the Caspian region. In the case of South Stream, gas deliveries from Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan to the Russian market would enable Gazprom to release volumes of Russian gas to fill South Stream. Given this competition with South Stream, it is unclear if enough gas will be accessed to help fill Nabucco in the foreseeable future. According to the current timetable, Nabucco will become operational in 2013 when 8 bcm will flow along the pipe. After 2018, it is envisaged that over 30 bcm/y should be transported on the Nabucco pipeline. Turkey could play an important role in helping to fill Nabucco.

³⁶ "Nabucco Crisis pits Turkey against the EU and Azerbaijan," 14 March 2008 at <http://www.templetonthorp.com/en/news87.html>

Moscow has offered to pay European prices to ensure that future natural gas production in Azerbaijan is directed to the Russian market. Ankara can exploit its excellent relations with Baku to convince the Azerbaijani authorities to hold to their commitment to provide 8 bcm/y of natural gas to cover the initial phase of operations of Nabucco. Much more problematic will be the possible transportation of Kazakh and Turkmen natural gas along Nabucco. Citing ostensible environmental concerns, and noting that the legal status of the Caspian Sea has still to be determined, both Moscow and Tehran are opposed to the laying of pipelines across the length of the Caspian Sea. Russia has promised to pay market prices for future Caspian gas deliveries, and is aiming to upgrade and expand the pipeline network in Central Asia. However, Turkey could encourage the Turkmen to transport gas to Nabucco. Turkmenistan's Livanov-Barinova-Lam (LBL) gas structures in the Caspian Sea could be connected by a 60km pipeline to Azerbaijan's Azeri-Chirag-Guneshli (ACG) gas fields. From there, Turkmen gas could be hooked up to Nabucco. This would not entail the laying of a pipeline across the length of the Caspian Sea. In April 2008, the Turkmen authorities had pledged to Brussels that they would deliver 10 bcm/y to European markets from 2009 onwards. Turkmen and Azerbaijani gas fields will only be connected if Baku and Ashgabat can resolve their dispute over the ownership of the disputed Kyapaz/Serdar gas field, which lies between the LBL and ACG structures. Enjoying close relations with both governments, Ankara could use its good offices to help the contending parties come to an agreement which would most probably involve the shared ownership of the disputed field. It appears that the Turkish government has been attempting to mediate since late 2007 and this could lead to positive results in the near future³⁷.

Natural gas from Iran, Iraq, Egypt and even Russia could also be carried to Europe via Turkey along Nabucco. In July 2007, Turkish and Iranian officials agreed to a memorandum of understanding which involved plans for Turkey to invest \$3.5 billion to develop three blocks in the South Pars gas field in Iraq which could produce over 20 bcm/y. This gas could be delivered to Turkey in a planned \$2 billion, 30-40

³⁷ John C.K. Daly, "Turkey emerges as a Mediator in Turkmenistan-Azerbaijan Dispute," *Eurasia Daily Monitor*, Vol.5, no.13, 23 January 2008.

bcm/y pipeline which could be hooked up to Nabucco. This pipeline could carry 10 bcm/y of natural gas from Turkmenistan, although the Turkmen authorities have yet to commit themselves to this project. This scheme has still to develop, in part because of problems between the Turks and Iranians over the terms concerning production and operation. Suspicious of Iran's nuclear energy ambitions, the Bush administration has repeatedly and vehemently insisted that Iranian gas should not be carried on the Nabucco pipeline, and this has compelled the Europeans to backtrack. At a press conference in Vienna in September 2008, Zsolt Hernadi, the CEO of the Hungarian energy company MOL, announced that Nabucco would only become a reality if Iranian natural gas was carried along the pipeline³⁸.

But without definite safeguards satisfactory to the US on the issue of Iranian nuclear energy, it is exceedingly unlikely that European companies, facing the threat of economic sanctions, would support Iran's participation in Nabucco. This is in spite of Turkey's backing for Iran's inclusion in the project. More promising are the prospects for carrying possibly up to 10 bcm/y of Iraqi natural gas on Nabucco via a pipeline connecting the Akkas field in Anbar province in northern Iraq to Turkey. Ankara is very supportive of this project, though there have been delays in opening the tender in Iraq, in part it seems because of Baghdad's delay in passing a petroleum law. The Egyptians have agreed to deliver to Europe 2 bcm/y of natural gas via the Arab Gas Pipeline and Nabucco. Construction work has been delayed, though, on the Syrian-Turkish stretch of the Arab Gas Pipeline, in spite of Ankara's strong backing for the completion of this pipeline. On a visit to Moscow in February 2008, Turkish Foreign Minister Ali Babacan reiterated Ankara's interest in involving Russia in Nabucco³⁹.

This would run counter to the EU's immediate concern to become less dependent on Russian natural gas imports. In practice, it is unlikely that Gazprom will commit volumes to Nabucco given Moscow's sponsorship of the rival South Stream project.

³⁸ Vladimir Socor, "Hungary eyes Iranian Gas in efforts to resuscitate Nabucco," *Eurasia Daily Monitor*, Vol.5, no.187, 30 September 2008.

³⁹ "FM Babacan's Visit to Moscow," *Anatolian News Agency*, Ankara, 21 February 2008.

Possible developments in the near future concerning Nabucco

Swift progress is now essential if Nabucco is to be realised in the foreseeable future. It is hoped that intergovernmental agreements will be concluded before the end of 2008. These agreements would provide a favourable tax regime and guarantees against nationalisation. In late January 2009, a conference is scheduled to be convened in Budapest to which shareholders in Nabucco and potential suppliers and customers will be invited. Matters involving the financing of the pipeline will soon need to be resolved. Shareholders in the consortium have agreed to provide funding, but 60-70% of the financing will need to be borrowed from banks. Before the recent global credit crisis, the European Energy Commissioner Andris Piebalgs was confident that the European Investment Bank would support the project⁴⁰.

As previously noted, the government in Ankara must quickly reach agreement on issues of pricing and transit, which would satisfy Brussels. Time is now pressing given the timetable mentioned above. On a more positive note, there are reports that Turkey and Azerbaijan are seriously considering inviting Armenia to participate in Nabucco. In return, Armenia could restore to Azerbaijan five of the seven Azerbaijani provinces it is currently occupying around the disputed territory of Nagorno-Karabakh⁴¹.

Such a package may have been discussed at the tripartite meeting of the foreign ministers of Turkey, Azerbaijan and Armenia in New York in September 2008. Armenia's "participation" could entail the construction of a spur of the gas pipeline linking Azerbaijan and Turkey which would run through Armenia. In the event of further conflict and instability in Georgia, natural gas from Azerbaijan and other Caspian states could thus still flow to Turkey and to Nabucco even if pipelines were damaged or forced to close down in Georgian territory.

⁴⁰ "EU's Piebalgs seeks political push for Nabucco Gas," *Reuters*, Brussels, 4 September 2008.

⁴¹ Shahin Abbasov, "Azerbaijan: Potential Pipeline Deal could help settle Nagorno-Karabakh Issue," *Eurasia Insight*, 30 September 2008, at <http://www.eurasianet.org/departments/insight/articles/eav093008a.shtml> ; and Andro Lobjakas, "EU, US conduct two-pronged Diplomacy in Caucasus," *Radio Free Europe/Radio Liberty*, 1 October 2008.

Conclusion

In the wake of the Russian-Georgian conflict in August 2008, EU member states have spoken of the need in the immediate future to intensify efforts to boost the security of energy supplies, and, in this context, diversify energy sources and supply routes⁴².

Obviously, given its geographical location, its relations with neighbouring states, and actual and potential pipeline projects running through Turkish territory, Turkey could play an increasingly key role for the EU to meet its energy needs. However, officials in Ankara and Brussels and in other EU member states do need to show more flexibility over issues such as Cyprus and Nabucco.

It is important to note, though, that in spite of recent problems the relationship between the EU and Russia in the field of energy remains essentially an interdependent one and will remain so for the foreseeable future. Energy sales to Europe provide Russia with substantial revenues, and possible alternative markets for Russian energy in India and China will not be realised in the near- to medium-term. Given these circumstances, C. Boyden Gray, the US envoy for Eurasian energy diplomacy, has recently noted that it was highly unlikely that Russia would cut off gas to Europe⁴³.

The reality is that, in the longer term though, Europe will need to import increased volumes of natural gas from Russia, as well as from elsewhere, as gas production in Europe declines and economies there continue to grow. Gazprom will probably not be able to meet Europe's rising energy needs, given the lack of investment in developing new gas fields in Russia. In this situation, however, Turkey could still play an important role for the EU with regard to the possible delivery of larger volumes of natural gas from the Caspian region, the Middle East, North Africa and the Gulf to Europe.

⁴² See paragraph 9 of *Presidency Conclusions of the Extraordinary Meeting of the European Council*, Brussels, 1 September 2008 at http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/102545.pdf

⁴³ "US Envoy: Russia would not cut off Gas to Europe," *Reuters*, Rome, 11 October 2008.

Conclusion: Making Turkish membership a reality

Adam Hug

As Dr Ugur's contribution points out, 'it is difficult to be optimistic about the immediate future of EU-Turkey relations' but it is essential that progressive voices in politics, business and civil society do not lose hope and force their way in from the margins to make the case clearly in favour of Turkish accession.

At its core, the argument must be that if Turkey succeeds in fully implementing the EU's accession criteria, which are the toughest requirements given to any candidate country, it will have earned the right to join the European Union. If Turkey has undergone the massive economic, political, social and legal transformation required, the denial of its right to join would be an affront to the principles of fairness that must underpin the EU and could lead a spurned Turkey to re-orientate itself away from the West, forming new alliances in the Middle East and Central Asia to the detriment of Europe.

On a technical matter, the Irish rejection of the Lisbon Treaty means that the EU will need to find a new institutional mechanism to enable any further enlargement, be it to include Turkey, Croatia or any other country. It is essential that the resolution to this problem, be it an Irish re-vote or a more limited set of reforms coming out of the original treaty, does not undermine the accession progress of any country through long-term delay or place further hurdles in their path.

The contributors to this pamphlet are clear that Turkey must accelerate the pace of the economic and political reforms necessary for accession to take place, improving the quality of life in Turkey, and strengthening support for membership, both among Turks and EU citizens. Turkey must also reach out to EU citizens with effective public diplomacy, busting myths and raising awareness of Turkey as a modern European society with deep roots in the continent's history. These steps must be reciprocated within the EU through cultural exchange and use of economic links to break down barriers.

Turkey must not be used as a 'whipping boy' by unpopular governments to distract from their own problems, as the price for the future of Europe is simply too high. European politicians have started the process of accession and they must commit to letting the process run its course. The huge commitments Turkey is making cannot be allowed to be undermined by 'low politics' in European capitals.

This pamphlet has argued that the business community has an important role to play in standing up for Turkey and this must include leadership at the European level. While recognising the challenges it faces as a federation with members of differing views, BusinessEurope must come off the fence and show leadership on behalf of the European business community in making the case for membership, provided Turkey meets the accession criteria, a position held by its trade union counterpart, the ETUC. European companies operating in Turkey should take the lead in educating their workforces about the country and show the benefits that closer co-operation with it can bring. Similarly Europe's trade unions can play a proactive role in informing their members and dampening fears over Turkish migration negatively affecting employment.

Failure to grant Turkish accession could be one of the greatest strategic mistakes the EU could inflict upon itself, one that would be hugely harmful to business and undermine European prosperity and security. The path to accession is challenging for both the EU and Turkey, but advocates of an open and progressive Europe need to stand up and make the case that it is a challenge that we must not fail to meet.

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Turkey in Europe: The economic case for Turkish membership of the European Union

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This pamphlet lays out the pragmatic economic argument in favour of Turkish membership of the EU. It shows that both Turkish and European business would benefit from having Turkey inside the EU and that this compliments the strong strategic and political arguments in favour of Turkish accession. The pamphlet examines what steps need to be taken by both the EU and Turkey to ensure Turkey reaches its goal of EU membership.

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