

**THE EUROPEAN TRANSFORMATION  
OF MODERN TURKEY**



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## Preface

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This publication is the product of a joint venture between CEPS and the Economics and Foreign Policy Forum (EFPP), a recently-founded research institute in Istanbul. We have created a research team that combines analysts from both the EU and Turkey for the express purpose of ensuring that both points of view are reflected in the analysis and conclusions. It seems that many contributions to the heated debate on Turkey's suitability as a candidate for EU membership only take into account the EU's point of view. This study is an attempt to correct this imbalance.

This book was written by a group of four authors, two from CEPS and two from EFPP, but it is based on the results of a major research project involving a much larger team consisting of over a dozen researchers from both institutions (see biographical notes on pp 114-115.) The results of this research have been published in a new series of EU-Turkey Working Papers (listed at the end of this book) that are available for free downloading from the CEPS website. The authors of the present volume have drawn liberally, at times verbatim, from the individual working papers. We thank the other participants in the project for their valuable contributions.

Finally we wish to express our gratitude to the sponsoring organisations that made this effort possible and did so without interfering in the least in our work. Financial support from Akbank, Coca Cola, Dogus Holding and Finansbank in Turkey and the Istanbul office of the Open Society Institute was crucial in allowing us to conduct this research. The Libera Università Internazionale degli Studi Sociali (LUISS) also contributed to this research effort by financing the contribution by Marco Airaud, LUISS Fellow at CEPS for the academic year 2003-04.

Daniel Gros  
Director of CEPS  
Brussels, September 2004





## Introduction

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The European Union has just completed its biggest expansion ever. Even as it is digesting the 10 new countries that joined in May 2004, the EU is confronted with a new challenge: Should it now start accession negotiations with Turkey? This issue is highly controversial in European opinion, since it is perceived to raise fundamental issues about the principles and identity of the European project, as well as more pragmatic matters of its governability. In this contribution to the debate, we attempt to provide an objective overview of the political and economic issues that arise when one discusses the candidacy of Turkey for membership in the EU.

Our starting assumption is that it is likely that accession negotiations would start during 2005, but that they would last for quite some time, with membership materialising only around 2012-15. We therefore take a long-term perspective and explore particular areas in which the EU and Turkey could cooperate during the long interim negotiating period. We find that there are a number of areas where closer cooperation would be appropriate, with the exact form of this cooperation varying from one area to another. It ranges from 'virtual membership' to ad hoc cooperation. 'Virtual membership' might be most appropriate in the area of foreign and security policy where the EU and Turkey have highly convergent interests and where Turkey could constitute an important asset for the EU. It could also apply to the Customs Union that Turkey shares with the EU, but which now gives little voice to Turkey in EU policy-making fora. Close cooperation would also be required in the area of justice and home affairs, both to ensure the necessary level of trust and to provide Turkey with the appropriate flexibility in applying the Schengen *acquis*.

A comparison with the latest enlargement that culminated in the accession of 10 new countries in 2004 is instructive. The main issue with the Central and Eastern European countries (CEECs) was the creation of market economies and their integration with the EU economy. In most cases the political aspects of the Copenhagen criteria were more easily dealt with. In the case of Turkey the situation is somewhat different. Turkey has had a market economy for decades and, through the customs union agreement with the EU it is already on the way to becoming a virtual member of the internal market. It is not so much the institutional nature of the economy that is of concern, but the fact that it has been crisis-prone and that Turkey is large, compared individually to the new member countries. The Turkish economy also appears to have great dynamism and growth potential. Will the process of accession allow the Turkish economy to combine dynamism with stability? What will Turkish accession mean for the European budget? These are the key questions that will arise during the negotiations on economic matters.

In the political domain there are two broad areas that will be at the heart of the negotiations process. First, there will be continued emphasis on the full implementation in everyday life of the comprehensive democratic reforms enacted in Turkey over the last three years. The democratic progress made by Turkey has been truly impressive. It is a relatively recent progress, however, and other episodes show that the process is still fragile and subject to possible backsliding. The second area of political focus concerns the often-overlooked opportunities for mutually beneficial cooperation between the EU and Turkey, even in advance of accession. Foreign and security policy would be the most important area where this could and should happen, given that Turkey is likely to constitute an invaluable asset in making the EU's policy towards the entire region surrounding Turkey more effective.

This book deals with the political aspects of Turkish-EU relations first and then turns to economic issues. The political and economic domains are, of course, closely interlinked. Economic growth and greater prosperity will defuse political tensions and allow the democratic process to function without excessive conflict. The deepening of democracy and the full practice of all democratic freedoms in everyday life will, in turn, stabilise expectations and increase the degree of confidence in the future of Turkey's economy, triggering more investment and more rapid growth.

## Chapter 1

# The Evolving Nature of the EU and Turkey

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### 1.1 Which Union would Turkey enter?

Just as Turkey is a very different country today from what it was when it signed the Association Treaty with the European Community in 1963, the European Union of the first decade of the 21<sup>st</sup> century has become a very different community of nations compared to what it was 40 years ago. Moreover, the tremendous global changes that have taken place since the early 1990s – including the end of the cold war, which had limited the European Community to ‘Western’ Europe, and the acceleration of the globalisation process driven by the revolution in communications technology – are leading Europe to debate visions of its own future in a transformed world. The passion and intensity with which future Turkish membership in the EU is debated in the countries of the European Union are to a great extent due to the much larger debate on the essential nature of the European project itself. What kind of European Union is likely to or should exist in the second decade of our new century? Does ‘Europe’ have obvious or natural ‘borders’? What will be the international system of which Europe will be a part? Which vision of Europe should constitute the framework within which Turkish membership is best discussed and analysed?

The first vision, in its extreme form, would see the emergence of a ‘European super-state’ with a supranational level of government as a clear ‘federal’ centre of authority. This vision reproduces the ‘Westphalian’ nation state at the European regional level. The central European political institutions would acquire new competences and they would also be strengthened by a serious deepening of some presently-thin competences. They would be able to exercise these competences over a well-defined territory. This new European ‘super-state’ would be equipped with common military and police forces to assure the internal and external security of the European federation. There would be a coincidence of legal, administrative, economic and military regimes. As such there would be a categorical and long-term distinction between the inside and the outside. Essential sovereignty would be reconstituted, having passed from the national state to the European super-state level.

The second, very different vision of the Europe of the 21<sup>st</sup> century is one of a community of traditional nation states, having formed a common economic market, but retaining sovereignty at the national level in most domains. Cooperation in this ‘Europe of nations’ could extend beyond trade and the acceptance of standards facilitating the functioning of a single market, into some areas of social policy, border control and coordination of foreign aid activities, but would stop well short of a common fiscal policy, a unified

foreign policy or common defence arrangements. For those who share this vision of Europe, the EU has already gone too far in the direction of political integration. For these traditional sovereignists, it is time to rein in the authority of the European institutions and certainly to prevent further erosion of the prerogatives of the traditional nation state.

The political, institutional and economic ‘reality’ of Europe, as it has evolved and as it is developing, does not really fit either one of these ‘extreme’ visions. The euro, for example, exists and the countries that have adopted it are unlikely to return to their old national currencies. This has led to a common European monetary policy, designed and implemented by a ‘supra-national’ European Central Bank. A lot of sovereignty beyond the domain of trade alone is already being shared by all or a subset of the European member countries. On the other hand, it is very hard to argue that we are witnessing the emergence of a ‘European super-state’, in any traditional sense of the term nation. In terms of languages, traditions and a sense of belonging, the ‘old’ countries persist, and both local and traditional national feelings may even be strengthening as a reaction to economic globalisation.

There is need for a third, ‘post-modern’ vision of Europe, more appropriate to the 21<sup>st</sup> century, which combines elements of the other visions but which breaks away from the traditional modes of thought formed in the past which are no longer relevant. This third vision would see a Union developing as a set of overlapping circles, with a multi-level system of governance. Within the overall framework of the European Union with some well-defined competencies, there would be flexible forms of enhanced cooperation, with some member countries going further in integrating various policies than others. The borders of the European Union would be well-defined at any moment of time, but would not need to be frozen or fixed forever. Its institutional structure may have to be quite complex, reflecting the multi-level nature of governance and the variable degrees of integration. If this complexity is in harmony with the underlying social, political, cultural and economic realities, it will be more ‘functional’ than a system of contrived simplicity. Some social scientists seek precedent or inspiration in history to describe the nature of this complexity. As expressed by one political scientist, medieval Europe’s system of rule reflected a ‘patchwork of overlapping and incomplete rights of governments’ in which ‘different juridical instances were geographically interwoven and stratified, and plural allegiances, asymmetrical suzerainties and anomalous enclaves abounded’.<sup>1</sup> A Union in excess of 30 member states might come to look like an

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<sup>1</sup> John Ruggie, “Continuity and Transformation in the World Polity”, *World Politics*, Vol. 39, No. 1, 1986, pp. 21-52.

increasingly post-modern equivalent of such a system.<sup>2</sup> Its sovereignty would be different from that of a Westphalian nation state, and its institutions would be multiple and interlocked in a complex web of interdependencies. While historical analogies can be illuminating, this post-modern Europe would be one that tries to meet the challenges of globalisation and the technological and cultural realities of the early 21<sup>st</sup> century. It would be a Europe that recognises the need to utilise regional, national and global approaches to solve the security and economic problems that confront us.

The Union that Turkey would join will most likely be such a ‘post-modern’ Europe rather than a new continental Westphalian super-state. Due to the fundamental nature of the ‘big bang’ enlargement of 2004, the Union is already characterised by increasing degrees and forms of diversity of institutional arrangements. Despite the impressive transformation observed in the new member states of Central and Eastern Europe, considerable divergence persists between the old and new members.<sup>3</sup> The single market will enlarge, but still with long transition periods before the full achievement of the four single market freedoms. Moreover, although EU institutions remain reluctant to admit it, the Union already includes overlapping circles constituted by inside and outside actors. The UK, Sweden and Denmark remain outside the eurozone. It is doubtful that all the new member states will succeed in acceding to monetary union soon after 2006, although the new member states and remaining candidates (including Turkey) will no doubt strive to be in all of the EU’s policies, for fear of being treated as second-class members. Different concepts of European economic areas beyond the EU’s formal membership exist already, and become more numerous and diversified. For example, Norway and Switzerland are part of the European Economic Area, and, already since 1996, Turkey participates in a customs union with the EU. In the area of Justice and Home Affairs, non-EU countries such as Norway are included in the Schengen system, participating in the relevant EU Councils albeit without voting power. However, member states such as the UK have chosen not to participate. Finally the United Kingdom’s decision in May 2004 to ratify the Constitution by referendum is already provoking contingency thinking about what to do if the result there, or in other member states, were negative.

Finally, the EU’s present efforts to develop a European Neighbourhood Policy represents a means (albeit still embryonic) to dilute the gap between

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<sup>2</sup> See James Caporaso, “The EU and forms of state: Westphalian, regulatory and post-modern”, *Journal of Common Market Studies*, Vol. 34, No. 1, 1996, p. 2951.

<sup>3</sup> See Jan Zielonka, “How new enlarged borders will reshape the European Union”, *Journal of Common Market Studies*, Vol. 39, No. 3; 2001, pp. 507-536.

full membership and EU external relations. The Commission's recent Strategy Paper extends the geographic coverage of this initiative potentially to all the European members of the Commonwealth of Independent States (CIS) – Russia, Belarus, Ukraine, Moldova and the South Caucasus – and to the whole of the Mediterranean basin, i.e. to all Barcelona Process states, although it does not include two of Turkey's neighbours, namely Iraq and Iran.<sup>4</sup>

The precise form and effectiveness of the emerging system remains uncertain. Regardless of its precise nature, however, the possibility of enhanced cooperation within the EU and greater diversity in the forms that multi-level governance takes, rather than representing a liability, may act as an important asset to the new European Union of the 21<sup>st</sup> century. Diversity within the Union not only would entail greater cultural, social and political wealth within the EU. It would entail also that the differences between EU member states and non-member states would be less clear-cut. This in turn could aid the Union in constructively developing its relations with the 'outside', making use of the commonalities and special ties that exist between some member states, and some neighbouring countries or areas of the world where strong cultural ties exist with one or more of EU member states. As the geographical sections below argue, this would be especially true in the case of Turkey and its neighbours. So long as common interests prevail, Turkey's specificities could considerably enrich the possibilities for an effective and substantial European foreign policy. Naturally this does not detract from the complexity of developing a workable institutional set-up to conduct external relations with non-member countries. This indeed remains the major challenge posed by enlargement in general.

## 1.2 Which Turkey would enter the Union?

Turkey emerged as a new nation in the 1920s, sharply breaking with the imperial Ottoman past in terms of its institutions and social organisation. From the very beginning the new Republic was oriented towards modernity and Europe, the two being closely linked in the minds of the republican Kemalist elite. This was a time in which militant nationalism in Europe and the Stalinist version of communism in Russia were in the ascendant. The Turkish Republic, probably in part due to the painful wars of the 19<sup>th</sup> and early 20<sup>th</sup> centuries and to the devastation many communities had suffered in the Eastern Mediterranean, developed a rather moderate version of nationalist ideology. From the start Kemalist ideology emphasised the need to concentrate on economic development within the Republic's borders,

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<sup>4</sup> European Commission, *European Neighbourhood Policy – Strategy Paper*, Brussels, May 2004.

discouraged any *revanchist* adventurism or dreams of a new empire, made peace with all its neighbours, notably Greece and tried to build a modern 'Westphalian' nation state. This healthy moderation, rejection of imperialism in all its forms and fear of new military adventures helped Turkey stay out of World War II until 1944, despite heavy pressure coming from all sides, notably Nazi Germany. From 1944 on, Turkey entered the stage of world politics as an ally of the Western powers, a founding member of the United Nations, a member of NATO and a member of the Council of Europe.

Turkey's focus on Europe and the association Turks tend to make between Europe and modernity actually predate the Republic. Already in Ottoman times, particularly during a period of reforms in the mid-19<sup>th</sup> century, the Turkish-Ottoman elites very much looked towards Europe as 'the' example of modernity. A good part of the empire was of course in the Balkans, and many modern-day Turkish citizens are descendants of people taking refuge in Turkey from the wars and turmoil in the Balkans. Moreover, even in Ottoman times, Turkey was part of the 'European Concert of Nations', although it progressively weakened under the burden of empire, and was unable to transform the Ottoman system of decentralised government with the emergence of 19<sup>th</sup> century ethnicity and language-based nationalisms.

Eight decades after the creation of the modern Turkish nation state, Turkey now wants to start membership negotiations with the European Union. Between 70 and 80% of the electorate supports EU membership. At the same time, memories of the infamous Sèvres Treaty, which tried to put an end to the very existence of Turkey at the end of World War I, are still very much alive. There is a tension between the still very strong sense of the 'nation-state' and its sovereignty and the recognition that Europe is moving beyond the 'nation-state' as traditionally defined, towards the kind of 'post-modern' type of multi-level governance we discussed above. Combined with the will to share the prosperity and the advanced form of democracy with other Europeans, there is also some fear rooted in past conflicts and some doubts about how exactly sovereignty-sharing will work. Such doubts are not unique to Turkey, of course, and can be found in almost every European country, from France to Poland. They are still quite strong in Turkey, however, despite the overwhelming desire to join the Union. This may seem paradoxical, but it is at the core of Turkish attitudes and needs to be understood as such. The elites and the people are willing to give up some of their sovereignty *if* they can be assured that they will gain shared European sovereignty in exchange. This is why any talk of a special status or special association is totally unacceptable in Turkey. It brings up visions of unfair treatment, of losing sovereignty without gaining a say in European affairs.

At the start of the 21<sup>st</sup> century, Turkey, like many nation-states is struggling with the challenges of globalisation, with the need to balance local and

national feelings of belonging with the interdependence that the modern world economy has created, and with meeting expectations of much greater prosperity in the face of persisting poverty. A Turkey that would be a member of the European Union would feel much more confident that it can meet these challenges and needs. Together with its European partners it could search for the right balance between patriotism and cosmopolitanism, between local autonomy and supra-national governance, between being proud of one's past and looking towards a more global future. The fact that the overwhelming majority of Turkey's citizens are Muslim makes these challenges more interesting and complicated, but it also makes success in meeting them all the more rewarding. Turkey wants Europe, as a contemporary framework, that will help all Europeans overcome the fear of conflict, and turn diversity, including cultural and religious diversity, into something to celebrate and cherish. Turkey itself needs the European framework to feel more comfortable with its own diversity and to attain the level of national security and prosperity that it has been longing for.



## Chapter 2

### Democracy and Human Rights\*

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In seeking accession to the European Union, Turkey is voluntarily subscribing to the standards of democracy and human rights that have been formulated by the Union with increasing precision as its enlargement process extended beyond Europe's well-established democratic core. At the level of principles these were established at the European Council meeting in June 1993, and became known as the 'Copenhagen criteria'. Amongst these, the political conditions were:

Membership requires that the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.

With the candidate states of Central and Eastern Europe and the Baltics, the monitoring of their performance according to the Copenhagen criteria became a major exercise in specifying and enforcing the EU's political conditionality. It is often said that for these states, the overthrow of the communist regimes and preparation for accession to the EU was all about 'returning to Europe', an idea that was readily understood and accepted by the population. According to this perception, the communist period of half a century from the end of the Second World War to 1989-90 had been no more than an anomalous interlude in their European history. Historical truth is more complex, however. The old Czechoslovakia was in fact the only country among the new member states to have had a significant experience of western-style democracy in the pre-communist period. All others are 'discovering' democracy simultaneously with the process of accession to the EU. The same had been true of Spain and Portugal. It is too often forgotten that most European nations were able to build stable democracies and a zone of peace only after they finally decided to join forces and to build the 'new' European Community.

Turkey – its political elite, with the full support of public opinion – has decided that it wants to join this same political, economic and social community and zone of peace. The European Union for its part understands that the accession of Turkey would be a political act of huge importance for itself as well as Turkey. It has therefore to inform itself about the political origins of the Turkish application and to understand the nature of the current political transformation underway there. This effort at understanding has to be based on the premise that Turkey's accession should be decided on fair

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\* This chapter is based on the longer report by Senem Aydin and E. Fuat Keyman, *European Integration and the Transformation of Turkish Democracy*, EU-Turkey Working Paper No. 2, August 2004 (available at [www.ceps.be](http://www.ceps.be)).

and objective grounds, namely the standard admission criteria, and more particularly not on grounds of geographical or cultural essentialism, since this would mean that the process had no point.

## 2.1 From republican origins to democratic transformation

In his classic study of modern Turkey, historian Feroz Ahmad observes:

Turkey did not rise phoenix-like out of the ashes of the Ottoman Empire. It was 'made' in the image of the Kemalist elite which won the national struggle against foreign invaders and the old regime.<sup>5</sup>

In the process of this 'making', the objective of the Kemalist elite was to reach the contemporary level of civilisation by establishing the political, economic and ideological prerequisites, such as the creation of an independent nation-state, the fostering of industrialisation and the construction of a secular and modern national identity. The leaders of early republican Turkey thus accepted the universal validity of Western modernity as *the way* of building modern Turkey. The making of Turkey was thus based upon both an independence war against Western imperialism and an acceptance of Western social and political norms as the embodiment of modernity.

More precisely the conceptualisation of the Turkish Republic as nation-state manifested itself in: i) the transition in the political system of authority from personal rule to impersonal rules and regulations; ii) the shift in the understanding of the universal order from divine law to positivist and rational thinking; iii) the shift from a community founded on an 'elite-people cleavage', to a community based on a nation and on 'a people' forming that nation; and iv) the transition from a religious community to a secular nation state. These transitions were regarded by Mustafa Kemal as the pre-condition for Turkey to live as an advanced and civilised nation in the midst of contemporary civilisation. The Kemalist elite attempted to remove from political discourse the notion of a religious state and the constraints it was perceived to put around a resolute quest for modernity in all aspects of life.

The idea of the state adopted by the Turkish republic in the 1920s and 1930s was by no means abstract. It was a reaction to two fundamental problems, which had caused the decline of the Ottoman Empire.<sup>6</sup> First, the Ottoman state was identified with the *personal* rule of the sultan, which eventually led

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<sup>5</sup> Feroz Ahmad, *The Making of Modern Turkey*, London: Routledge, 1994.

<sup>6</sup> Metin Heper, *The State Tradition in Turkey*, North Humberstone: The Eothen Press, 1985.

to its inability to compete with the European nation-state system. Second, the non-secular nature of the Ottoman state was regarded as the primary obstacle to progress in Ottoman society. There was therefore a need to create a nation-state distinct from the person of the sultan, and secular enough to allow the pursuit of modernity in science, technology, social relations and economics without being constrained by conservative traditions. This meant a reconstruction of the idea of national sovereignty. The state was thus viewed not as an arbitrary institution, nor an expression of class interest, but as an active agent that reshapes the nation to “elevate the people to the level of contemporary civilisation”.

The Turkish elite also took seriously the Weberian answer to the riddle of the ‘European miracle’ – that the reasons behind Western advancement could be located precisely in Western cultural practices. The new Turkish republic understood modernisation not just as a question of acquiring technology, but as something that could not be absorbed without a dense network of cultural practices, which made instrumental thought possible. The commitment to political modernity had to be supplemented with a set of cultural practices in order to ground “the articulation of reason and capital via the nation-state”, or the institutional and discursive construction of national identity.

Republicanism, nationalism, étatism, secularism, populism and revolutionary reformism were the six principles of the act of modern governance. Republicanism defined the nation-state as impersonal rule, which was contextualized as national sovereignty empowered by nationalism. Etatism was designated to foster capital accumulation and industrialisation through import-substitution policies carried out by newly created state economic enterprises (SEEs). These principles reflected what one could call an ideologically “centrist” stance of Mustafa Kemal. The new republic endorsed the basic principles of private ownership and markets, rejecting Soviet-style socialism. At the same time, however, it laid the foundations of a mixed economy with a leading role for the public sector, at a time when there was practically no private capital accumulation in Turkey. The Republican principles also indicate the significance of nation-state building for nationalist discourse. Atatürk’s nationalism rejected the idea of a class-based society, stressing the “unity of the people”, playing down ethnic, religious or socio-economic differences.

A new phase in the life of the Turkish republic began in 1945 with the transition to the multi-party system, and, later, in the 1960s with the rise of the Left. As a result it was no longer possible to define the Turkish political landscape purely on the basis of the secularist versus anti-secularist axis. With the multiparty system, the emergence of the liberal vision of Westernisation and modernisation presented a serious alternative to the state-led model of development which local and international conditions had made

unavoidable in the 1930s and 1940s. At the same time, with the rise of the Left, the emergence of a more socialist or social-democratic vision challenged the non-class-based image which had been used to define Turkish society as an organic totality.

It was by then clear that Turkish modernisation should involve some elements of economic and political liberalism, but this did not alter the leading role of the state and its role vis-à-vis society. The effective instruments of formal democracy were established with the transition to multi-party and parliamentary democracy in Turkey. There were now free and very competitive elections, and the opposition parties were able to criticise the governing party or the governing coalition. The military coups of 1960 and 1980 were both short-lived with relatively smooth transitions to civilian rule, in contrast to conditions prevailing in many other middle-income countries, in Latin America, for example.

It is important to remember, however, that the late 1970s and early 1980s were a period of intensified competition and global conflict between the American-led “West” and the Soviet Union and its allies. Turkey was a frontline state in this conflict and experienced the ideological and political ramifications of this competition. As was the case in neighbouring Middle Eastern countries, religion was used as a bulwark against the perceived threat of communism. As elsewhere in the world, the global conflict had a domestic impact which was not helpful in fostering the development of fully democratic institutions. Both the East and the West at times encouraged non-democratic forms of action to foster their strategic objectives. In post-1980 Turkey, moreover, the fear of Soviet influence led the state and the secular elites to encourage religious education and traditional-conservative ideology as an ‘antidote’ to communism. Some believe that it was at that time that the ground was prepared for the emergence of a much more powerful socio-political movement taking its inspiration from political Islam. The post-1980 military regime incorporated Islamic elements in its discourse and opened up the domestic market to Islamic capital to secure popular support. The outcome was the weakening of the very conditions of the existence of Kemalist nationalism and radical secularism.

In the economic domain, the 1980s brought about a change in approach, the impact of which was deeply felt at each and every level of Turkish society. The strategy of import substitution had reached its limits when Turkey faced a tightening of the chronic foreign exchange constraint it had experienced during most of the Republic’s history. In response, from 1980 onwards, the strategy of industrialisation decisively shifted from import-substitution to export-promotion, and much more emphasis was placed on market forces. In the 1980s, after a radical realignment of the exchange rate of the Turkish lira, Turkey became, for several years, the world champion in the growth of

manufactured exports. This economic transformation had political consequences. Export promotion meant adaptation to the international division of labour and much greater integration into the world economy and its norms and rules. It is therefore interesting to note that economic pressures resulted in a situation where military intervention triggered a degree of liberalisation that was not at all foreseen by those that had led the intervention.

The 1980s and 1990s transformed Turkey from a country with a small, protected and domestic market-oriented industrial sector, to a country with a much larger, export-oriented and competitive industry. This economic transformation went hand in hand with the rapid migration to the cities, the emergence of both large urban slums and an urban middle class. Urbanisation, differentiation and industrialisation, in an increasingly outward-oriented economic structure, made traditional methods of ‘control’ by the state increasingly difficult. A much more ‘democratic’ social structure developed during these decades, although the tensions between the underlying social and economic forces and the institutional superstructure were not easily resolved. Nonetheless, there was no ‘rupture’ during this difficult transition period and, while there was much political instability, quite damaging also to economic growth, Turkey ended the 20<sup>th</sup> century with a more robust democracy and a much stronger civil society.

## **2.2 Driving forces of Turkish development and democratisation in the 2000s**

In interpreting the continuous efforts since the year 2000 that aim at consolidating and deepening Turkish democracy, one can observe five driving forces, which are both international and national in nature. These have led the political and state elite to come to terms with the fact that democracy is not only a normatively good system of governance, but also serves as a valuable strategic and political means for Turkey – as well as any country – to be strong and stable in its homeland and in its international relations.

*The development of Turkish-EU relations since 1999.* As elaborated in more detail below, Turkey-EU relations have gained in ‘certainty’ since the Helsinki summit of 1999, when Turkey obtained the status of a candidate country for full membership. This has forced the political and state actors to focus on democracy, since the candidate country status was requiring Turkey to fulfil the Copenhagen political criteria. Turkey’s efforts to make a number of important legal and constitutional changes before the Copenhagen summit of 2002 was enough only to get a conditional date, that by the end of 2004 the EU would decide to begin full accession negotiations without delay on the condition that Turkey met the Copenhagen criteria. This process still

continues, and Turkey has taken additional far-reaching measures to consolidate its democracy and ensure the beginning of negotiations. What is important here is that the more that Turkey-EU relations have gained ‘certainty’ over time, the more Turkish politics have come to terms with the fact that democracy is the only game in town.

*The February 2001 financial crisis and the requirements of stabilisation.* When the Turkish economy collapsed in February 2001, due to a financial crisis of the type seen in many emerging-market economies, generating devastating and tragic impacts on the country, the need to restructure state-economic relations became very apparent. Although the crisis appeared to be economic and financial, it was in fact a crisis of governance, which occurred as a result of the populist, clientalist and corruption-producing nature of Turkish politics in the 1990s. For this reason, the economic programme called the “Transition Programme towards a Strong Economy” by the reform team that took over the reins of the economy in March of 2001, which was prepared and launched with the support of the IMF and the World Bank as well as with the approval of the European Commission, had as its first aim to restructure the economy and the relations between the state and economic actors. By establishing a transparent rules-based system, it took away from political actors the ability to seek and generate rents by making arbitrary decisions in the microeconomic sphere. The disasters of the 1990s had made it clear that without a strong and stable economy, Turkey faced drastic problems, for which the viable solution is to truly democratise both the state and its governing relations with society. Thus, the need for upgrading institutions also became apparent in the economic sphere, where not only the ordinary people who suffered severely from the economic crisis but also the economic actors had come to believe that a rules-based and much more transparent system of governance is necessary for economic stability and sustained growth.

*The November 2002 elections.* On the evening of 3 November 2002, as the final vote count came in, an electoral earthquake shook Turkish politics. The three parties that had formed the coalition government after the 1999 elections obtained together no more than 15% of the national vote! Individually these three parties as well as two opposition parties, failed to pass the 10% national threshold and found themselves left outside the parliament. This electoral punishment was so dramatic that the winner of the 1999 elections, the Democratic Left Party (DSP), lost almost its entire constituency. Other parties found themselves thrown out of the Parliament by losing more than half of their electoral support.

The winner of the election, the Justice and Development Party (AKP) received 34.2% of the popular vote, gained 66% of the parliamentary seats and formed a single-party majority government. The Republican People’s

Party (CHP), with 19.4% of the popular vote and 34% of the parliamentary seats, became the single opposition party in Parliament. The election results demonstrated popular feelings that the ineffective and non-transparent form of governance based on economic populism, clientelism and opportunistic political compromises and alliances that could be broken at any moment had run its course, and that a stable government with institutional and societal support was necessary to allow Turkey to fulfil its economic potential and deepen Turkish democracy.

*The Iraq war in 2003 and Turkey's global and regional role.* The September 11<sup>th</sup> terrorist attacks in the US have generated consequences for the world much beyond the killing of around 3,000 innocent people. These effects have even gone beyond the political aims expressed by the al Qaeda network, to create a 'clash of fundamentalisms' in world politics in the name of the struggle against 'American imperialism' in particular, and Western modernity in general. The declaration of the US-led global war on terrorism, aiming at redefining international politics on the basis of the normative and strategic primacy of security issues as opposed to global social justice problems, has not only concretised itself as war. It also unearthed the underlying problems of the key international institutions, such as the UN and NATO, created a split among European countries, slowing the process of greater political integration and attempted to divide the world in a simplistic way between those who are friends of the US and those who are against the war on terrorism. Thus, the gruesome terrorist attacks on September 11<sup>th</sup> and the responses to it have created an international political atmosphere in which there is an attempt to force everyone to choose between security and liberty, hegemony and autonomy and state-centric nationalism and democratic cosmopolitanism.

Turkey has not been immune from this process, and this became clearer as the US embarked on its war against Iraq. Turkey found itself subjected to military and political demands from the Bush administration to allow American troop deployment in its southeastern regions. Turkey's rejection of this demand, with its famous parliamentary decision of 1 March 2003, temporarily created big problems in Turkey-US relations. The fact that relations quickly improved shows, however, that Turkey retains crucial strategic importance in the Eastern Mediterranean and the Near East and that any policy in and towards that area, be it a US policy or a European policy, will always be quite dependent on Turkish support. Viewed from the Turkish perspective, the conflict in the Middle East destabilises its south, prevents an expansion of economic relations and trade and increases the price of oil, of which Turkey is a major importer. Turkey, even more than other countries, has a major interest in peace in the Middle East and will continue to do everything in its power to encourage the peaceful settlement of the various

disputes destabilising the area, foremost among them the Israeli-Palestinian conflict. Turkey has a clear convergence of interest on Middle Eastern issues with the European nations.

*The role of civil society.* In addition to these international and national changes, there have been strong societal calls for the further democratisation of relations between the State, society and the individual. Since 2000 most of the civil society organisations have made such calls, and in doing so have shown their support of Turkey-EU relations. Strong economic actors, such as the Turkish Industrialists' and Businessmen's Association (TUSİAD), the Independent Industrialist and Businessmen's Association (MUSİAD) and the region-based and province-based Industrialist and Businessmen's Association (the SİADs) have supported Turkey's entry into the EU and initiated lobbying-based activities for this end. The same is true for the major labour unions. Both employer and worker organisations, throughout the 1990s, have voiced the need for the deepening of democracy in Turkey, which we are now witnessing. They recognise the role of the EU as international anchor and framework for the political and economic reforms. Similarly, a number of civil society organisations and think tanks operating in various fields have worked in their own ways for further democratisation and modernisation. Civil society has become an important element of Turkish politics not only through its discourse of democratisation but also by its associational activities.

All these developments – the end of the cold war, the need to build a rules-based economic governance, Turkey's relations with the international financial institutions, the single-majority government and the decision by the AKP to make entry into Europe one of its major objectives, the increasing global and regional role of Turkey and the increasing importance of civil society – are together making Turkish modernity more societal, liberal, plural and multi-cultural. They are also transforming Turkish democracy into a more consolidated, substantial and deepened democratic mode of governance. The current Turkey-EU process with the possibility of an imminent beginning of negotiations and the political conditionality attached to the process takes place against this background.

### **2.3 The EU-driven political agenda**

By making basic norms of liberal democracy the *sine qua non* condition for membership – its most important possible incentive and reward, the EU has – developed its policy of 'conditionality' as an instrument to help transform the governing structures, economy and civil society of the candidate countries, initially of Central and Eastern Europe. The major instruments of conditionality were 'gate-keeping' along with 'bench-marking' and



‘monitoring’.<sup>7</sup> Hence, the EU institutions decided on whether or not to give the green light to the different stages along the accession process which, in the case of Central and East European countries, consisted of privileged access to trade and aid, signing and implementing enhanced association agreements, the starting of accession negotiations, the opening and closing of 31 chapters of the *acquis*, signing of the Accession Treaty, ratifying the Accession Treaty and finally, entering the EU.<sup>8</sup> Benchmarking and monitoring were undertaken by yearly ‘Progress Reports’ outlining the steps taken by the candidate countries in fulfilling the Copenhagen criteria, and ‘Accession Partnerships’ listing short and medium-term recommendations to achieve that end. The Commission has also supported these mechanisms through a significant amount of financial aid and technical assistance. This has allowed the EU to offer resources and legitimisation to some actors and constrain the behaviour of others in the domestic sphere. It has influenced the democratisation process of candidate countries primarily by empowering reformist elements in society and by altering the domestic opportunity structure.<sup>9</sup>

The Helsinki Summit of December 1999 caused a significant shift in the EU’s policy towards Turkey by declaring it a candidate country and by including Turkey in the same formal mechanisms used for the Central and East European countries to guide and measure progress on the Copenhagen criteria. The European Commission published the first Accession Partnership in March 2000, which was followed by the preparation of the Turkish National Programme for the Adoption of the *Acquis* by the Turkish authorities in April 2001.

Immediately following the approval of the National Programme, the silence on political reform was broken with a record number of 34 amendments made to the Constitution in October 2001. The amendments were not restricted to political rights, but extended over a large area of socio-political life. Although most of these amendments dealt with matters of detail or were simply changes in language that did not create a new legal situation, some of them were real constitutional reforms, such as the shortening of pre-trial detention periods, the limitation of the death penalty to times of war and

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<sup>7</sup> Heather Grabbe, “How does Europeanisation Affect CEE Governance? Conditionality, Diffusion and Diversity”, *Journal of European Public Policy*, Vol. 8, No. 6, 2001, pp. 1013-1031.

<sup>8</sup> Gergana Noutcheva et al., “Europeanisation and Secessionist Conflicts: Concepts and Theories”, in Bruno Coppieters et al. (eds), *Europeanisation and Conflict Resolution: Case Studies from the European Periphery*, Ghent: Academia Press, 2004, pp. 1-50.

<sup>9</sup> *Ibid.*, p. 17.

terrorist crimes, changes that made the prohibition and dissolution of political parties more difficult, and expansion of the freedom of association and strengthening of civil authority in the National Security Council. Another important amendment concerned the abolition of Article 15, which banned constitutional review of acts passed during the National Security Council regime established after the 1980 intervention. Those acts, many of which contain significant anti-democratic elements, can now be challenged in Constitutional Courts. After the constitutional amendments, the new Civil Code entered into force on 1 January 2002, introducing significant changes in the area of gender equality, protection of children and vulnerable persons.

There followed three ‘Harmonisation Packages’<sup>10</sup> in the wake of the Copenhagen European Council of December 2002. These not only aimed to translate the preceding constitutional amendments into action by harmonising Turkish law with them, but also introduced further reforms particularly in the fields of human rights/protection of minorities, freedom of expression and freedom of association. The most notable of these were the easing of restrictions on broadcasting in and the right to learn ‘different languages and dialects traditionally used by citizens in their lives’, namely Kurdish. These measures culminated in the Copenhagen decision of December 2002, that ‘if the European Council in December 2004, on the basis of a report and a recommendation from the Commission, decides that Turkey fulfils the Copenhagen political criteria, the EU will open negotiations without delay’.

This decision was received with considerable disappointment in Turkey as general expectations had been raised in the country by the political elites as well as by the media that the decision to actually launch accession negotiations with Turkey would have been taken at that Summit. However, contrary to some theories circulated by the more fervent eurosceptics in Turkey, this disillusionment has not led to a slowdown in the reform process, nor has it led to the abandonment of the ‘EU Project’— as it is often referred to in Turkey. In fact just the opposite happened. The Copenhagen Summit has fostered a ‘sense of certainty’ in EU-Turkish relations by giving a specific date for the assessment on whether to begin the accession negotiations.<sup>11</sup> Even though the year 2004 was a conditional date, it was nevertheless a significant step forward, as it provided Turkey with the

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<sup>10</sup> A term of reference for a draft law consisting of a collection of amendments to different laws, designed to amend more than one code or law at a time, and which was approved or rejected in a single voting session in the Parliament.

<sup>11</sup> Ziya Öniş and E. Fuat Keyman, “Turkey at the Polls: A New Path Emerges”, *Journal of Democracy*, Vol. 14, No. 2, 2003, pp. 95-107.

prospect that full EU membership was a real possibility.<sup>12</sup> In the meanwhile, the EU also decided to significantly increase the amount of financial assistance to Turkey. Pre-accession financial assistance would reach €250 million in 2004, €300 million in 2005 and €500 million in 2006, to “help Turkey prepare to join the EU as quickly as possible”.<sup>13</sup>

The strengthening of the credibility of EU conditionality was immediately reflected in the subsequent reform packages adopted by the Turkish government. Four comprehensive sets of democratic reforms entered into force in the year 2003, aiming to improve the most criticised aspects of Turkish democracy, such as limits to freedom of speech and expression, freedom of association, torture and mistreatment along with the strong influence of the military on domestic politics.

With the two democratisation packages that entered into force in January 2003, the Law on Political Parties was further liberalised, the fight against torture strengthened, freedom of the press further expanded, the procedures for setting up associations eased and the restrictions applying in the acquisition of property by non-Muslim community foundations abolished. Retrial of cases on the basis of the decisions taken by the European Court of Human Rights was also made possible, paving the way for the retrial of some former Kurdish politicians, such as Leyla Zana.

The sixth reform package that entered into force in mid-July 2003, became famous for the lifting of the infamous Article 8 of the Anti-Terror Law, and included expansion of the freedom of speech, abolition of the death penalty and expansion of broadcasting rights in Kurdish. It was the final set of democratic reforms, however, which entered into force at the end of July 2003, that attracted the most attention due to its emphasis on strengthening the civilian control of the military, as well as the additional measures to fight against torture and protect the exercise of fundamental freedoms.

In May 2004, there was another set of amendments to the Constitution, some of which consisted of harmonising the Constitution with the previous democratisation packages. However, more significant amendments clearly establishing civilian primacy in the National Security Council, reform of the judiciary and extending guarantees for the freedom of the press were also approved by the Parliament. The subordination of domestic law to

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<sup>12</sup> E. Fuat Keyman and Ziya Öniş, “Helsinki, Copenhagen and Beyond: Challenges to the New Europe and the Turkish State”, in Mehmet Ugur (ed.), *Europeanization and the Nation State*, London: Routledge, 2004.

<sup>13</sup> European Union European Commission Representation to Turkey, “EC Funded Programmes in Turkey: 2003-2004”, December 2003 (accessible at <http://www.deltur.cec.eu.int/english/eufunded2004/01eufp04.pdf>).

international laws recognised Turkey in the area of fundamental rights and liberties was also now secured in the Turkish Constitution. The eighth democratisation package adopted in July 2004 resolved yet another long-criticised issue, repealing the provision that allowed for the nomination of a member of the High Audio-Visual Board (RTÜK) by the Secretariat General of the National Security Council.

The new Penal Code and the Law on Associations, currently pending in the Turkish Parliament, are also expected to be adopted before the Commission issues its report in October. Although most of the new provisions contained in the new Penal Code are of a nature to enhance Turkey's harmonisation with European norms and practices in this area, the proposal by the AKP leadership for an amendment to criminalise adultery was met with serious concern both at the domestic level and also by EU leaders and the European public opinion. (At the time of writing the outcome is unclear.) Box 2.1 gives further background, noting that the removal of adultery as an offence in the legal code of Western countries has been an ongoing process during the whole of the twentieth century, with some countries adopting liberalising reforms only in recent times.

*Box 2.1 European and Turkish legal codes on adultery*

For an historical perspective on the present public debate, the Turkish legal code was originally adopted by the Kemalist regime in 1926. The context was not then connected to matters of Muslim culture, for the text was a quasi-literal translation of the Italian legal code at that time. The Turkish legal code of 1926 has since been amended 60 times. Rulings by the Turkish Constitutional Court in 1996 and 1998 effectively annulled the provision on adultery on the grounds that it discriminated against women in the sense that adultery was a punishable offence for women but not for men.

The Turkish Parliament is currently (mid-September 2004) in the closing stages of legislating on an entirely new legal code, which contains many reforms in a modernising direction. In August and September 2004, the government began to discuss with opposition parties the idea of an amendment that adultery be re-established as a criminal offence, with both men and women to be punishable. This led to protests from Turkish civil society and NGOs, with controversy also stirred in European political circles, with the outcome uncertain at the time of writing. The removal of adultery as an offence from the legal codes of Western countries has been progressively underway for most of the twentieth century. The instances that have only relatively recently seen abolition in the late twentieth century include Italy (1969), Portugal (1974), France (1975), Spain (1981), and Austria (1997). In the United States adultery is still an offence in 20 states.

Notwithstanding this incident, most of the reforms in the past were passed immediately after or before crucial European Council meetings, displaying once again the clear drive of the prospect of membership.

In addition to legislative changes, the government has also taken specific steps geared towards securing effective implementation, the most notable of which was the establishment of Human Rights Boards in cities and provinces as well as a special Reform Monitoring Group jointly headed by the Minister of Foreign Affairs and the Minister of the Interior and composed of various representatives of selected ministries and government bodies.

As the prospect of EU membership and the associated conditionality became more 'real', it became impossible to separate the domestic and international spheres from each other. By helping to create a 'strong language of rights' in the country, the EU started to play an important role in furthering the change in state-society relations and provided added legitimacy for civil society organisations calling for a more democratic Turkey and demanding recognition of cultural and civil rights/freedoms.<sup>14</sup> Similarly, the EU has also provided increasing legitimacy for the governing party AKP's heavy emphasis on democracy and the protection of individual rights and freedoms, as was reflected in the speed of political reforms after the Party came to power in November 2002. Democracy as advocated by the EU became the 'catchword and the strategy through which the former Islamists seek to change the system at the same time as they change themselves'.<sup>15</sup>

Another reason that facilitated compliance by Turkey was the perceived decrease in the costs of these measures for the military/security establishment, which used to be particularly high in the 1990s. This was specifically the case for reforms related to cultural rights. The political costs of compliance were reduced with the virtual end of Kurdish terrorism in the late 1990s, reducing previous fears and strengthening the view that national unity can best be preserved through further democratisation, rather than via military means.

## 2.4 Policy conclusions

Recent years have clearly seen substantial improvements in Turkey's democracy. Nobody today questions whether the basic institutions of government – the parliamentary legislature, the government and presidency –

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<sup>14</sup> See E. Fuat Keyman and Ahmet İçduygu, "Globalization, Civil Society and Citizenship in Turkey: Actors, Boundaries and Discourses", *Citizenship Studies*, Vol. 7, No. 2, 2003, pp. 219-233.

<sup>15</sup> Duygu Bazoglu Sezer, "The Electoral Victory of Reformist Islamists in Secular Turkey", *International Spectator*, Vol. 37, No. 4, 2002, pp. 7-21.

are functioning democratically. Turkey's democracy has matured and deepened. Reforms recently undertaken have been addressing long-criticised aspects of the country's political system, particularly the role of the military in politics, respect for human rights, cultural and minority rights and the judicial system. Yet while in legislative and institutional terms a lot has been achieved, there is still much to be done regarding implementation.

For example, in the field of *torture and ill-treatment by the police and in penal establishments*, there are still legislative measures to be taken, the most significant of which are the lifting of the statute of limitations for such crimes, removal of law enforcement officials from active duty pending the outcome of investigations and abolishing the practice of giving a copy of medical reports to security officers. Annulment of Article 159 of the Penal Code and a comprehensive reform of the Law on Political Parties would constitute fundamental steps in further expanding the freedom of expression. With respect to the freedom of association, the draft Law on Associations introduces the legislative remedies for long-standing obstacles regarding government approval mechanisms and cooperation with foreign associations. The draft, however, does not touch upon the broad authority of the Interior Ministry and government officials to inspect premises and records of associations. This would require further legislative action in the next stages of the reform process.

The issue of the *protection of minorities* is no longer a 'taboo' subject in Turkish political life. There are serious efforts to improve the lives of minorities in Turkey. Regarding non-Muslim minorities, the remaining problems in the field of property rights for community foundations and religious freedoms are resolvable through the correct and full application of the provisions of the Treaty of Lausanne. Other groups, particularly the Kurds, would benefit greatly from the extension of cultural rights such as the granting of local broadcasting rights, the introduction of optional language classes in public schools upon demand and the lifting of restrictions on expressions of cultural identity. In order to ensure effective implementation of such measures, it is also necessary to undertake a gradual shift from the traditional interpretation of the Turkish state to a redefined notion of political community, which requires a more inclusive and truly civic concept of citizenship.

The guarantor of the rule of law and of reform process, the *judiciary*, has also undergone significant reforms, the most notable of which was the recent abolition of the State Security Courts that have in the past dealt with crimes against the state. Future reforms should focus on ensuring proper training and working conditions for the members of the judiciary, and ensuring its full independence from the executive. Implementation here is a major challenge that will take many years.

The process of change already extends throughout society, from the policemen who are actually now following the newly opened Kurdish languages courses, to the civil servants who revise the implementing regulations, the military which decreases its spending upon the request of the civilian power, the judges and the public prosecutors who give increasing references to the European Convention on Human Rights, and the majority of the citizenry who support the European integration process. Further training and education coupled with the continued and credible application of EU conditionality would secure the path of reform which in the eyes of many is as revolutionary as those achieved by Mustafa Kemal and his followers in the 1920s and the 1930s.

Given the pace of reforms in the last three years, the remaining legislative and institutional tasks could be achieved in a relatively short period of time by the Turkish authorities. What requires more energy and more time are efforts geared towards changing the mindsets of some public officials, in particular in the police force and in parts of the civilian and military bureaucracy. The behaviour of middle-level officials in Turkey as elsewhere, is conditioned by years of habit. Some of this behaviour was formed during the cold war and during periods of strong perceived threats to the Turkish state and Turkish society. Conditions today are very different, and the formal beginning of negotiations with the EU will provide further stability.

In the case of Turkey, the progress achieved so far suggests that for the existing reforms to be entrenched and further proceed, the EU should follow the same path as for Romania and Bulgaria. It is generally recognised that the EU opened negotiations with these countries before they *perfectly* respected the Copenhagen political criteria, with still high degrees of corruption and malfunctioning in public administrations.<sup>16</sup> Also one may bear in mind the case of Latvia, where according to a report by the European Parliament in February 2004 there remain significant problems regarding the situation of its Russian minority even at the time of accession. The opening of accession negotiations with Turkey on the grounds of ‘sufficient progress’, to be followed by regular assessments of compliance with the political criteria upon closing of a certain number of previously agreed chapters, is plausible, and in line with recent practice.

In the case of Turkey, the adoption costs of the ultimate transformation that will occur on the path to eventual accession still seem to be perceived as high by some sections of society, in particular those who sense a possible loss of

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<sup>16</sup> Michael Emerson, *Has Turkey fulfilled the Copenhagen political criteria?*, CEPS Policy Brief No. 48, Centre for European Policy Studies, Brussels, April 2004, p. 2.

privilege or control.<sup>17</sup> The costs are perceived to arise from the pooling of sovereignty, decentralisation and increased recognition of multiple identities, which comprise the defining traits of European integration. These processes come into direct conflict with the authoritarian visions of nationalism based on a single all-encompassing identity, and lead the members of the anti-EU coalition to regard major political reform along these lines as a major threat to the unity of the nation.<sup>18</sup> Although such resistance was also present in a majority of the Central and East European countries, the levels are higher in the Turkish context due to ‘historical legacies and the peculiarities of her nation-building experience’.<sup>19</sup> There is much greater continuity in the existing socio-political structure in the Turkish case, making it more difficult to achieve some of the reforms from within the existing structures.<sup>20</sup>

A credible and consistent policy of stressing the common European norms is thus necessary to empower reformist elements in Turkish society. In cases where the incentive of membership offered by the EU requires the adoption of principles perceived as threatening for some privileged groups, the only means for the EU and Turkish reformers to bring about change are through direct democracy promotion and mobilisation at both elite and the mass level. As an example, this indeed worked in the case of Slovakia, in overcoming the resistance of the Mečiar leadership.<sup>21</sup> In addition, the EU also needs to continue offering aid and assistance to pro-democratic forces in Turkish society and to build transnational networks for change. Close and direct links with civil society and the reformist forces will help accelerate further progress. Determined attempts to change the perceptions of parts of the elite and to stress the security and prosperity-enhancing nature of the reforms, would also prove beneficial. All these measures would be helpful in fostering ‘socialisation’ into common European norms and values.

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<sup>17</sup> Frank Schimmelfennig et al., “Costs, Commitment and Compliance: The Impact of EU Democratic Conditionality on Latvia, Slovakia and Turkey”, *Journal of Common Market Studies*, Vol. 41, No. 3, 2003.

<sup>18</sup> Ziya Öniş, “Domestic Politics, International Norms and Challenges to the State: Turkey-EU Relations in the Post-Helsinki Era”, *Turkish Studies*, Vol. 4, No. 1, 2003, pp. 9-34.

<sup>19</sup> *Ibid.*, p. 5.

<sup>20</sup> See Nils Muiznieks and Ilze Brands Kehris, “The European Union, Democratization, and Minorities in Latvia”, in Paul J. Kubicek (ed.), *The European Union and Democratization*, London: Routledge, 2003, pp. 31-55.

<sup>21</sup> See D. Kevin Krause, “The Ambivalent Influence of the European Union on Democratization in Slovakia”, in Paul J. Kubicek (ed.), *The European Union and Democratization*, London: Routledge, 2003, pp. 56-86.



We conclude with a suggestion based on two words – fairness and objectivity. For the decision about Turkey's readiness for the full accession negotiations to be taken fairly, it has to have an objective basis, which can only mean the capacity and willingness of Turkey to meet the Copenhagen criteria. Turkey's place in Europe should not be based on religious or geographical references. Instead, Turkey's identity and its compatibility with the Europeans norms of democracy and economic modernisation should be judged on the basis of an objective, historical and analytical reading of modern Turkey.

The history of modern Turkey since 1923 has been one of modernisation and democratisation. However, this history has had, and continues to have, its problems in linking together modernity and democracy. Yet Turkey's profound political identity as a secular parliamentary democracy appears indeed to be compatible with European norms of democracy and liberal economy. That is evidenced in the fact that the more Turkey has attempted to meet the Copenhagen criteria, the more it has consolidated its democracy and made its modernity liberal, plural and multi-cultural. Turkey has achieved this in a short period not only because of the strong political will to do so, but also because it had already established the institutions and norms of democracy and modernity.

In this sense, we suggest that, rather than catering to culturalist and essentialist discourses prevalent in Europe, which privilege religion and geography over universal norms of democracy and a rules-based market economy, the principle of fairness and objectivity should be the basis of the EU's decision about Turkey. Fairness and objectivity have the potential to create a reciprocal relationship between Turkey and the EU, in which both parties have mutual benefits. While accepting Turkey as a full member of the EU would demonstrate that the process of European integration and its enlargement operates on the basis of universal norms rather than religion or geography, the project of Europeanisation in Turkey makes a significant contribution to the process of democratic consolidation and societal modernisation. With its secular modernity and the Muslim cultural traditions of the majority of its population, Turkey can contribute to the reshaping of the political identity of Europe as a multi-cultural space governed by the universal norms of democracy and a modern socially-caring market economy. With the strengthening of such a political identity, Europe will for its part, help reshape international relations in the direction of more democratic world governance, which our extremely dangerous post-September 11<sup>th</sup> world today needs more than ever.

## Chapter 3

### Justice and Home Affairs\*

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It is only in the last two years that Turkey has started to focus its attention on justice and home affairs (JHA) issues, with adoption of the second Action Plan in March 2003, followed by the revised National Programme for the Adoption of the Acquis (NPAA), which took additional steps towards harmonisation in the area. The Turkish government had already in June 2002 formed a Task Force composed of representatives from the military, Ministry of Interior, Ministry of Foreign Affairs, Undersecretary of Customs and the Secretariat General for European Union Affairs. Working groups within this Task Force were set up to start legislative scrutiny, arrange for studies as well as study visits with respect to border protection, irregular migration, the Schengen visa regime and asylum.<sup>22</sup> Since then, the Task Force has produced Strategy Reports in these areas that were in turn negotiated and discussed with the European Commission in Ankara. Subsequently, the government prepared proposals for twinning projects prepared in these areas, with training programmes and resources for administrative capacity-building financed by the EU. A joint EU-Turkey consultative mechanism has also been put into place to oversee the harmonisation process.

Subsequent to the Helsinki European Council in December 1999, the EC-Turkey Association Council of 11 April 2000, set up eight subcommittees under the Association Committee,<sup>23</sup> one of which deals with JHA policies. This subcommittee has met five times.<sup>24</sup> The meetings have been forums during which views are exchanged and Commission officials raise questions concerning legislative screening and progress with respect to work on harmonisation.

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\* This chapter draws on the longer report by Joanna Apap, Sergio Carrera and Kemal Kirişçi, *Turkey in the EU Area of Freedom, Security and Justice*, EU-Turkey Working Paper No. 3, Centre for European Policy Studies, Brussels, August 2004.

<sup>22</sup> The European Commission provided considerable expert assistance to the working groups, through an existing “unallocated institution building” project. Administrative Cooperation and study visits were organised for Turkish officials to Germany, Poland and Finland as best practice member states with the assistance of the European Commission.

<sup>23</sup> Decision No 3/2000 of the EC-Turkey Association Council of 11 April 2000 on the establishment of Association Committee subcommittees (2000/378/EC).

<sup>24</sup> These meetings were held on 6-7 March 2001, 2-3 July 2001, 20-21 March 2002, 19 June 2002 and 15 December 2003.

### 3.1 External border protection and migration control

Turkey has 2,949 km of land borders and 8,330 km of sea borders. An important proportion of the land borders are characterised by mountainous terrain. Traditionally, the Iranian, Iraqi and Syrian borders were porous and particularly vulnerable to smuggling and banditry well into the 1970s. Subsequently, in the 1980s and 1990s, these borders became conduits for PKK terrorists operating out of neighbouring countries. As a result, they have been heavily militarised and a good part of the Syrian border is mined. However, a significant improvement in relations between Syria and Turkey over the last year has culminated in a decision early in 2004 to start to remove the mine fields. It is now in particular the Iranian border that is vulnerable to irregular migration. A large proportion of illegal transit migrants usually are smuggled into Turkey across this border. It is also via this border that most of the asylum seekers arrive in Turkey. An important proportion of asylum applications in Turkey are lodged in the city of Van near the Iranian border. The Iraqi border on the other hand has seen two major mass influxes of refugees. In 1988 subsequent to the Halapja incidents, close to 60,000 Kurdish Iraqis sought refuge in Turkey followed by another almost 450,000 after the end of the first Gulf War. A very large proportion of these refugees eventually returned to Iraq.

On the other hand, the Soviet border until the end of the cold war was tightly sealed with minimal movement of people. Currently, the border with Georgia and Azerbaijan's Nakichevan province is open and lively, while the one with Armenia that is separated by a river remains politically and physically closed. During the cold war, the Bulgarian border too was tightly controlled and heavily fortified on both sides. However, subsequent to the collapse of the communist regime in Bulgaria, relations between the two countries improved very quickly. By the mid-1990, both countries had reached agreements for the demilitarisation of the border regions accompanied by efforts to de-mine the border. Currently, the Bulgarian border is an extremely busy border as Bulgaria constitutes the main transit path for Turkey's commercial relations, as well as for the seasonal movements of Turkish immigrants in Europe. The border with Greece from the early 1960s had become tightly controlled too, with militarised no-go zones on both sides of the border as the relations between the two countries deteriorated. However, since relations between the two countries entered a period of *rapprochement* in 1999 the border has started to be demilitarised and traffic, both commercial and private, has increased significantly.

Turkey has also an exceptionally long sea border. The Aegean is a particularly difficult sea to control because of the nature of the coast and the large numbers of islands that dot the sea. This provides an ideal environment for illegal migrants trying to make it to Europe. They attempt to use the

multitude of little ports and isolated coves along the coast to catch a passage to the Greek islands with the help of human smugglers. The Aegean is also a rough sea which explains why occasionally boats overloaded with illegal migrants sink and tragedies occur.<sup>25</sup> The Mediterranean Sea, itself is a major conduit between the Afro-Asian world and the European Union for the movement of illegal migrants. However, compared to the Aegean Sea, the Turkish coast along the Mediterranean Sea is relatively easier to control and incidents of human smuggling and accidents involving boats carrying illegal migrants are much less frequent. The Black Sea coast of Turkey does not appear to be used for human smuggling and illegal migration purposes.

The east and southeastern land borders of Turkey to a depth of 50 kilometres is controlled by the land forces of the Turkish military except for a short stretch near the city of Van that is controlled by the Gendarmerie.<sup>26</sup> They are responsible for the actual patrolling and the physical protection of the borders against infringements. The coast guard on the other hand is responsible for patrolling the sea coast. It is the coast guard that is responsible for detecting, tracking and interdicting boats carrying illegal migrants.<sup>27</sup> The Interior Ministry's General Directorate of Security is responsible for managing 103 border-crossings while the Under Secretariat of Customs processes formalities with goods.

Turkey has long been known as a country of emigration. Yet, Turkey has, like the Ottoman Empire, a long history of immigration. Government statistics indicate that from 1923 to 1997, more than 1.6 million persons immigrated to Turkey.<sup>28</sup> The founders of the modern Turkish state were concerned about creating a homogenous sense of national identity in an

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<sup>25</sup> For a detailed study of transit migration and smuggling of migrants with specific coverage of the personal experiences of irregular migrants and the special place of the Aegean Sea, see A. İçduygu, *Irregular Migration in Turkey*, International Organisation for Migration (IOM), Geneva (2003).

<sup>26</sup> The Turkish Ministry of Interior, the General Directorate of Security (police forces) carry out the passport controls as well as the entry-exit checks in the country. According to estimations provided by the Turkish Ministry of Interior, national police at the border gates (land border, sea and airport border gates) number about 10,000.

<sup>27</sup> The Coast Guard is equipped with 80 coastal guard boats and 341 Contour boats. Between 2000 and 2003, Turkish authorities with the assistance of the Coast Guard intercepted 118 boats carrying illegal migrants. Statistics obtained from the Foreigners Department of the MOI.

<sup>28</sup> K. Kirişçi, "Coerced Immigrants: Refugees of Turkish Origins since 1945", *International Migration*, Vol. 34, No. 3, 1996.

otherwise ethnically and culturally diverse country.<sup>29</sup> Exclusive priority was given to encouraging and accepting immigrants who were either Muslim Turkish speakers, or who could easily melt into a Turkish identity such as Albanians, Bosnians, Circassians, Pomaks and Tatars from the Balkans. The period of government-supported immigration into Turkey lasted until about the early 1970s. However the last major wave of immigration occurred unexpectedly in 1989, when close to 310,000 Turks and Pomaks were expelled from Bulgaria by the Communist regime. While a third of these refugees returned soon after the regime change in Bulgaria in 1990, the rest acquired Turkish citizenship. With Bulgarian membership in the EU expected by 2007, many are now returning to reclaim their Bulgarian citizenship.

Since the early 1990s, Turkey has been witnessing new forms of immigration. These include students from a variety of countries as well as nationals of EU countries who have officially sanctioned presence in Turkey with proper residence and work permits. EU nationals include individuals engaged in professional activities and their families particularly in Istanbul, as well as European retirees in some of the Mediterranean resorts. They, too, constitute a relatively new phenomenon in terms of immigration into Turkey, and their numbers are estimated at 100,000-120,000.<sup>30</sup>

A critical aspect of border protection and control for the EU is the problem of illegal migration. The arrival of large numbers of irregular migrants into Italy, France and the UK in the late 1990s enhanced the urgency to act at the EU level, even before the events of 11 September 2001 and 11 March 2004. Turkey has attracted considerable attention as a transit country for illegal migrants as a point of departure for boats carrying these smugglers.

There is also a form of irregular immigration involving nationals of neighbouring countries and transit migrants. Turkey allows nationals of Armenia, Azerbaijan, Georgia, Iran, Moldova, Ukraine, Russia and the Central Asian republics to enter the country quite freely either without visas or with visas that can easily be obtained at airports and other entry points. A large number of these people are involved in small-scale trade.<sup>31</sup> However,

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<sup>29</sup> K. Kirişçi, "Disaggregating Turkish citizenship and immigration practices", *Middle Eastern Studies*, Vol. 36, No. 3, July 2000.

<sup>30</sup> B. Kaiser, "Life Worlds of EU Immigrants in Turkey", in Emrehan Zeybekoğlu and Bo Johansson (eds), *Migration and Labour in Europe: Views from Turkey and Sweden*, İstanbul: Şefik Matbaası, 2003.

<sup>31</sup> See İçduygu as well as S. Erder, "Global Flows of Huddles: The Case of Turkey" in Zeybekoğlu and Johansson (eds), *Migration and Labour in Europe: Views from Turkey and Sweden*, İstanbul: Şefik Matbaası, 2003.

some overstay their visas and illegally work as household help, sex workers and labourers, especially on construction sites and in the tourism sector. According to government statistics there were 477,849 such persons apprehended between 1995 and June 2004. Few of these individuals actually attempt to go to Europe via Turkey. If anything, Turkish officials have argued that the liberal Turkish visa policy and the possibility for many nationals of these countries in the 1990s to engage in suitcase trading relieved the pressure on EU countries from the influx of migrants from these countries.

Starting in the mid-1990s, there was a growth in the number of irregular migrants using Turkey as a transit route. These people were mostly nationals of neighbouring countries in the Middle East such as Iraq, Iran and Syria, as well as Afghanistan and Pakistan. The Turkish government came under massive pressure from a number of EU member countries to curb this transit migration. In accordance with the Association Partnership (AP), Turkey is expected to introduce a series of measures to combat irregular migration, including the construction of reception centres and signing readmission treaties with countries of origin, and to start negotiating a readmission treaty between Turkey and the EU.<sup>32</sup> Furthermore, Turkey in 2001 joined the Centre for Information, Discussion and Exchange on the Crossing of Borders and Immigration (CIREFI). Since then it has been sharing data with this Centre and participates in bi-annual meetings of the Centre. It also cooperates with the Early Warning System with respect to sudden surges in illegal migration movements and forged or stolen documents. The High Level Working Group (HLWG) on Turkey completed its Strategy Report to Support the Migration Management Action Plan in December 2003, laying out objectives and tasks. Twinning projects, one on asylum and immigration and another on combating trafficking in human beings, have been signed involving Austria, Denmark, Germany and United Kingdom.

The number of irregular migrants apprehended by the authorities was steadily increasing until their numbers peaked in 2000 with almost 95,000

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<sup>32</sup> The Accession Strategy for Turkey under Co-operation in the field of Justice and home affairs notes “Continue to strengthen the fight against illegal immigration and negotiate a readmission agreement with the European Community”, p. 17. On the other hand the JHA Council meeting of 21-22 April 2002 that approved the criteria for readmission and new readmission treaties “asked the European Commission to submit separate draft negotiation mandates for readmission agreements with China, Turkey, Algeria and Albania”; see the Criteria for the identification of third countries with which new readmission agreements need to be negotiated – Draft Council Conclusions, Council of the European Union, 7990/02, Brussels, 16 April 2002, approved by the JHA Council on 25-26 April 2002.

arrests. Since then the trend has turned steadily downwards, apparently reflecting the efforts of the Turkish authorities to stem the flow of illegal transit migration. Furthermore, the number of irregular migrants apprehended by the Italian authorities and alleged to have reached the Italian coast via Turkey has fallen from 6,093 in 2001 to 2,117 in 2002 and 177 in 2003. These statistics also indicate that between 2000 and 2003, 157 ships carrying irregular migrants were intercepted, 118 of which were stopped by the Turkish authorities. The 2003 Progress Report does indeed acknowledge that the trend in illegal migration via Turkey has shown a decrease.<sup>33</sup>

Part of the wider problem of irregular migration in Turkey has also been that of trafficked persons – especially women. Turkey has become both a transit and destination country for prostitution by foreign nationals. Some of the women involved in this trade are actually trafficked.<sup>34</sup> In December 2000, Turkey was among the first group of countries to sign the UN Convention against Transnational Organised Crime and its two additional protocols including the Protocol to Prevent, Suppress and Punish Trafficking.<sup>35</sup> More importantly as part of the August 2002 reform package, the government introduced new articles to the Penal Code criminalising human smuggling and trafficking.<sup>36</sup> Most strikingly the Interior Ministry officials together with the Gendarmerie were able to make arrangements with a non-governmental organisation, Human Resources Development Foundation (*Insan Kaynaklarını Geliştirme Vakfı-İKGV*), and the Directorate General of the Status of Woman to provide social assistance to victims of trafficking until their return to their countries of origin could be arranged. This is a commendable example of cooperation between government and civil society.

In an effort to prevent the abuse of the acquisition of Turkish nationality by marriage, the government amended Article 5 of the Citizenship Law in June 2003 and introduced the requirement of a minimum of three years of probation before Turkish nationality can be obtained. Previously, the law permitted women to acquire Turkish nationality automatically. This had led to considerable abuse.

The EU is expecting Turkey to adopt a series of measures to enhance the protection of its borders. Most importantly the EU wants to see the

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<sup>33</sup> See [http://europa.eu.int/comm/enlargement/report\\_2003/pdf/rr\\_tk\\_final.pdf](http://europa.eu.int/comm/enlargement/report_2003/pdf/rr_tk_final.pdf).

<sup>34</sup> For an extensive and thorough study of this problem see S. Erder and S. Kaska, *Irregular Migration and Trafficking in Women: The Case of Turkey*, International Organisation for Migration (IOM), Geneva, 2003.

<sup>35</sup> Official Gazette, 29 March 2003, No. 25052.

<sup>36</sup> Data obtained from [www.cte.adalet.gov.tr/istatistik/suc\\_turu.htm](http://www.cte.adalet.gov.tr/istatistik/suc_turu.htm) (on 2 July 2004).

replacement of the current border control and management system with an integrated civilian-professional unit with a capability to detect forged and false documents. The strategy foreseen in the NPAA on external borders needs to be highlighted. The Task Force on Asylum, Immigration and External Borders for the preparation of the overall strategy for alignment with the EU *acquis* on border management finished its work in the year 2003. The outcome foresees the creation of a new body wanted by the EU within the Ministry of Interior for all border protection issues, including coast guards, composed of non-military, professional law enforcement officials. The strategy equally identifies the key legislative and institutional amendments, as well as infrastructure and training programmes, under which a proper alignment with the Schengen *acquis* would take place. The European Council at its meetings in Feira in June 2000 and Göteborg in June 2001 stressed the importance of any applicant countries' capacity to implement and enforce the *acquis communautaire*. The Council further emphasised that this goal involves fundamental efforts by every applicant in strengthening and reforming their administrative and judicial systems.

### 3.2 Readmission agreements and asylum<sup>37</sup>

Turkey is also expected by the EU to sign readmission agreements with neighbouring and other countries that are sources of illegal migration. So far Turkey has signed such agreements with Syria in 2001, Kyrgyzstan in 2003 and Romania in 2004.<sup>38</sup> Under the agreement with Syria, Turkey has returned to Syria 794 illegal migrants and readmitted to Turkey 18 migrants. It is negotiating agreements with Byelorussia, Bulgaria, Egypt, Kazakhstan, Libya, Lebanon, Macedonia, Sri Lanka, Russia, Ukraine and Uzbekistan. Turkey has proposed to negotiate readmission agreements with 15 other countries, but without responses.<sup>39</sup> The negotiation of so many agreements simultaneously is a taxing exercise, especially since the partner governments have little incentive to cooperate.

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<sup>37</sup> Analysis in this section is based on interviews with officials from the Ministry of Interior and Ministry of Foreign Affairs and internal documents.

<sup>38</sup> These agreements were published in the Official Gazette: Syria, Law 4901, Official Gazette, 17<sup>th</sup> June 2001, No. 25148; Greece, Law 3914, Official Gazette, 24 April 2002, No. 25148; and Kyrgyzstan, Law 5097, Official Gazette, 17<sup>th</sup> February 2004, No. 25376. The one with Romania has not yet been ratified and put into force.

<sup>39</sup> As of June 2004, these countries are: Algeria, Bangladesh, China, Ethiopia, Georgia, India, Israel, Iran, Morocco, Mongolia, Nigeria, Pakistan, Sudan and Tunisia.



In addition, in March 2004, Turkey reluctantly accepted to start to negotiate an agreement with the EU itself. However, officials have expressed resentment with respect to the level of pressure they have come under to start these negotiations. They fear that Turkey will become a dumping ground for unwanted immigrants by the EU, given the great difficulties in negotiating agreements with many source countries of illegal migrants. They fear a situation where the EU would be able to send back illegal migrants to Turkey, while Turkey would become a dumping ground in the absence of the means of ensuring their return to their countries of origin.

In the meantime Turkey did sign in November 2001 a bilateral readmission protocol with Greece. Since the agreement came into force, Greece has provided Turkey with a list of more than 14,101 illegal migrants that they would have liked to send back to Turkey. Of the 2,416 accepted by Turkey, Greece handed 1,006 persons, including 270 Iranians and 736 Iraqis, who subsequently were repatriated to Iran and Iraq.<sup>40</sup> The Turkish side asked 753 illegal migrants of 28 nationalities to be readmitted by Greece, of which only 19 Somalis have been accepted. The problems of implementing readmission agreements are serious, even where it involves two neighbouring countries with reasonably good relations.

Turkey, like its predecessor the Ottoman Empire, has long been a country of asylum. Turkish asylum policy is currently based on the Asylum Regulation of November 1994<sup>41</sup> and the geographical limitation with which it originally signed the 1951 Convention Relating to the Status of Refugees,<sup>42</sup> according to which Turkey grants full refugee status only to asylum seekers fleeing 'events' in Europe. However, it does extend temporary protection to asylum seekers coming from elsewhere, mostly Iran and Iraq. In accordance with the

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<sup>40</sup> The readmission and repatriation of Iraqis were suspended between when the war in Iraq started, March 2003, and June 2003.

<sup>41</sup> "The Regulation on the Procedures and the Principles Related to Mass Influx and Foreigners Arriving in Turkey either as Individuals or in Groups Wishing to Seek Asylum from a Third Country" Official Gazette, 30 November 1994, No. 22217.

<sup>42</sup> Turkey signed the Convention with a geographical and a time limitation as expressed in Article 1.B(1)(a). Turkey lifted the time limitation with the adoption of the 1967 Protocol. These instruments were published and became part of national law with Official Gazette, 5 September 1961, No. 10898 and the 1967 Protocol Relating to the Legal Status of Refugees in July 1968 published in Official Gazette, 14 October 1968, No. 13026.

Settlement Law of 1934, immigration and refuge to Turkey is restricted only to individuals of “Turkish descent and culture”.<sup>43</sup>

As Turkey prepares for pre-accession, there are a number of challenges.<sup>44</sup> For example, Turkey is required to lift the ‘geographical limitation’ to the 1951 Convention, which Turkey has committed itself to do so. However the issue is very sensitive. The nightmare scenario of Turkish officials is that the ‘geographical limitation’ would be lifted before there was any assurance of Turkey’s EU membership. A related issue is burden-sharing. Turkish officials are concerned that Turkey because of its geographical location risks becoming a buffer zone or a dumping ground for the EU’s unwanted asylum seekers and refugees, since Turkey is often the ‘first country of asylum’, which is crucial for the determination of responsibility.<sup>45</sup> Turkish officials would expect to see burden-sharing mechanisms beyond what the current Refugee Fund has to offer.<sup>46</sup> The balance between protecting Europe from illegal migration and the protection of the right to asylum is going to be a critical test of the credibility for the EU itself in Turkey as well as in Turkey’s neighbourhood.<sup>47</sup>

### 3.3 Visa policy

One of the areas that will have to experience drastic changes if Turkish law and practice is to be harmonised with the Schengen *acquis* is Turkey’s visa policy. The current visa policy of Turkey has three broad categories of entry into Turkey: first countries whose the nationals can enter Turkey without visas, second those who must obtain visas from Turkish consulates prior to arriving in Turkey and third those who can buy a visa at the frontier or port of entry, subject to a simple security check, known as ‘sticker visa’ (*bandrol* in Turkish). This latter practice is counter to EU/Schengen rules.

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<sup>43</sup> Official Gazette, 14<sup>th</sup> June 1934, No. 2733. This law has since been heavily amended and currently there is a new settlement draft law at the Turkish parliament but the basic articles that define who can be an immigrant and refugee remain unchanged.

<sup>44</sup> For a discussion of this issue see Kirişçi (2003).

<sup>45</sup> Council Regulation (EC) No. 343/2003 of 18.2.2003 published in Official Journal of the European Union, 25.2.2003, L 50/1.

<sup>46</sup> Commission Proposal for a Council Decision on the European Refugee Fund COM(1999) 686, 14.12.1999. Council Decision 2000/596/EC on 28 September 2000 adopting a proposal establishing the European Refugee Fund.

<sup>47</sup> Tampere Council, Presidency Conclusions, 15-16 October 1999 called for an “absolute respect of the right to seek asylum” and agreed that the development of the Common European Asylum System would be based on “the full and inclusive application of the Geneva Convention”.

The current Turkish visa policy is very much the legacy of the late Turgut Özal, a former prime minister and president,<sup>48</sup> who believed in the virtues of functionalism and interdependence in international relations. As the cold war started to come to an end in the late 1980s, he advocated the idea of the Black Sea economic cooperation. With the collapse of the Soviet Union there also emerged a group of new states in the Caucasus and Central Asia with close linguistic and cultural ties to Turkey. The ‘sticker visa’ practice evolved against this background. Özal’s foreign policy was also marked by his determination to expand Turkey’s relations with the Middle East. In an effort to draw tourism and investment especially from Gulf countries and Saudi Arabia, visa requirements were relaxed, as also later for business people from the member states of the Economic Cooperation Organisation (ECO).<sup>49</sup>

This liberalisation of the visa system encouraged the development of an informal import and export activity known as ‘suitcase trade’. This took the form of large numbers of people, firstly from Russia, but also from the Ukraine, Georgia, Azerbaijan, Romania, Moldova and Central Asian republics, travelling to Turkey by chartered planes or ships, to sell and buy their ‘suitcase’ full of products. It is estimated that this trade rose from about \$ 4-5 billion a year during the early 1990s to a peak of \$10 billion in 1995.<sup>50</sup> The economic recession in Russia in 1998 adversely affected this trade while the trade involving East European countries fell to a trickle with EU pre-accession. The volume of suitcase trade has roughly levelled at \$3 billion a year. While ‘suitcase trade’ has now diminished in importance, regular tourism business with the former Soviet states has steadily grown. Russians in particular have become the second largest group of tourists entering Turkey, and are recognised as high-spenders. It is also generally accepted that Turkey’s flexible visa policy has encouraged business contacts and reciprocal business investments.

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<sup>48</sup> For a comparative analysis of Turgut Özal’s foreign policy and traditional Turkish foreign policy see S. Özel, “Of Not Being a Lone Wolf: Geography, Domestic Plays, and Turkish Foreign Policy in the Middle East” in G. Kemp and J.G. Stein (eds), *Powder Keg in the Middle East: The Struggle for Gulf Security*, Lanham, MD: Rowman and Littlefield, 1995. See also W. Hale, *Turkish Foreign Policy, 1774-2000*, London: Cass, 2000, pp. 164-165 and p. 205.

<sup>49</sup> The member countries of ECO are Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Turkey, Turkmenistan and Uzbekistan.

<sup>50</sup> Figures obtained from M. Eder et al., *Redefining Contagion: The Political Economy of the Suitcase Trade Between Turkey and Russia*, International Research Exchange (IREX), Black and Caspian Sea Research Programme, Final Report, July 2002.

Table 3.1 Entry into Turkey of persons from the former Soviet Union, 1964 to 2003

	1964	1980	1990	1996	2003
<b>Russia</b>	-	-	-	<b>1,235,290</b>	<b>1,285,825</b>
<i>Central Asia</i>					
Kazakhstan	-	-	-	31,373	65,748
Kyrgyzstan	-	-	-	8,052	14,185
Tajikistan	-	-	-	3,087	3,591
Turkmenistan	-	-	-	5,035	16,685
Uzbekistan	-	-	-	13,558	19,527
<b>Subtotal</b>	-	-	-	<b>61,105</b>	<b>119,736</b>
<i>S. Caucasus</i>					
Armenia	-	-	-	5,345	23,596
Azerbaijan	-	-	-	100,249	173,165
Georgia	-	-	-	116,709	158,750
<b>Subtotal</b>	-	-	-	<b>222,303</b>	<b>355,511</b>
<i>Western CIS</i>					
Belarus	-	-	-	474	30,056
Moldova	-	-	-	8,290	54,137
Ukraine	-	-	-	93,794	214,415
<b>Subtotal</b>	-	-	-	<b>102,558</b>	<b>298,608</b>
<b>Total (FSU)</b>	<b>414</b>	<b>40,015</b>	<b>222,537</b>	<b>1,764,556</b>	<b>2,059,680</b>
<b>World total</b>	<b>229,347</b>	<b>1,057,364</b>	<b>2,301,250</b>	<b>8,538,864</b>	<b>13,461,420</b>

Source: Compiled from data obtained from the Foreigners Department of the Turkish Ministry of the Interior and State Statistical Institute, Annual Reports.

The politics of the cold war meant that Turkey lost contact with communities in the Soviet Union, with which it had close historical and cultural ties, such as Turkish-speaking communities, Tatars, Azeris, Circasians, etc. As Table 3.1 reveals, in 1964 there were only 414 entries from the Soviet Union into Turkey. By 1970 the figure had increased to a still modest 40,015. The unwinding of the cold war helped to increase contacts and 1990 saw more than 220,000 entries. But then after the introduction of the 'sticker visa' system in the early 1990s, the number of entries from the former Soviet Union soared, reaching a peak of 2.8 million entries out of a world total of 8.5 million. For Turkey, the collapse of the Soviet Union had opened up a

vast world from the ‘Adriatic Sea to the Chinese Wall’ economically, socially and culturally.

If the Schengen visa system were rigidly applied, Russian citizens (including many belonging to ethnic groups with cultural affiliations to Turkey) may well be the hardest hit, since reaching Turkish representations within Russia will be hindered by the vastness of the country.

The removal of travel restrictions has also helped to increase contacts between Turkey and the Balkan countries. The lifting of the visa requirement for Greek nationals in 1988 resulted in a huge increase from minimal levels in the 1960s and 1970s, reaching 368,425 movements in 2003. Significant increases also took place across most Balkan countries, with the total rising from a mere 60,000 in 1980 to almost two million in 2003.

The Middle East is the only neighbouring region of Turkey where the implementation of a flexible visa system does not appear to have made a big difference, with the exception of Syria and Iran. Turkey and Syria have long had a policy of allowing their nationals from the border region a degree of flexible access to each other’s territory within a 50 kilometre zone to pursue family business, etc. with an ‘administrative letter’ issued by local authorities. There has been a similar story with Iran, but on a much bigger scale, with almost half a million entries from Iran in 2003, which is not an insignificant foreign policy, as well as commercial matter, from the point of view of reducing the isolation of Iranian society from the West. See Table 3.2.

Yet, there are also downsides to this flexible visa policy. Labour unions as well complain about the increase in the number of illegal workers in Turkey.<sup>51</sup> A cold reminder of the consequences of flexible border control arrangements came after the two terrorist attacks in Istanbul in November 2003, with subsequent police investigations revealing that the terrorists and their aides had travelled frequently to Afghanistan, Iran, Pakistan and Russia.

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<sup>51</sup> There were reports that in Istanbul alone, there were 750,000 illegal workers (see *Radikal*, 9 February 2001). Under pressure from the unions and the public the then Minister of Labour Affairs and Social Security, Yaşar Okutan argued that illegal workers were taking away jobs from Turkish citizens and that a legislation was being drafted to introduce fines (*Radikal*, 30 December 2001). On 21 December 2002, *Radikal* also reported that a new law was being drafted that would institute fines and put the number of illegal foreign workers at one million. However, it should be noted that these are purely speculative figures.

Table 3.2 *Entry of persons into Turkey from the Middle East and the Balkans, 1964 to 2003*

	1964	1980	1990	1996	2003
<b>Middle East</b>					
Iran	12,796	42,082	219,958	379,003	484,269
Iraq	3,919	14,046	13,372	14,137	29,940
Syria	9,996	26,384	113,959	92,033	154,108
Gulf states*	-	-	43,088	40,029	43,503
Pakistan	1,961	4,800	7,347	12,410	12,336
<i>Subtotal</i>	<i>28,672</i>	<i>87,312</i>	<i>397,724</i>	<i>537,612</i>	<i>724,156</i>
<b>Balkans</b>					
Albania	-	-	1,924	20,971	32,682
Bosnia	-	-	-	12,115	35,119
Bulgaria	693	26,523	-	139,648	1,007,535
Greece	3,042	19,477	203,720	147,553	368,425
Macedonia	-	-	-	41,269	117,819
Romania	-	-	352,034	191,203	184,182
Serbia-Mont.	-	-	-	44,600	186,423**
Yugoslavia	5,661	13,817	296,843	-	-
<i>Sub Total</i>	<i>9,396</i>	<i>59,817</i>	<i>854,521</i>	<i>597,359</i>	<i>1,932,185</i>
<b>Total above</b>	<b>38,068</b>	<b>147,129</b>	<b>1,252,245</b>	<b>1,134,971</b>	<b>2,656,341</b>
<b>World total</b>	<b>229,347</b>	<b>1,057,364</b>	<b>2,301,250</b>	<b>8,538,864</b>	<b>13,461,420</b>

\* Includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

\*\* Statistics for Serbia & Montenegro are sometimes referred to as the Federal Republic of Yugoslavia.

*Source:* Compiled from data obtained from the Foreigners Department of the Turkish Ministry of the Interior and State Statistical Institute, Annual Reports.

The Accession Strategy for Turkey requires Turkey to adjust its visa policy to the standards of the Schengen visa regime and to adopt the Schengen negative list. The NPAA provides a schedule for the adoption of the relevant EU *acquis* by the end of 2005. In this respect, Turkey aims to abolish visa-free travel for those countries that are on EU's negative list by the end of 2004. Turkey started to align its practice with the EU in September 2002, and

currently is short of matching the negative list with six countries. These countries are Bosnia-Herzegovina, Iran, Kyrgyzstan, Macedonia, Morocco and Tunisia. Turkey is committed to complete the process for all the remaining countries except Bosnia and Macedonia by the end of the year. There is a reluctance to terminate the visa-free arrangements with these two countries because of close historical and cultural ties with these two countries including the presence of Turkish minorities.

Turkey is expected to end the 'sticker visa' practice in the near future. Currently, Turkey allows for the nationals of 30 countries to benefit from this practice. The EU considers this practice as one that seriously undermines effective border control. Instead the EU requires Turkey either to adopt a visa-free regime for those countries that are not on the negative list of the EU, or alternatively introduce the practice of obtaining visas from Turkish consulates in the country of origin.

Turkey is also expected to renew its passports and introduce features to Turkish passports to prevent them from being forged. Currently, Turkish passports are considered to be particularly vulnerable to forgery. The government submitted to the Turkish Parliament a draft law in January 2004 that aims to amend the Passport Law No. 5682 of 15 July 1950, to be able to meet Turkey's commitments arising from the NPAA and align it with the requirements of the EU *acquis*.

Many officials see the introduction of the new measures required by the EU as positive for improving border control and security. However, unless the EU changes its policy, Turkey will become the only country that will be implementing the EU's negative list while being on the list itself.<sup>52</sup> Turkish business people and students bitterly complain that these restrictions put them at a disadvantage in relation to their counterparts in the EU. Student organisations point to the inconsistency in the processing of visa applications among EU consulates and the administrative difficulties raised. Business people report that they feel unfair competition from their EU counterparts who are able to travel to Turkey freely. The EU practice of lifting or easing of visa requirements for the nationals of candidate countries that have adopted the EU *acquis* and practice with respect to visas has not gone unnoticed by Turkish officials and politicians, most strikingly in the case of neighbouring Bulgaria. After the EU lifted visa requirements for Bulgarian

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<sup>52</sup> A prominent international judge and professor of international law Rona Aybay reported complaints about a practice by the British and German Consulates of stamping the note "visa rejected" in some passports of Turkish nationals and argued that this could constitute a violation of international law and human rights (see *Cumhuriyet*, 7 June 2004).

citizens,<sup>53</sup> the Turkish government lift the visa requirement for Bulgarian nationals in June 2001, leading to a tripling of entries from Bulgaria from 380,000 in 1996 to over a million in 2003.

There are also costs attached with the adoption of the Schengen visa regime. The introduction of visa requirements will impose a major administrative and financial burden on Turkey. As already noted, during the course of 2003 there were approximately 1.3 million Russians and half a million Iranian nationals entering Turkey. Issuing visas for such a large number of people will present a major burden on Turkey's representations abroad as both countries are currently on the Schengen negative list. However, the greatest consequence of the new visa system would be that it may lead to a significant fall in the number of people coming to Turkey.

Lastly, the adoption by Turkey of the Schengen *acquis* on visa requirements may well aggravate the problem of irregular migration into Turkey as well as through it. This could be the case for example for Chechens who currently are able to enter Turkey without difficulties, but who face widespread human rights violations in their homeland. A similar case could be made for Iranian nationals. Iranians constitute the largest number of asylum applicants in Turkey.

### 3.4 Policy conclusions

Looking ahead there are five key issues that are crucial to the Turkey-EU cooperation in the field of justice and home affairs.

*Border control.* Turkey should continue with its efforts to put into place a professional border control administration in close cooperation with the EU. A second generation of twinning projects could foster the exchange of border guards between Turkey and member states, or in due course with the proposed EU Border Management Agency. Such initiatives would also constitute an important confidence-building measure, besides being mechanisms for the exchange of expertise and know-how. Turkey also needs to continue its efforts to build up a capacity to detect and combat passport and document forgery. Further twinning projects could be applicable here too. In the long term, the EU should consider policies that would make it possible for the agents of the new border administration in Turkey to be seconded to spend time on existing EU borders and with the Border Management Agency when it becomes operational.

*Readmission Agreements.* The EU is pushing for a readmission agreement to be concluded without delay. Turkey is concerned about signing such an agreement with the EU before it has readmission agreements in place with

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<sup>53</sup> Reported in *Radikal*, 10 March 2001.



those source countries for irregular immigrants who transit through Turkey. Nonetheless, after resisting signing readmission agreements with third countries and with the EU for some time, Turkey has now signed four agreements, and is negotiating many further agreements. Nevertheless, Turkey's leverage on third countries in these negotiations is limited. There is a need for active support from the EU, which would be a valuable confidence-building measure between the EU and Turkey, and facilitate the conclusion of their mutual readmission agreement. The conclusion of a readmission agreement between Turkey and the EU should also be the occasion to clarify the prospects and criteria for easing and eventually lifting visa requirements on Turkish nationals. The EU should devise a facilitated Schengen visa system as soon as possible for priority categories of Turkish nationals, especially Turkish students and business people.

*Irregular migration and asylum.* The legislative basis for a more effective policy to counteract illegal migration has been already put into place within the Turkish legal system, as acknowledged by the European Commission. However, the rights of asylum-seekers in this context are also a concern for EU officials. Turkey is being asked to offer protection to asylum-seekers more universally, as until now it offers protection only to asylum-seekers of certain nationalities. Turkey expects the EU, the UNHCR and non-governmental organisations to develop a 'burden-sharing' mechanism in this context, which would encourage Turkey to lift the geographical limitations to its own policy. In the meantime, Turkey should continue with its efforts to train its various forces and bureaucracies dealing with irregular migration, to bring its performance in line with best practice. While developing its asylum law and taking efforts to mobilise support for 'burden sharing', Turkey needs to consider further measures that would allow the possibility for local integration for some of the recognised refugees. The securitisation of immigration issues in Europe and the pressure put on Turkey to combat illegal transit migration risks jeopardising the improvements being made in Turkish asylum policy. This could lead inadvertently to a paradoxical situation whereby the EU on the one hand assists in significantly improving in Turkey's asylum practices, but on the other hand undermines these gains as potential asylum-seekers risk being deported without having their case fairly heard. Without a mechanism for burden-sharing in place, the main EU legislative provisions on asylum, which call for asylum applications to be treated by the first safe country of entry into the EU, may lead to Turkey becoming a 'dumping ground', rather than a member state sharing benefits and responsibilities equitably.

*Schengen rules and neighbourhood policy.* The standard policy of the EU is to require all acceding states to apply the Schengen regime 'in full' upon accession. By the date of its accession to the EU, Turkey needs to apply

Schengen rules at its external frontier, although in a ‘two-step procedure’ it will become a full Schengen member with removal of internal frontier controls only at a later date following a positive evaluation by the EU Council. However, the Schengen *acquis* is not a static compendium of rules, but continues to evolve in a rather dynamic manner. This factor is crucial for Turkey.

In particular there is a growing realisation within the EU of the need to make the system more ‘friendly’ and more ‘flexible’, especially for its new neighbours. The new external borders of the EU should not become a barrier or a new wall to social and cultural interchange, regional cooperation and trade. The adverse impact on Ukraine as a result of Poland and Slovakia suddenly becoming compliant with Schengen visa rules, with the number of border crossings of Ukrainians having been literally decimated in the last three years, is not an example the EU should expect Turkey to follow. Belatedly the EU now considers a proposed regulation to facilitate ‘local border traffic’ (within 50 km of frontiers), and the EU has also begun discussions with Russia and Ukraine with a view to a facilitated visa regime, with the long-term objective of abolishing visas. These important examples of the possible evolution of the Schengen system reinforce the case for the EU to work out a careful sequencing for Turkey’s compliance with the entire range of JHA policies. Full adoption of the EU/Schengen list of countries requiring visas should be completed rapidly, but the ‘sticker visa’ system at port of entry for certain countries need not be precipitously scrapped. There are also several examples of ‘flexible border practice’ designed to meet the specific needs of individual member states, for example for Greece in relation to Albania, Portugal in relation to Brazil, and Spain in relation to Morocco. For Turkey the system should find ways for the huge tourist and suitcase trade with its neighbours to continue (almost 2.5 million Russians, Ukrainians, other CIS citizens and Iranians now enter Turkey each year). One way of doing this would be to retain the current Turkish visa system of issuing visas at the border (the so-called ‘sticker visa’) in the immediate future, given that Turkey’s accession to the EU would in any case be unlikely to occur within a decade, and full membership of Schengen would take an additional number of years. New developments in security technology and in the Schengen system may allow the ‘sticker visa’ to become a more secure and safer regime, yet also be consistent with the EU’s efforts to surround itself with a ‘ring of friends’ under its European Neighbourhood Policy.

*Promoting mutual trust in EU-Turkey relations.* Finally, all the above should contribute to the vital general objective of building ‘trust’ between Turkey and the EU, to replace the existing apprehension on the part of the EU to have Turkey’s eastern border as its external border. These concerns are often based on no more than vague fears that Turkey might not meet the same

standards in JHA as the rest of the EU. However the transformation that Turkey has gone through in its domestic as well as foreign policy is pointing to what Turkey is capable of achieving once the will is there and the EU engages Turkey positively. Both sides need to pay attention to ‘confidence-building’ to be able to address some of the more sensitive aspects of border control harmonisation, such as asylum policy, combating irregular migration, readmission agreements and Schengen visa rules. The cooperation achieved so far is impressive, with Turkish officials from a wide range of government branches spending an unprecedented amount of time working with their counterparts from EU member countries and the European Commission. Turkish officials are beginning to see their EU counterparts as partners in addressing what are after all common problems. The change that Turkish membership will bring to the EU’s geography will be indeed a fundamental challenge. Turkey for its part is putting into place the administrative mechanism to take on the challenge.

## Chapter 4

### Foreign and Security Policy\*

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Even if Turkey begins accession negotiations in 2005, full membership would occur probably only around a decade later. Turkey needs to pass and implement key reforms and negotiate 31 chapters of the *acquis*. The EU needs to ratify and implement its Constitution and absorb at least 12 new member states. None of this excludes, however, that the EU and Turkey might begin to integrate their foreign policies in the pre-accession period. Such integration could both yield important benefits to Turkey and to the EU, and it could serve to accelerate Turkey's membership into the Union.

This process has already begun with Turkey's association with the EU's nascent security and defence policy (ESDP). But this is only a small beginning compared to the conceivable agenda. The intuitive reasons for this idea are twofold. First, Turkey's neighbourhood has become the main source of the EU's security concerns, as stated in the EU Security Strategy. EU-Turkey integration in the foreign policy realm would also allow an extended reach of the emerging European Neighbourhood Policy. Second, Turkey offers several specific assets for helping the EU address its concerns and objectives, ranging from the concrete realities of location and logistics, through to matters of culture and ideology. In policy operational terms, Turkey has the role of geographic hub for regional cooperation, it becomes a secure energy transport hub for Caspian, Middle Eastern and Russian oil and gas and it is well situated to become a forward base for the EU's security and defence policies. Turkey also has valuable human resources to complement those of the EU for cooperation programmes, ranging from business know-how to language skills relevant for its wider neighbourhood.

#### 4.1 Outline of the arguments

Every enlargement of the EU has brought with it wider dimensions and capabilities for the pursuit of EU foreign policy interests and objectives. For example, the British brought an extended field for EU development aid, the Spanish and Portuguese strong interests in Latin America, the Nordic members brought forward a 'northern dimension' concept, and most recently the accession of Central and Eastern European countries triggered the new

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\* This chapter is based on *Turkey as Bridgehead and Spearhead – Integrating EU and Turkish Foreign Policy*, by Michael Emerson and Nathalie Tocci, EU-Turkey Working Paper No. 1, Centre for European Policy Studies, Brussels, August 2004 (available at [www.ceps.be](http://www.ceps.be)). The authors are grateful for helpful conversations with many officials of the Turkish Ministry for Foreign Affairs, although views expressed in this chapter are only attributable to the authors.

neighbourhood initiative. With Turkey's accession, the EU's new borders would reach Syria, Iraq, Iran as well as all three South Caucasus states. Turkey's accession would potentially enhance the credibility of EU policies towards the wider set of Middle East, Central Asia, Caucasus, Balkans and Mediterranean regions. It would contribute to a rebalancing of the Union's focus towards its southern and southeastern neighbourhood, which would be entirely in line with the EU's emerging security strategy, since this is where the EU's manifest security threats now come from.

The EU's first tentative steps in 2003 and 2004 towards the development of the European Neighbourhood Policy are directed at the EU's new neighbours that are not foreseen to become future members. The thinking in EU institutions is to offer incentives to add credibility to EU economic and political conditionality, aiming at domestic reforms in the partner states in line with European political norms. The conditional benefits on offer are expected to include progressively deepening participation in the EU single market. It remains an open question whether the future packages will be sufficiently valuable and credible to induce reform within third states, given that such reforms are often viewed as difficult if not threatening to particular domestic elites. In the aftermath of the Central and East European expansion, it becomes increasingly clear that despite the success of enlargement, the Union cannot indefinitely rely on this instrument as the means to positively induce transformation beyond its borders. Beyond Turkey and the Western Balkan countries, the Union is thus faced with the key challenge of finding an effective way of relating to the remaining post-Soviet states (Ukraine, Moldova, Belarus, Georgia, Armenia and Azerbaijan and Russia itself) as well as with the entire southern Mediterranean basin and the Middle East.

Turkey's arguments for it to be viewed as a foreign and security policy asset for the EU have been set out in the speeches of Prime Minister Erdoğan in January 2004.<sup>54</sup> The argument has several strands. In Box 4.1 we attempt to systematise them, adding some elements to those raised by the Prime Minister. We divide the arguments into those that are objective and tangible lines of foreign policy action, and those that are normative and subjective, yet highly political.

At the level of concrete capabilities, Turkey's accession has much to offer that could enhance the credibility of the EU as a foreign policy actor in the wider Middle East region. Turkey is already the main hub for regional cooperation, both in institutional terms in the context of Black Sea cooperation and as an energy supply artery between the Caspian and Middle

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<sup>54</sup> Speeches on 26 January 2004 to the Council for Foreign relations, New York, and on 30 January 2004 to the Kennedy School of Government, Harvard University.

East suppliers and West European consumers. Its military capabilities and logistic location make Turkey an ideal forward base for the EU's emerging security and defence policies, and its peoples have a rich set of cultural and linguistic assets that are relevant for the EU to engage more effectively in many of these future neighbouring states.

*Box 4.1 Turkey's possible assets for EU foreign and security policy*

**Objective factors**

- Turkey's accession would lead to an *extended reach of the European Neighbourhood Policy*.
- Turkey's neighbours would become direct neighbours of the EU. Turkey has the role of *geographic hub for regional cooperation*.
- Turkey is a *secure energy transport hub* for Caspian, Middle East and Russian oil and gas.
- Turkey is well situated to become a *forward base for the EU's security and defence policy*, for military logistics and the credibility of the EU's presence in the region.
- Turkey has *valuable human resources* to complement those of the EU for cooperation programmes, ranging from business know-how to language skills.

**Normative arguments**

- Rather than representing values specific to particular cultures or religions, the Turkish case shows that *democracy, secularism and human rights are universal values*.
- Turkey's EU accession would demonstrate *Europe to be an inclusive concept*, with multi-cultural values, open to different religions.
- Turkey's *transformation of its security and foreign policy culture*, with less reliance on military power and greater emphasis on diplomacy and civilian instruments conforms with EU practices
- Turkey's accession would confirm the *contribution of European integration to conflict resolution*, with the reconciliation between the Turkish state and its Kurdish population, its rapprochement with Greece, and constructive role over Cyprus.

**Synergy**

- Combining this list of points could give a *synergetic boost to the EU's capabilities and credibility as foreign policy actor* across the EU's southern and eastern neighbourhoods.

The normative arguments enter into the highly delicate issue whether or how to view Turkey as a model of modernisation and democratisation of

neighbouring states of Islamic culture. Virtually all of the neighbours have their reasons to be reserved about excessive Turkish assertiveness in the region, be it the Islamic states that contest the secular political model, or those states that fear a renewal of pan-Turkic experiments, or others that are simply concerned about potential domination by the region's largest and most successful economy and political system.

Nevertheless, a Turkey successfully integrating with the EU may communicate a different, fresh and more positive message to the neighbours. It would mean a Europe that was coming to terms with multicultural integration, with its substantial communities of Islamic culture, as well as a Turkey that was coming to terms with the constraints of being contained within the highly democratic EU. For those in the region contemplating the pressures and hazards of modernisation and democratisation, the Turkish example is one of finding a way over a long historical period of decades, indeed almost a century.

#### **4.2 Instruments of Turkish foreign and security policy**

In the 1990s, Turkey took two seminal steps to give new direction to its foreign policy towards its eastern neighbours, adding to a third traditional dimension. First, in opting to develop rapidly and strongly its relations with the Central Asian republics in the early 1990s, Turkey organised complex programmes of economic, cultural and governmental assistance on a much larger scale than in the past. With the turn of the century, Turkey has also been developing its bilateral relations with Middle Eastern countries. Second, it accompanied this development cooperation activity with a radical policy of openness for the virtually visa-free movement of people between the neighbouring states and Turkey (see Chapter 3 for a detailed account). Third, Turkey has retained a very substantial military capacity relative to those of any of its neighbours. All three of these elements now raise opportunities or at least policy issues in the context of integration with the EU.

The potential opportunities and assets are manifest in the development cooperation and security domains. Turkey has human resource assets that are complementary to those of the EU, with the cultural links and understandings of Eurasia and the Middle East that could in principle be deployed alongside the financial and technical resources of the EU. Turkey has both military and police forces<sup>55</sup> that could make major contributions to the headline goals of the EU for its security and defence policy, and especially by way of resources that could be effectively deployed in South-East Europe and the wider Middle East.

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<sup>55</sup> Turkey is the fifth largest provider of police forces to UN peacekeeping missions.

*Civilian instruments of cooperation.*<sup>56</sup> When Turkey decided to mount its ambitious Central Asian policy initiative in 1992, it needed to create a new or strengthened administrative infrastructure dedicated to this purpose. The main steps here were seen in the creation in 1992 of the Turkish Cooperation and Development Agency (TIKA) for official assistance. TIKA has since 2000 realised 380 projects in Balkan, Black Sea, Caucasus and Central Asian states. In addition the DEIK (Foreign Economic Relations Board), which represents 490 leading Turkish companies, has established bilateral business councils with all of Turkey's neighbouring states. Thus the range and logic of these initiatives immediately extended beyond Central Asia alone, as seen also in the creation in 1992 of the Black Sea Economic Cooperation (BSEC), headquartered in Istanbul.

While the Central Asian initiative proved overly-ambitious and was later scaled back, it nonetheless saw some substantial action. Already by early 2003, over 7,500 students from the Turkic republics had been enrolled at a variety of Turkish educational establishments, mostly universities, out of an initial target figure of 10,000 decided only a year earlier. This alone is an impressive indicator of Turkey as civilian foreign policy actor. Turkey opened elite high schools in each of the Turkic republics, where the working languages are English as well as Turkish. In 1992 a Turkish-Kazakh University was founded. Other cultural initiatives of importance include aid for adoption of the Latin script in the Turkic republics, and television broadcasting channels in the Caucasus and Central Asia.

Religious education was also an important line of development. Some 42 imams were sent by the Turkish Presidency of Religious Affairs to the Turkic world in 1992, and 600 students came to Turkey for religious education from 1991 to 1993 from Muslim communities in the former Yugoslavia, the North Caucasus and Tartarstan in Russia, Crimea in Ukraine as well as Central Asia. Theology faculties and colleges were opened and mosques built on a substantial scale. The objective of these initiatives was to move fast into the ideological and spiritual vacuum left by the collapse of the Soviet Union, with support for moderate Islam, as opposed to the radical drive coming especially from Iran. The influence of these initiatives in transmitting cultural values, according to Idris Bal, "may be even greater than that of official Turkish policy".<sup>57</sup>

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<sup>56</sup> Information in this section draws heavily on Idris Bal, *Turkey's Relations with the West and the Turkic Republics: The Rise and Fall of the Turkish Model*, London: Ashgate, 2000; updated with Gul Turan, Ilter Turan and Idris Bal, "Turkey's Relations with the Turkic Republics", in Idris Bal (ed.), *Turkish Foreign Policy in the Post Cold War Era*, Brown Walker, 2004.

<sup>57</sup> Op. cit.



Trade and investment multiplied fast from a low base, Turkey becoming the second investor after Russia in Central Asia, with hundreds of Turkish firms established with a much finer and more extensive microeconomic penetration than came from the West.

More recently Turkey has hosted new training institutions or activities that relate to general Western priorities. For example, in 2000, the Turkish International Academy against Drugs and Organised Crime (TADOC) was founded in Ankara, funded 50/50 by Turkey and the UNDP. This has trained 450 officials from 37 countries so far (particularly from the Balkan, Black Sea and Central Asian countries). TADOC provides courses in Turkish, English and Russian and it is equipped with all the necessary translation services. It also fosters formal and informal networks of cooperation, primarily through the sharing of information.<sup>58</sup> This should provide also for a partnership with the EU's European Monitoring Centre for Drugs and Drug Addiction (EMCDDA) in Lisbon. In addition the Police and Military Academies are receiving considerable numbers of officer cadets from neighbouring regions, from the Balkans to the Caucasus and Central Asia.

The classic pre-accession period sees the EU supply large-scale assistance for the candidate state to comply with existing EU legislation and norms. The Turkish case presents itself with the additional aspect of a candidate state with a huge interface with Eurasia and the Middle East, which harbours Europe's most serious security interests and concerns. Turkey's potential as a logistical and institutional base for a wide range of cooperation programmes with this wide region is evident.

For the future this invites the prospect of the EU adopting a double strategy in its pre-accession programmes of cooperation with Turkey: that of addressing Turkey's own modernisation needs and the needs of the neighbouring states. It is now in any case the intention of the EU through its European Neighbourhood Policy to seek ways of progressive and partial integration of neighbouring states in line with European norms, standards and operating policies. Turkey offers thus the opportunity for the EU to obtain synergies and economies of scale in combining these two strategic developments alongside each other.

Concretely this could mean that the EU's multiple programmes of assistance (PHARE, TACIS, MEDA and the future Neighbourhood Instrument) could have operational centres and programmes in Turkey that could use many of the same institutional bases. This could concern many of the standard categories of programme for good governance, media, human rights, police cooperation, and technical cooperation in a wide range of economic and

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<sup>58</sup> Interviews at the Police Academy and TADOC, Ankara, May 2004.

public policy domains. The EU's technical cooperation programmes in Central Asia have suffered from a lack of solid, experienced institutional facilities functioning in either of the region's main languages (Russian or Turkic).

*Security and defence.* Turkey spends 2.4% of its GDP on military expenditures, compared to an average of 2% for the rest of the European members of NATO. Turkey's military forces are by far the largest in NATO Europe by number of personnel, accounting for a quarter of the total, with 514,000 enrolled (but with a large number of conscripts – 391,000). This compares with 210,000 for the UK, 260,000 for France and 296,000 for Germany. Turkey also has a substantial gendarmerie of 150,000, some of whom are effectively elite military troops. More specifically, Turkey has a significant cadre of career NCOs (non-commissioned officers), with considerable combat experience in difficult terrains. Compared to other NATO members such as the UK and France, Turkey has limited strategic lift capacity. However it has been most willing to deploy its assets. As of 2003 Turkey had sizeable contingents in the ISAF in Afghanistan (1,400 troops), in SFOR II in Bosnia (1,200 troops) and in KFOR in Kosovo (940 troops). In Northern Cyprus the Turkish garrison is huge (approximately 35-40,000 troops).

Turkey is actively involved in NATO's adaptation to its new challenges. Turkey has established the Headquarters of the 3<sup>rd</sup> Corps in Istanbul as a High Readiness Force (Land) HQ. Additionally, one of the two Air Component Commands in the new NATO command structure (CC-Air HQ) will be located in İzmir in August 2004. Turkey has signed military cooperation and training agreements with 45 nations. In this regard Turkey makes an extensive use of NATO's Partnership for Peace (PfP) programme, with training support for the partner states. Turkey also undertakes training programmes in the military facilities of the Turkish armed forces on a bilateral basis, free of charge. The total number of personnel trained by Turkey amounts to almost 30,000, of which about a half were trained in the home countries by Turkish training experts, and about half in Turkey. Turkish training support within the NATO and partnership mechanisms are provided by the Turkish PfP Training Centre in Ankara, which was established in 1998, and was the first such centre recognised by NATO. Since its inception the Turkish PfP Training Centre has trained more than 3,600 personnel from 50 NATO, PfP, and Mediterranean Dialogue countries. In addition the Centre has established mobile training teams, which have provided training for about 1,000 personnel from a dozen countries.

In Afghanistan, Turkey has participated in all phases of the ISAF operations from the beginning. During the ISAF-II operation in 2002-03, Turkey undertook the leadership of the international force, contributing 1,500

personnel, and also operating the Kabul international airport. Turkey handed over the leadership to Germany and Holland in February 2003, but continues its participation with an infantry company and other resources including three Black Hawk helicopters.

In October 2002, the EU reached an agreement with Turkey and other non-EU NATO member states concerning these countries' possible participation in EU military operations, and the use by the EU of NATO military assets and capabilities in such operations. This agreement took two years to negotiate, and was blocked for some time for two reasons of importance to Turkey. Firstly Turkey sought the maximum participation in the shaping if not taking of decisions by the EU. An elaborate consultative process was established involving the associated states in the workings of the EU's Political and Security Committee and Military Committee. Secondly there were sensitive concerns over military aspects of the Greek-Turkish relationship in general, as well as the Cyprus conflict in particular. It was agreed that the EU would in no circumstances use its military against a NATO ally, and that NATO would in no circumstance act against the EU. The final deal reached at the December 2002 Copenhagen European Council also provided for the exclusion of Cyprus (and Malta), as non-NATO or PfP countries, from possible ESDP operations. Overall this difficult negotiation revealed the sensitivity in Turkey concerning the key difference between being a close associate versus a full member of the EU.

A final area of possible and desirable cooperation concerns intelligence sharing. In June 2004, the EU announced that it would establish enhanced cooperation between its member states. Given that many of the targets of EU intelligence services have a Turkish connection (terrorism, narcotics and migrant trafficking, arms dealings and money laundering), cooperation with Turkish intelligence services would also be useful. In addition, Turkish intelligence has assets and contacts in some neighbouring countries, where EU intelligence is poorly represented. However fruitful cooperation would also require EU assistance to Turkish services (such as the gendarmerie, the police, customs and the coast guard) to counter traffickers attempting to reach the EU via Turkey. This would be the necessary EU step so as to prevent Turkey from acting alone as the gate-keeper of Europe.

*Energy supply security.*<sup>59</sup> Turkey lies adjacent to countries or regions possessing some 71.8% of world gas reserves and 72.7% of world oil reserves. Turkey's potential role as supply artery from these sources to the

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<sup>59</sup> This section draws on a more detailed working paper by John Roberts, *The Turkish Gate: Energy Transit and Security Issues*, EU-Turkey Working Paper No 11, Centre for European Policy Studies, Brussels, September 2004 (available at [www.ceps.be](http://www.ceps.be)).

EU market is of course much less than is represented by these figures, but they give nonetheless a first clue to the idea that Turkey could form part of the EU's infrastructure of strategic energy supply security.

The situation is rather different as between oil and gas. For oil the existing Iraq-Turkey pipeline (capacity 1.6 million barrels per day) and the Baku-Tbilisi-Ceyhan pipeline under construction (capacity 1.0 million barrels per day) together are of considerable significance in relation to total EU oil imports of 11.5 million barrels per day. In addition the Bosphorus is currently seeing a further 1.4 million barrels per day of tanker traffic, which represents a serious environmental hazard, and for which several bypass pipeline options have been under discussion for years. Important as these oil supply channels are, the degree of energy supply security risk that they cover should not be overestimated, since oil is essentially a fungible product in a global market, and the world economy has learned to survive serious supply disruptions because of flexible supply and transportation structures.

For gas however the issue of supply security, both in terms of physical supplies and their economic terms, is of a much higher order. The EU's dependence on gas as an energy source is on a strongly rising trend, and the import dependence for gas (of EU-15) is projected to rise from 46% in 2002 to 71% in 2030. International Energy Agency analyses have suggested that this growth in imports could by 2030 be distributed essentially between Russia (79 bcm), Central Asia (51 bcm), the Middle East (157 bcm) and West and North Africa (136 bcm). Turkey's proximity to many of these suppliers comes more directly into play because of the rigidity of gas supply systems through pipelines, mitigated to an increasing but still limited extent by supplies of liquefied natural gas by sea tanker. As many as 10 gas-exporting countries are or may become interested in using Turkey as a pipeline transit route for their gas to reach the European market. These 10 countries (Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan, Iran, Iraq, Qatar, Saudi Arabia, Syria and Egypt) hold about 35% of world gas reserves, which is not so far from Russia's gas reserves representing 45% of the world total. While Russia already has a pipeline supplying gas directly into Turkey (Blue Stream crossing the Black Sea), it currently excludes onwards supply of its gas to Europe, seeking to preserve to the maximum the market for its other direct supply routes into central and south east Europe. Russia, through Gazprom and some other trading companies, also seeks to retain control over the marketing of Central Asian gas exports through its pipeline system. It apparently derives considerable monopolistic profits from this at present, as evidenced by some fragmentary price information from the notoriously opaque international market. For example, while Turkey imports Russian gas at around \$130/tcm, Turkmenistan apparently receives only a third or a quarter of this price from its exports to Ukraine through Russia.

The strategic issue for the EU and Turkey in the energy policy domain is therefore both how the EU's security of supplies might be augmented by diversification of pipeline supply routes through a completely safe transit region (i.e. within an EU that included Turkey), and how the EU could reduce the risks and costs of commercial dependence on a main supplier, such as Russia, that may be inclined to exploit opportunities for monopolistic market behaviour. Turkey is offering to do this by promoting the construction of gas pipelines networks for import from the east, transit, and export to the west. The EU's particular interest in these projects is in the context of Turkey's accession bid, is that accession would require Turkey's compliance with EU gas market directives that set the rules to ensure competitive market conditions.

Concretely, this becomes a matter of investment in the trans-Turkey gas pipeline network, first for the incoming pipelines from the exporting countries, then Turkey's internal gas transit capacity, and finally the connections into the main EU market through south-east Europe. For incoming pipelines Turkey already has a connection with Iran with a capacity of up to 20bcm/year. There is now commitment by all parties to build a gas line alongside the Baku-Tbilisi-Ceyhan oil pipeline that would go as far as Ezurum in eastern Turkey, with a design capacity that could go up to 20bcm/year, assuring delivery of gas from Azerbaijan. Turkey is discussing with Iraq a project that might bring 10bcm/year of gas from northern Iraq into the system. There are also discussions underway with Egypt for a gas pipeline that might transit Jordan and Syria, to which Saudi Arabia could easily connect at some stage in the future, although this is not presently planned. There remains the aborted plan for a trans-Caspian gas line that would bring Turkmen gas to join the Baku-Ezurum pipeline. However, as already remarked, Turkmenistan seems to get poor terms of trade for its route through the Russian network. Finally there is the Blue Stream trans-Black Sea pipeline, which Gazprom insists should not be used for onward supplies into the European network, but this precisely begs the question when and how the Russian gas sector might be induced to run on market-competitive terms. Turkey's own east-west transit capacity would have to be substantially augmented if the strategic supply artery vision were to be realised, and the Turkish Minister of Energy acknowledges this.

Connections from Turkey into the continental European market are now the subject of intense activity. A first Turkey-Greece connecting pipeline of 285 km is expected to be operational in 2006, which is of course of immense political significance in itself, apart from its potential capacity of about 8bcm/year. A much larger project, called Nabucco, is being planned by Austrian, Turkish, Hungarian, Bulgarian and Romanian partners (each with 20% stakes), and could have a capacity of 25-30bcm/year. This is at the

feasibility study stage and might become operational in 2009. Finally there are feasibility studies underway to extend the Greek-Turkey pipeline with an underwater pipeline to the southern Italian port of Otranto. An alternative connection into Western Balkan markets is also being studied, but seems a much longer-term prospect.

The EU energy Commissioner has recently commented on the Greek-Turkish project, saying that it “will not only bolster peace and stability in the region but also make it possible to supply new gas resources from the Caspian basin and Iran to the internal gas market of the enlarged EU and to the Balkans, thus improving security of supply for all stakeholders”. More generally Turkey does appear capable of becoming a major gateway for large volumes of gas supply to Europe, a fourth strategic artery with the supply routes from Russia, Norway and Algeria. Last but not least greater supplies through Turkey would increase pressure on Gazprom to operate on a commercially competitive basis, and thus also foster gas market reform in Russia, which will always remain a very major supplier.

### **4.3 Priority regions**

Eleven major theatres of operation may be identified as representing the core of the common foreign and security concerns of both the EU and Turkey. On the one hand, these consist of the set of Turkey’s neighbours, which may be taken as sub-regional groups or major states. On the other hand, these regions concern the two major powers that also have their own interests in these regions – Russia and the US.

The idea is to review this set of ‘theatres of operation’ and to consider whether and how EU and Turkish interests and policies may be respectively convergent and complementary, or otherwise. In the cases reviewed below, first the interests and foreign policy objectives of Turkey and EU actors will be assessed to determine their degree of convergence or similarity. If interests and objectives are convergent, an attempt will be made to assess whether and how the existing and future Turkish and EU foreign policies could become complementary and mutually reinforcing. In other words, do Turkey and the EU have complementary comparative advantages that would raise the prospects of tackling jointly and more effectively their shared objectives? If convergence and complementarity exist, how could such synergies be materialised in practice, thus enhancing the capabilities and credibility of EU as foreign policy actor? In some cases, Turkey has special interests or legacies of past history, which will call for special efforts to bring into harmony with the EU’s initial inclinations, positions and policies. In such cases, could Turkey and the Union tackle these special cases, transforming challenges into additional assets? A preliminary overview is offered in Box 4.2.

*Box 4.2 Potential convergence, complementarity or otherwise of EU and Turkish foreign policies in major theatres of operation*

Balkans	Convergent and complementary
Black Sea	Convergent and complementary
South Caucasus	Potentially complementary but not yet convergent: special factors – Armenia and Azerbaijan
Central Asia	Convergent and complementary
Russia	Convergent but risks of unintended effects
Mediterranean	Convergent and complementary
Middle East	Increasingly convergent and complementary
Iraq	Potentially convergent and complementary but special sensitivities – Kurds and Turkomans
Iran	Convergent and potentially complementary: special sensitivities – Kurds and religion
Saudi Arabia and Gulf	Convergent and potentially complementary: special sensitivity – religion
United States	Turkey is increasingly convergent with EU positions

*Balkans.* With Bulgarian and Romanian accession expected in 2007, and Croatia also expected to join the accession process, EU interests in the Western Balkans are directed towards consolidating the transformation of the remainder of the region. Turkey for its part also has a vital interest in the stability of this transit region, which separates it from Western Europe. The interests of the EU and of Turkey thus seem convergent. In terms of their policies, Turkey has already contributed to EU stabilisation efforts by participating in EU and NATO operations in Macedonia and Bosnia.

However EU policy is confronted by an increasingly pressing dilemma: how to include the region into its economic and security spaces, without premature accession. The dilemma is posed because the borders between member and non-member states in the Balkans will be virtually impossible to control at the frontiers. Turkey could contribute in three ways. First, during the pre-accession period there could be an expansion of the EU-Turkey customs union to include the whole Western Balkans. Second, Turkey's experience in training police officers both from Turkey and from the Balkan and Black Sea regions represents a major asset. The Turkish International Academy against Drugs and Organised Crime (TADOC) is already a valuable professional institute for the entire region. Third, Turkey is well positioned to serve as a transit route for rising European energy needs. The Greek-Turkish gas Interconnector project, linking to the Tabriz-Erzerum gas pipeline (connecting Turkmen and Iranian gas) is expected expand and connect on to the Western Balkans and into Western Europe.

*Black Sea.* In early 1990s Turkey was largely responsible for initiating what became the Black Sea Economic Cooperation, an Organisation with a comprehensive institutional structure, which has suffered from the non-involvement of the EU and the scepticism of Russia. Forthcoming enlargements mean that the entire western and southern coastlines of the Black Sea will become EU territory. As such, the obligations of Bulgaria, Romania and Turkey to comply with the *acquis* could provide a stronger foundation for regional cooperation on issues like the environment, transport, energy, fisheries and combating organised crime.

Turkey, together with Bulgaria, Romania and the EU itself, might follow the model of Finland's initiative in creating a 'Northern Dimension'. This could either take the form of empowering BSEC with EU human and financial resources, and perhaps adding a role as a forum for political dialogue between the CIS and EU. Alternatively, there could be an EU-Black Sea core group, based on the Black Sea states that are either EU members or candidates, and BSEC members that become actively engaged in the European Neighbourhood Policy.

*South Caucasus.* The EU has refrained so far from playing a substantial role in the South Caucasus, although it expresses the intention to do so. Turkey enjoys strong economic, political and military links with Azerbaijan and Georgia. Turkey also plays an important role in the development of Caspian energy, with the Baku-Tbilisi-Ceyhan oil pipeline under construction, and the planned gas pipeline to run alongside it to Erzerum. Turkey also hosts important diaspora communities from the region, including 450,000 Abkhaz and 2 million Georgians.

Turkey's potential role in the Caucasus and the EU's recognition of the region's importance but unwillingness to take an active lead could dovetail each other. Yet their interests at present are not entirely convergent. Turkey's role in the region has been limited by its relations with both Azerbaijan with whom it has close ethno-cultural ties, and Armenia with whom, due to historical legacies, relations have not been normalised yet. This partiality has been reinforced by the Nagorno Karabakh conflict, which led Turkey to close its frontier with Armenia in 1992. In the recent past, Turkey has attempted to contribute to progress in Karabakh by pursuing a trilateral forum with the participation of Azeri and Armenian officials. But due to its positions, it has not been an impartial mediating influence.

What are the steps through which Turkey's relations with Armenia could be normalised, allowing Turkey to play a constructive role in conflict resolution? In a first stage, Turkey could open its eastern border for trade with Armenia, and Armenia for its part could amend its constitution to remove political ambiguities over its frontier with Turkey. The two countries



could establish a truth and reconciliation committee over the Armenian allegations of genocide. The EU could support these steps. For Turkey this would occur in the context of the accession process. For Armenia, the EU could make the deepening of its relations through the new neighbourhood policy conditional on efforts in this direction. A second stage could introduce progress on Nagorno Karabakh, involving Armenian withdrawal from the occupied territories surrounding Karabakh, together with guaranteed transport corridors between Karabakh and Armenia, as well as between Nakichevan and Azerbaijan. Turkey would establish normal diplomatic relations with Armenia. In a final phase the status of Karabakh itself would be settled.

Also in the case of the Georgian-Abkhaz conflict, Turkey could play an important role. The existence of large diasporas in Turkey presently constrains its involvement. Turkey has also limited influence on Russia, key to any breakthrough in the conflict. But in a post-settlement phase Turkey's Abkhaz community (larger than the population of Abkhazia itself) could play an important role in reconstruction efforts. Progress in Abkhazia could also allow re-opened rail links from Russia to Turkey and the implementation of the proposed new oil pipeline from Novorossisk to Supsa, linking to the BTC pipeline. The prospect of projects such as these might induce Russia to shift its positions.

Taken together this would mean a transformation of the prospects for the region. They would combine with Turkey's pre-accession status leading the way for an enhanced ENP towards the Caucasus. In turn, the seemingly utopian vision of a Stability Pact advocated by Demirel in 1999, could have greater chances of success a decade later.

*Central Asia.* In the early 1990s, the EU established contractual ties with all the Central Asian Republics (Partnership and Cooperation Agreements), but these have been rather thin relationships. Technical assistance has been supplied under TACIS, but this has not been an easy process, partly because of the scarcity of relevant experts with Russian or Turkish language skills. Financial assistance has been limited also, particularly when compared to the aid to Mediterranean and the Western Balkans, not to mention Central and Eastern Europe.

Turkey instead has cultural, linguistic and religious ties with four of the five Central Asian Republics. In 1992 after the collapse of the USSR, Turkey embarked on an ambitious foreign policy initiative in Central Asia. It provided emergency assistance and engaged in numerous projects covering trade, investment, business cooperation, training in public administration, media and education, communications and transport. However, particularly in the fields of culture and education, Turkey's role was often perceived as

patronising or as attempting to impose Turkish cultural domination. The Republics wanted to assert their own identity and did not wish to alienate Russia. In addition, Turkey's own economic instability meant that Turkey did not have the means to assist state-building and development in Central Asia.

However, Turkey's accession process could offer the potential to strengthen both the EU and Turkish roles in Central Asia. The EU could benefit from Turkey's bilateral ties. The deficiencies of technical assistance due to the lack of necessary language skills could be rectified to some extent through Turkish participation. At the same time, these initiatives would not be tainted by pan-Turkic undertones.

*Russia.* The implications for Russia of Turkish accession to the EU will be very significant, but depending on how EU-Turkish-Russian relations would be managed either negative or positive outcomes are conceivable. To take the negatives first, Russia could see a set of threats to its interests and security, as traditionally conceived, on no less than five accounts. First, it would mean harder competition for influence in the South Caucasus. Second, this competition would extend even further into Central Asia, with Euro-Turkish as well as Chinese interests deepening there. Third, there would be harder competition over leadership in Black Sea regional cooperation. Fourth, there would be increased challenge to Russia's domination of oil and gas supply routes to Western Europe, with linkages through Turkey both to the Caspian and Iran and the Gulf. Fifth, and last but not least, the tightening of visa regimes by Turkey in the interests of EU and Schengen compliance would restrict access of Russians and all other CIS states to the Turkish market for business and tourism. All this, if mismanaged, could be considered by Russia as a formidable set of threats. This encirclement by the successors to the former West European and Ottoman empires is what Russia has been fighting wars over for 400 years.

On the other hand this could be material enough, if carefully prepared and presented, to bring Russia into a deeper mode of cooperation with the enlarging EU. The transformation of Turkey as a society and foreign policy actor in line with European norms is the essence of the accession process. A similar process is partly underway in Russia as the new private economy sees the need to move towards modern norms of corporate governance, and in terms of the outlook of the growing post-Soviet generation. However Putin's administration is still heavily influenced by 'sphere of interest' ideas, especially with regard to the CIS states of both Europe and Central Asia, given Russia's weak capacity to project power globally. These are regions that will be affected most by the EU's enlargement to the Black Sea coastline. At some point realistic calculations should prevail, and the sight of

the EU organising its foreign and security policies more credibly together with Turkey may tip the balance of thinking about foreign policy in Moscow.

Oil and gas geo-economics will be one of the ways through which the EU-Turkey-Russia relationship will play out. Already Turkey has signed a natural gas deal with Russia and natural gas cooperation between the two countries is set to increase with the completion of the Blue Stream pipeline under the Black Sea.

The question of Turkey introducing visas for Russians will be a sensitive issue. Two timetables have to be matched in the most constructive way: the timing of Turkey's moves into compliance with EU visa policies, and the negotiations about to begin between the EU and Russia over a facilitated visa regime at least for certain categories of people. As argued above in more detail, the EU should not require Turkey to introduce a much more restrictive visa hastily, before it has worked out what elements of flexibility it may introduce in the foreseeable future.

*The Arab-Israeli conflict.* Despite being the largest donor to the Palestinian Authority and enjoying strong contractual ties with most states in the region and Israel in particular, the EU has always played a secondary role in any peace process in the Middle East. The EU has been unwilling to use its primarily economic instruments effectively in the political realm.

Turkey's accession process would not alter EU positions towards the conflict. In fact, EU and Turkish views are largely convergent. However, Turkey's role could contribute to the EU's increased 'actorness' in the region. Turkey has enjoyed good relations with Israel and is constantly improving its relations with the Arab world and with Syria in particular. Provided the EU became more willing to use effectively its instruments, Turkey's perceived neutrality as well as its proximity could allow the EU to act more credibly as a facilitator and mediator between the parties. In view of its membership of the Organisation of the Islamic Conference, Turkey could also act as a bridge between the EU, as a member of the Quartet, and the OIC. In May 2004, Turkey together with a sub-group of the OIC met with the EU Presidency (as well as with Russia and the UN Secretary General) to discuss the institutionalisation of relations between OIC and the Quartet.

*Iraq.* In principle EU and Turkish interests in Iraq are convergent. Like the EU, and perhaps even more so due to its location, Turkey's general interests are in fostering a peaceful and democratic Iraq. This could include a decentralised or federalised Iraq, provided that the emerging governing system was both workable and representative. The end of violence and the creation of a democratic system are considered the best guarantee of Iraq's stability and its ensuing territorial integrity. Stability and territorial integrity in turn are viewed as key to the stability of Turkey's own bordering regions.

Indeed since the 1980s, Turkey has paid a heavy price for war and instability in Iraq, in terms of large-scale refugee flows, the disruption of trade and oil flows and perhaps most critically the ability of PKK terrorists to use northern Iraq as a base to attack Turkish armed forces.

However, in view of its vicinity, Turkey's sensitivities regarding developments in Iraq go beyond the general concerns of most EU actors. First, the main camps and headquarters of the armed factions of the PKK and other groups are still based in Northern Iraq. Minor yet regular skirmishes between these militants and Turkish forces continue, reminding Turkey's citizens and state alike of the small yet dreaded possibility of a resumption of large-scale violence in the region. Second, continuing instability in Iraq, and the aggravation of violence that could escalate into an inter-ethnic and/or inter-confessional civil war, could well result in a de facto or de jure secession of northern Iraq. For a while Turkey has enjoyed cordial if not good relations with the two Iraqi Kurdish leaders: Massoud Barzani and Jalal Talebani. However the secession of northern Iraq would no doubt generate serious concerns in Turkey, in view of the state's fears about the possible repercussions amongst its own Kurdish population. There is the further Turkish concern for the place of the Turkoman (as well as the Arab) minority within the Kurdish region of Iraq. Non-Kurds in northern Iraq are currently politically under-represented and are likely to remain so in the event of the north's secession.

The most desirable scenario from both Turkish and EU standpoints would be that of a soundly functioning federal Iraq, in which the oil revenues of the Kurdish region were distributed according to a federal agreement. Furthermore, if the US military occupation and political control were replaced by a UN mandated political presence, possibly backed up with a NATO/UN military presence, Turkey has extremely important political and logistical assets that could become a major feature of the endeavour. In this scenario the EU also could establish a common position over Iraq, and an EU-Turkish operational and political partnership could be developed. In a context in which the reputation of the United States deteriorated so seriously over the recent period of military occupation of Iraq, it is all the more plausible that in due course the EU with Turkey might come to play a role in supporting or dealing with whatever Iraq emerges from the present conflict.

*Iran.* In recent decades Turkish-Iranian ties have been strained over the two aspects that have been viewed as most critical to Turkish national security: namely political Islam and Kurdish separatism. Yet both threats have considerably diminished in the last few years, opening the space for EU and Turkish cooperation in Iran. Like the EU, Turkey has an interest in a steadily reforming Iran, in Iran's cooperation on terrorism, in restraining Iran's nuclear programme and in ensuring energy security. Its preferred means to

pursue these aims have converged with those of the EU rather than of the US, opting for a policy of engagement rather than confrontation.

Beyond convergent interests, Turkish and EU policies could be complementary. Turkey's deepening political, social and economic ties could act as an asset to EU endeavours to engage in dialogue with Iran. There is currently an annual flow of 450,000 Iranians crossing visa free into Turkey for tourism, education and business purposes. The Tabriz-Erzurum gas pipeline from Iran into Turkey is also of much interest to the EU, as this connects with the Turkish gas network, soon to be expanded and then linked with that of Greece and thence into the rest of the EU. The Iranian gas connection is viewed as particularly important to Europe given that Iran's own network connects with Turkmenistan and that the EU is keen to develop alternative energy sources to Russia.

*Gulf.* Both Turkey and the EU have an interest in gradual reform towards political participation, human rights, and then democratisation in the Gulf region. They also have an interest in securing cooperation of the Gulf countries in energy security and in the fight against terrorism. However both Turkey and the EU have enjoyed relatively thin relations with these countries. The EU has attempted in recent years to relate to the Gulf countries through multilateral forums, exploring the prospects for deepening and institutionalising relations between the EU and the Gulf Cooperation Council (GCC). Turkey instead principally relates to the Gulf through bilateral relations, as well as interacting with them in the context of the Organisation of the Islamic Conference (OIC). Particularly through bilateral commercial ties, Turkey's relations with most Gulf states have been steadily expanding in recent years. Investors from the Gulf have also shown increasing interests in projects in Turkey.

In principle, a secular and democratising Turkey could offer important lessons to the initiation of a reform process in the Gulf countries. Indeed in the context of the emerging 'Broader Middle East and North Africa' initiative of the G8 summit, Turkey has accepted to co-chair the Democracy Assistance Dialogue. However, precisely in view of Turkey's secular nature, there are serious limits to its ability and willingness to foster political change in the Gulf.

A final and promising avenue of Turkey's role in the Gulf is the 'Neighbouring Countries Initiative'. The Initiative was born in 2003, stemming from the common interest of all of Iraq's neighbours to prevent the war. It includes all of Iraq's neighbours, with the exception of Kuwait (that supported the US invasion and occupation), and also including Egypt. The countries of the Initiative have met five times both before and following the American attack. So far the Initiative remains ad hoc, and the only item on

the agenda has been Iraq. However, it is conceivable that the Initiative will persist and become institutionalised. If so it could become of considerable interest to the EU, which is still in the process of developing a concerted strategy towards the war-torn country.

*United States.* Turkey and the US have been allies for over 50 years, both in the context of NATO and through their bilateral relations. The EU, Turkey and the US have shared similar strategic interests. This has remained so both during the cold war and thereafter. In other words, together with all European countries and the US, the Turkish Republic has always firmly placed itself within the 'West'.

This is not to say that Turkey's (or indeed the EU's) relations with the US have been static. Particularly in the run-up and with the advent of the 2003 Gulf war, relations between both Turkey (and several EU member states) and the US have been strained. On 1 March 2003, a resolution was brought to the Turkish Parliament by the ruling AKP government to allow the temporary deployment of 62,000 US troops on Turkish soil. The deployment and transit through Turkey would have allowed a second front attack against Iraq. By a few votes, the motion failed to pass through Parliament and the American troops were re-routed to Kuwait. At the time, the rejection of the motion appeared to have plunged US-Turkey relations to their lowest ebb since the 1974 arms embargo following the partition of Cyprus.

However the Turkish government is, notwithstanding, positioning itself to play a constructive role in the Middle East, in a manner that is convergent with both US and European declared interests. Prime Minister Erdoğan engaged in highly positive political debate in the US, as evidenced for example by his speeches in January 2004 in New York and at Harvard. The Turkish leadership is able to deploy arguments about favouring the progressive democratisation of the Middle East region, ostensibly supported by American as well as European leaderships.

In conclusion, following Turkey's stance towards the war in Iraq, Turkish policy seems to be settling down into a maturing, rather than a breaking, relationship with the US. It has brought also Turkey's foreign policy closer to the underlying ideology of European foreign policy, even if the EU has itself been so deeply split over Iraq. The scene is set therefore for a credible deepening of Turkish-EU collaboration over future developments in the Middle East.

#### **4.4 Policy conclusions**

Does the idea of integrating Turkish and EU foreign and security policies hold out the prospect of something important and valuable for both parties?

Would Turkey be an asset or liability? Our conclusions are unambiguously positive.

This does, however, depend on the EU's level of ambition for its foreign and security policy. Does the EU aspire to become a major actor in the nearby southern and eastern neighbourhoods, or does it prefer to retreat into itself behind the most secure possible external borders? If the EU truly aspires to play a stabilising, pacifying and modernising role in its neighbourhood beyond mere token actions, then the incorporation of Turkey into the common external policy offers the prospect of real advantages. In the contrary case, it would be consistent for the EU to reject Turkey's future membership once and for all. Yet in this case the EU would run the risk of destabilising Turkey itself, which could mean adding to the chaos of the wider neighbourhood.

Turkey's EU accession stands to be of comparable importance for the EU's emerging foreign and security policy as the recent accession of the 10 new member states put together, if not more so. Turkey is almost completely surrounded by a set of regions that represent the EU's prime security concerns, from the residual instability of the Balkans to the West, the Caucasus, Central Asia, Iraq and Iran to the East, and Israel-Palestine and the Mediterranean to the South. The Turkish accession would mark the end of the EU's enlargement to the East, while opening at the same time new dimensions to the EU's relationship to the Middle East and Eurasia to the South and East, a region that is unstable and unpredictable.

The potential advantages for the EU in integrating Turkey as foreign and security policy actor are several. Objective factors lie in concrete logistical and locational advantages, coupled with military capabilities and civilian human resources that can be readily deployed in the Eurasian and Middle Eastern neighbourhoods. More subjective but perhaps even more important are the prospects for the Turkish experience to be viewed as a positive precedent by its neighbours. This general statement has a number of versions, some of which have been recently tried and failed (e.g. the pan-Turkic experiment in Central Asia in the early 1990s). Some other variants are also likely to provoke adverse reactions, like over-selling the Turkish model of multi-party democracy and secularism in parts of the Arab world. Not only does Turkey's democracy still have important shortcomings. But also Turkey's Arab neighbours, in view of the legacy of Ottoman rule, react adversely to arguments suggesting their emulation of Turkey's political and economic system.

However more subtle arguments seem full of promise. The Turkish case suggests that the values of democracy, human rights, the rule of law and secularism are not specific to any particular culture or religion. On the

contrary they are universal values with no geographical, cultural or religious limitations. Rather than representing a static model of democracy, the continuing process of Turkey's democratisation could act as a source of inspiration to its neighbours. The same is true also of the gradual transformation of Turkey's security and foreign policy culture. While in the past Turkish foreign policy had focused on the importance of military security and balance of power politics, it now increasingly appreciates the value of civilian instruments of law, economics and diplomacy, as well as of multilateral settings in which to pursue its aims. Related to this, the Turkish example demonstrates the value of European integration as a key external anchor to domestic processes of modernisation.

The final point concerns the EU's own model, recalling our initial contrast of the sharply delimited Euro-federal model versus one of differentiated forms in relation to its outer edges or neighbourhoods. Turkey's EU accession and integration would vindicate the EU's ambitions to represent an inclusive project and a multi-cultural community of values. If the EU and Turkey were to make best use of their joint opportunities in the foreign policy domain, Turkey would build on the advantages of its comparative openness as well as proximity to the Middle Eastern and Eurasian neighbourhoods. The EU and Turkey could thus devise an original blend of openness towards their southern and eastern neighbours, with the model of a graduated external border of the EU. However Turkey would need to be reassured that this would not in any way deprive it of normal political rights as future member state. To have a graduated border regime that adds value is not to be confused with the negative connotations of a second-class member state.

Finally, an integration of EU and Turkish strategic cultures could in the context of the present turmoil in the Middle East and transatlantic discord over Iraq carry a message also to Washington, supporting a shift back towards multilateralism, moderation and the rule of law.

Our conclusions in viewing Turkey as a potential asset to the EU's foreign and security policies can be distilled into two terms used in military security studies: bridgehead and spearhead. In the present context these words have meaning in terms of the civil values and the objectives of an expanding European Union. The democratising Turkey would be the bridgehead of a modern, multi-cultural Europe right up to and alongside the ideological chaos and violence of the neighbourhood beyond. Its civilian, military and human resources could be integrated with those of the EU and serve as a spearhead of the EU's soft and not-so-soft power projection into the region.



## Chapter 5

### The Economics of Turkey's Candidacy

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#### 5.1 Introduction

Understanding and evaluating Turkey is not straightforward – and nor has it ever been. One is tempted to paraphrase a famous dictum of J.M. Keynes about Russia: “The economic system of [Turkey] has undergone such rapid changes that it is impossible to obtain a precise and accurate account of it... Almost everything one can say about the country is true and false at the same time.” Keynes’ dictum can be applied to Turkey in the past and to some degree it still applies today. Views on the future of the Turkish economy range across the entire spectrum from the very optimistic to the extremely pessimistic (or rather dismissive), depending on whether the recent boom or the preceding decade of instability and overall stagnation are taken as the point of reference.

One reason for this uncertainty is that the Turkish economy is essentially entering unfamiliar territory – unfamiliar in the sense that after the deep structural reforms undertaken since 2001 the outlook for sustained macroeconomic stability has never been so favourable. At the same time, however, it is clear that many reforms still need to be fully implemented and that the economy continues to depend on international financial markets. Even small mistakes in economic policy-making could lead to a strong reaction in the financial markets (a substantial depreciation and/or an increase in interest rates), which could quickly jeopardise stability. Turkey should thus be considered a country ‘in transition’, from a highly distorted economy subject to macroeconomic instability to a stable market economy that is quite open to international trade and investment and has the potential for rapid and sustained growth.

Despite all this uncertainty, some clear trends emerge from our analysis. In some respects, the accession of Turkey in the economic area would mean ‘just another enlargement’, while in others, it implies something different.

The accession of Turkey would be ‘just another enlargement’ in the sense that Turkey resembles the less advanced CEECs that are already, or are about to become EU members in terms of relative GDP per capita and the weight of agriculture in employment. In terms of economic mass and population, Turkey would represent a bit more than double the 2007 enlargement (Bulgaria and Romania). The budgetary cost of Turkey’s accession would thus also be relatively modest.

In other respects, however, the Turkish case is quite distinct from previous enlargements:

- *Advanced trade integration.* Through its customs union agreement, Turkey is already now practically part of the internal market (for goods) and is scheduled to take over large parts of the *acquis* regardless of what happens on the accession front. In this sense it has achieved much greater integrated than had the CEECs prior to their accession.
- *Low human capital.* In terms of formal education of the population, Turkey clearly lags behind, whereas the CEECs are rather close to the EU average. This discrepancy has potentially important consequences for the country's growth prospects.
- *Demographic dynamism.* The workforce in Turkey will continue to grow by more than 1% p.a. for at least another generation, whereas it is declining in most CEECs, thereby giving Turkey potentially much more dynamism.
- *Dual nature of economy.* Turkey's average GDP per capita is similar to that of Bulgaria and Romania, the two CEECs scheduled for membership in 2007. But its economy is more dualistic, with a small, but rather high-performing modern sector (which is as efficient as its counterpart in the new member countries). But approximately half of the labour force has essentially not yet been touched by the modern economy.
- *Domestic banking system.* The banking system in most CEECs is dominated by foreign banks, whereas the Turkish banking system has been open for some time. Until recently it was not able to function properly because of macroeconomic instability and pervasive political influence. With continued stabilisation and effective supervision along EU-compatible norms, the Turkish banking system might contribute to the modern part of the Turkish economy. But expanding its role in financing investment is a pre-condition for sustained growth.
- *External debt and capital flight.* Turkey has a much larger foreign debt than most other candidates or new members. Again in contrast with the CEECs, one-half of its debt seems to be the result of capital flight. Fostering the repatriation of part of this capital and creating the conditions for large FDI inflows will be the key to unlock the huge potential for extensive growth.
- *Agriculture.* Turkey resembles other CEECs (notably Poland and Romania) in that a large part of the work force is officially employed in agriculture. However, Turkey is the only candidate to run a sizeable trade surplus in this sector with the EU because Turkey specialises in products for which the EU is relatively open. Moreover, again in

contrast to the CEECs, Turkey has long protected its agriculture in some products even more than the EU: membership would thus imply a loss of protection for this sector. Agriculture also illustrates the dualism of the Turkish economy: A relatively small modern sector produces the large exports to the EU, whereas the rest, which employs the majority of the workforce, is not competitive.

- *Migration.* Our starting assumption is that it is likely that Turkey will not be treated any better or worse than the recent new member states in terms of labour mobility. The incumbent EU-15 member states gave themselves the possibility to keep their labour markets closed to workers from the 10 new member states for potentially up to 7 years after accession (2 plus 3 plus 2). If Turkey joins say, by 2015, the full mobility of workers might thus only come 17 or more years later. By that time the labour markets will be strongly affected by the ageing of the population (not only among the EU-15, but also the new members). There might thus be actually labour shortages, instead of the wide-spread unemployment that is the rule today. Moreover, if Turkey has progressed far in the convergence process, emigration might no longer be so attractive to Turkish workers. For all these reasons, it does not make sense to speculate how many Turkish workers might move to the EU-15 using today's labour market data.

The remainder of this chapter is organised as follows: We start in section 5.2 with the question that is on everybody's mind: how much will it cost? We find that, as in the case of the last enlargement that the cost to the EU budget is surprisingly low, around 0.2% of the EU's GDP. We then deal with the one area where EU-Turkish relations are already deeply established, namely trade (section 5.3). This is followed by an examination of the human potential of the Turkish economy, its dynamic demography, its low level of human capital accumulation and its dual employment structure (section 5.4). Section 5.5 examines in more detail one sector, namely agriculture, which clearly illustrates the dual structure of the economy and the problems it faces with human capital formation. Section 5.6 turns to a sector that has been at the centre of the last economic crisis, namely banking. Section 5.7 looks at the quality of the institutions that govern the Turkish economy and section 5.8 draws the analysis together for an evaluation of the long-term growth prospects. Section 5.9 offers conclusions.

## 5.2 How much will it cost?

How much would Turkish membership cost the then incumbent members? This is a question that is at one and the same time straightforward and impossible to answer. It is impossible in the sense that the EU is evolving constantly so that it is difficult to predict with any precision what the

financial consequences of accession of Turkey in, say, 2014 would be. However, it is straightforward to calculate how much Turkey would cost the EU budget if it were to enter under present rules.

A key factor limiting the degree of freedom of the EU budget is the fact that the financial envelopes are determined in a multi-annual framework called the financial perspective. The current framework, which was decided among the EU-15 in 2000, and thus long before the current enlargement, runs until 2006. The next framework, which will be negotiated *à 25*, will run until 2012. Turkey is unlikely to have become a member country by that time and so will have only a limited influence on the following financial framework, which will run until 2018. Assuming accession by 2015, this would imply that the financial envelope for the first three years of Turkey's membership would have been decided by the EU-28 (the current EU-25 plus Bulgaria, Romania and most likely Croatia). In this respect, Turkey's situation might thus resemble that of Bulgaria and Romania, which are likely to join by 2007, in the sense that their first years of membership will also be covered by a financial framework in whose negotiations they did not participate.

In terms of negotiations, Turkey would thus be fully part of the EU's financial framework only during the 2018-2024 round. Given that for all present and former member states it took between 5 and 10 years before they were integrated into all support programmes it is thus likely that Turkey will benefit fully from the EU's budgetary support schemes some time after 2020.

What will determine Turkey's share in the EU budget of the 2020s are the rules that will by then be in effect for everyone else and the level of development reached by the EU and Turkey itself. One cannot know with certainty what these rules will be and any long term projections are therefore highly speculative.

In reality, however, the discussion about the financial burden Turkey would represent for the EU budget focuses usually on the current rules.<sup>60</sup>

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<sup>60</sup> The experience with the current enlargement process suggests that over time the discussion will shift from how much it costs to who will bear the (minor) burden. But this point is still some way into the future. Current circumstances have another impact, however, in that it is usually assumed that the burden would have to be borne by the current EU-15 because it is usually assumed that most of the new member countries will remain net beneficiaries for quite some time to come. By the early 2020s, this might no longer be the case, but again it is impossible to forecast with any precision which of the new member countries would no longer qualify for financial support (under current rules) by that date.

For example, the maximum that Turkey would receive after a transition period under current rules is a starting point many analysts have chosen, for which there are two variants:

- a) How much would Turkey receive if it were a fully established member today?
- b) How much is Turkey likely to receive under current rules by a likely accession date, e.g. 2015?

The overall calculations for these types of numbers are actually quite simple in both cases since the budget of the EU is dominated by two items: Structural Funds (destined for regions with a GDP per capita at PPP below 75% of the EU average) and the Common Agricultural Policy (CAP). The gross receipts of any member country are to a large extent determined by these two items.

*a) Turkey in the EU today.* If Turkey were a member country today, it could count on Structural Funds allocations which would be capped at 4% of its GDP as decided at the Berlin European Council. Given that Turkey's GDP has averaged around €200 billion in recent years, this implies immediately that its allocation would be around €8 billion annually.

It has also been calculated that extending the current CAP to Turkey (with per hectare payments based on current yields) would cost around €9 billion. This implies that the total receipts of a hypothetical Turkish EU member today might be slightly less than €20 billion (Turkey would also receive some funding under other programmes). Turkey would then also have to contribute as do all other member states to the EU budget. With a current contribution rate of around 1% of GNP (the ceiling for the EU budget is 1.25% of GDP, but the EU spends less than this at present, slightly above 1% of GDP), this would mean around €2 billion annually, leading to a net financial benefit of around €18 billion annually. Apart from the fact that this approach is based on today's conditions, the sum mentioned also represents an upper bound.

*b) Turkey in 2015 in an enlarged EU.* One difference with respect to the previous calculations is that in this case it does not make sense to calculate in current euros since both the EU and the Turkish economies are likely to grow over the next decade. Under the growth prospects presented below, Turkey will grow much more quickly than the EU over the next decade and the Turkish GDP could reach about 4% that of the EU-28 GDP (at present, it amounts to only around 2%) by the middle of the next decade. This implies immediately that the cost of extending current Structural Funds to Turkey would cost at most 0.16% of EU-28 GDP ( $=0.04 \times 0.04$ ).

The calculations for agriculture are potentially more complicated since one would have to guess the output structure of agriculture in Turkey in about a decade and then calculate how this would change if Turkey participates in the CAP. This would actually be an exceedingly complex operation as one would have to take into account the entire input/output matrix – for example some commodities (maize) are used as an input in the production of others (meat). This is not necessary, however, as an indirect approach based on the support relative to production in this sector can yield a better result.

The starting point is that Turkish farmers are likely to obtain at most 20% of their value added from the EU's CAP, for the simple reason that this is what farmers in the EU-15 obtain today: the CAP costs at present amount to 0.5% of GDP and the value added produced by agriculture is about 2.5% of the EU-15 GDP.

Agriculture produces at present around 12% of GDP in Turkey, but taking into account that its share has been declining continuously over the last decade, a reasonable assumption might be that in about a decade agriculture will account for about 10% of Turkish GDP at the maximum. On this basis one can easily calculate the potential maximum cost of extending the present rate of support of the CAP to Turkey. Assuming, as before, that the Turkish economy accounts for 4% of EU GDP (and that agriculture contributes 10% to this) the cost of providing an 'equivalent rate of support' for Turkish agriculture would be 0.08% of EU-15 GDP ( $=0.2*0.04=0.2*0.04*0.1$ ). To repeat, this is again an upper bound. Other estimates arrive at much lower numbers; see for example Quaisser & Reppegather (2004) who argue that the cost of extending the CAP to Turkey should only be around 0.045% of the EU's GDP.<sup>61</sup>

The gross cost (Structural Funds plus CAP) together might thus amount to 0.26% of EU-28 GDP ( $=0.096+0.16$ ). Against the gross receipts one would have to set the contribution that Turkey would have to make to the EU budget. At present, and this is unlikely to change any time soon, all member states contribute at the same rate, or rather at the same percentage of GNP, to the EU budget. The contribution rate is equal to the share of the EU budget in overall GDP. Assuming that the EU budget will continue to be limited to around 1-1.2% of GDP, this implies that Turkey will have to contribute about

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<sup>61</sup> The number calculated above is again an upper limit, as the CAP is likely to change over time, inter alia, because of the commitments made by the EU in the context of the WTO to abolish exports subsidies, and the general limitations the WTO imposes on various types of domestic agricultural subsidies in general. For details, see W. Quaisser and A. Reppegather, *EU-Beitrittsreife der Türkei und Konsequenzen einer EU-Mitgliedschaft*, Working Paper No. 252, Osteuropa-Institut, Munich, 2004.

1.2% of its own GDP to the EU budget. Under the assumptions made so far (Turkish GDP at about 4% that of the EU-15), this would then amount to around 0.048% of EU-15 GDP.

The ceiling for the net cost should thus be around 0.20% of EU GDP (equivalent to about €20 billion given today's EU GDP of around €10,000 billion) under both illustrative calculations. Table 5.1 below summarises the main findings.

*Table 5.1 Maximum budgetary cost, full membership*

	Turkey in today's EU (current euro)	Turkey 2015 in an enlarged EU (as a % of EU GDP)
Structural Funds	€8 billion	0.16%
CAP receipts	€9 billion	0.08%
Total receipts (including other)	€20 billion	0.25%
Contributions to EU budget	€2 billion	0.05%
(Max) Net receipts for Turkey	Roughly 0.18% of EU GDP)	0.20%

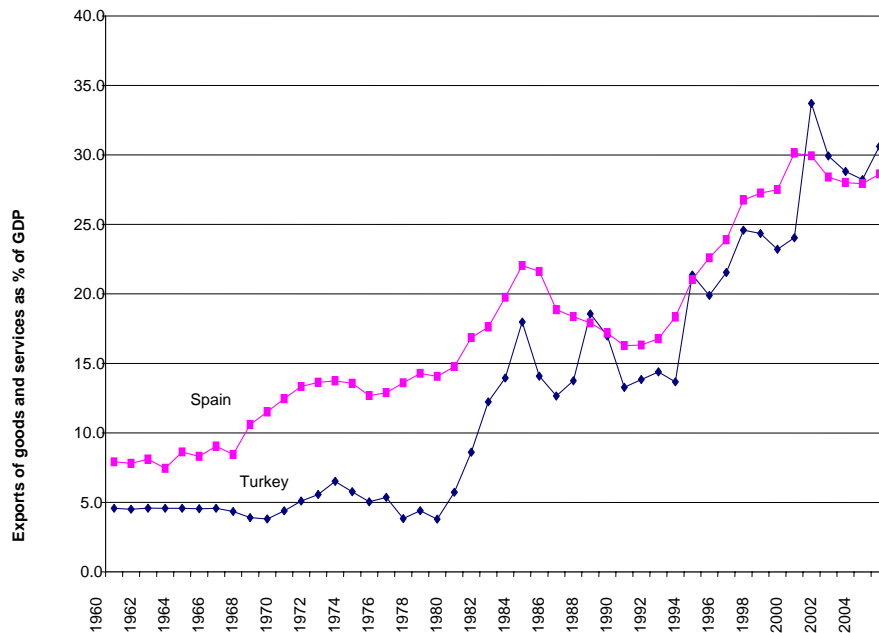
*Source:* Authors' own calculations based on current EU budgetary rules and regulations.

### 5.3 Trade integration

The degree of openness of the Turkish economy has changed radically in recent decades if one considers the standard measure of openness, namely the share of exports of goods and service in GDP. Figure 5.1 shows the relevant data over almost the last half century. It is apparent that until about 1980, Turkey was effectively a closed economy, with exports accounting for only 5% of GDP, much less than even recorded in Franco's Spain (used here as a comparator because it is also geographically somewhat at the fringe of the EU). Turkey started to open up to the rest of the world with an initial set of reforms during the early 1980s, leading basically to an increase of the openness ratio by a factor of three, i.e. to 15% of GDP, similar to the values recorded by Spain, which at that time was joining what was then the European Community. The conclusion of the EU-Turkey customs union treaty of 1995 seems to have been another factor pushing the Turkish economy to open to the rest of the world, with export climbing successively to almost 30% of GDP, again a value that is close to that of Spain, which had by then been part of the internal market for quite some time.

Economic theory shows that a customs union can act like a double-edged sword: the elimination of tariffs among the two partners should lead to additional trade, also called trade creation. But if tariff barriers with respect to the rest of the world remain high, there is also a danger that trade relations that either partner had with the rest of the world before the conclusion of the customs union agreement might be substituted by trade between the two partners (so-called trade diversion). While trade creation leads to welfare gains, trade diversion leads to welfare losses.

*Figure 5.1 Trends in openness for Spain and Turkey*



Source: Eurostat.

The data available for the EU-Turkey case generally suggest that there has been considerable trade creation, but little trade diversion. The extent of trade creation can be seen in the further increase in the ratio of total exports (of goods and services) to GDP over the last years. The absence of evidence for trade diversion comes from the fact that the share of the EU in overall Turkish trade has remained approximately constant.

The fundamental reason for this benign effect of the EU-Turkey customs union is that the main result of this agreement was a liberalisation of Turkey's international trade. The EU had been already quite open towards



exports from Turkey even before the customs union agreement, whereas Turkey had retained a rather high degree of protection. Fundamentally the EU-Turkey customs union thus meant a small further liberalisation by the EU, but a large liberalisation on the Turkish side as the degree of protection in Turkey had to be reduced to the rather low EU average.<sup>62</sup>

*Table 5.2 Turkey's trade integration relative to other European economies*

<b>From:</b>	<b>Exports to EU-28/GDP</b>	<b>Exports to world/GDP</b>
<b>EU-15</b>	24.5	37.9
<b>Czech Rep.</b>	57.1	65.9
<b>Hungary</b>	57.8	67.7
<b>Poland</b>	22.0	26.8
<b>Romania</b>	27.8	35.6
<b>Turkey</b>	14.9 -16.5	26.1
<b>EU-27</b>	25.2	38.3

*Note:* It is difficult to establish the direction of trade for services. The range reported for Turkey reflects differing assumption about the share of the expanded EU in Turkish exports of services (mainly tourism).

*Source:* Authors' own calculations based on IMF data from *Directions of Trade*.

Despite this considerable progress, however, Turkey is somewhat less dependent on trade with the EU than even the larger new member countries. Exports to the EU account for 'only' 15-16% of Turkey's GDP, compared to over 20% for Poland (the least open of the new member states). This relatively lower degree of trade integration is the result of two factors. First, the share of trade in GDP is still somewhat lower for Turkey than even for a country like Poland. Part of this difference might be due to a residual protectionist attitude on the part of the bureaucracy that has been noted in many Commission reports. But another, perhaps equally important factor is Turkey's geographical position (being located much further away from the core of the EU market than most CEECs), which makes it natural that the geographical distribution of Turkey's foreign trade is a bit less focused on the EU.

Given the already existing customs union with the EU, is there anything that could be done to foster integration even further in advance of full

<sup>62</sup> A fundamental theorem in international trade theory states that an import tariff is equivalent to an export tariff (Lerner symmetry theorem). This symmetry explains why a large reduction in protection against imports should lead to a large expansion of both exports and imports.

membership? While it is generally agreed that the customs union arrangement functions well technically, there are some points of friction that should be addressed: its asymmetry, incompleteness and need to extend it to the area of services.<sup>63</sup>

*Asymmetry.* The EU-Turkey customs union is highly asymmetric in the sense that the economy of one partner (the EU) is more than 20 times larger than the other (Turkey), which makes it impossible to engage in joint decision-making. This puts Turkey in the politically delicate position that it has no influence on agreements the EU might conclude with third countries, although these agreements might impact the competitive position of Turkish industry, not only in the EU market, but also in Turkey. Moreover, once the EU has concluded, for example, a free trade agreement with a Mediterranean country, this agreement will open the entire customs union (EU plus Turkey) for imports, but any concession by the other side will concern only exports originating from EU member states.

The obvious solution during the pre-accession period would be for the EU to take Turkish interests into account when negotiating any new trade agreements. It should keep Turkish officials involved in the negotiating process and should make sure that any concession the EU obtains from its trading partners apply to Turkey as well. Of course, there is no possibility for Turkey to have an actual veto right on the final decision of the EU whether or not to conclude for example, a new free trade agreement, but it should be involved in shaping the details of any future agreement and it should be very clear that EU negotiators have to keep Turkey's interests in mind, not as a 'favour' to Turkey, but as part of the terms of reference of their job.

*Incompleteness.* The EU-Turkey customs union entered into force on the last day of 1995. But, almost nine years after its entry into force, there are still areas where full harmonisation is lacking (well beyond the different transition periods envisaged for the approximation of legislation). State aids, technical barriers to trade and intellectual property rights are in essence the areas where full harmonisation has not been achieved. This may be due to a 'hidden protectionism' practiced by the Turkish administration. It may also be due to a lack of effective institutional cooperation between the European Commission and the Turkish administration. The Community's legislation is in a flux and Turkey has been trying to meet a moving target. A more effective institutional cooperation model, inspired by the example of the European Economic Area (EEA), may indeed alleviate this problem.

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<sup>63</sup> See Sinan Ulgen and Yiannis Zahariadis, *The Future of Turkey-EU Trade Relations: Deepening vs Widening*, EU-Turkey Working Paper No. 4, Centre for European Policy Studies, Brussels, August 2004 (available at [www.ceps.be](http://www.ceps.be)).

*Services.* This is a delicate area for the EU because services are typically labour-intensive and the cross-border provision of services requires in most cases the movement of people. Many member states still perceive a strong pressure for legal (and sometimes illegal) immigration from Turkey. Moreover, Turkey might be in a strong competitive position in a number of services sectors. With this mixture of commercial and political motivation, many member countries remain reluctant to engage in free trade in services.

However, the liberalisation of trade in services is expected to have a more profound impact on the Turkish economy than the completion of the customs union in goods. Services represent 60% of Turkey's national income whereas industry's share is more limited, at 30%. Moreover, unlike trade in goods, the EU's model in the liberalisation of trade in services is conceptually different in the sense that it is coupled with a requirement of regulatory convergence. In other words, trade in services between Turkey and the EU can be liberalised on the condition that Turkey adopts the EU *acquis* in the relevant fields. This approach has two fundamental consequences. Firstly, the liberalisation of trade in services between the parties will accelerate Turkey's integration into the EU's Single Market. Depending on Turkey's ability to achieve the necessary regulatory convergence, Turkey can therefore become a part of the Single Market before the actual date of full membership. In that case, three of the four fundamental freedoms, namely the free circulation of goods, services and capital, will be achieved in advance of membership.

We believe that there would be considerable benefits in going down this path. By adopting the *acquis* in services, one of the most critical shortcomings of the Turkish economy would be addressed. Now that the macroeconomic framework has been stabilised, the challenge for the Turkish economy is to increase productivity and reform its regulatory framework. The sectoral reforms that will necessarily be implemented as a result of the required regulatory convergence should transform the microeconomic business environment and introduce a more flexible and more market-friendly regulatory regime. Increases in productivity in essential business services that would trigger additional productivity increases in downstream industries may initiate a virtuous cycle for the Turkish economy as a whole. Finally, given that these reforms are expected to have a positive impact on Turkey's growth performance, they would also help the convergence process between Turkey and the EU.

Are there any caveats in this respect? The main question is whether the services side of the Turkish economy is competitive enough and ready to face the challenges of unhindered competition. A paper recently prepared for

this project examined the state of the banking industry in Turkey,<sup>64</sup> which arguably constitutes one of the most sensitive areas, and concluded that "...it is hard to argue that the Turkish banking sector is notably less efficient than some of its European competitors". It should also be recalled that a sequencing of the liberalisation according to the state of preparedness of each individual sector is also possible. The main challenges will not therefore stem from the degree of competitiveness but rather from a need to find a satisfactory solution to the thorny and politically sensitive issue of the freedom of establishment which is an inalienable part of the freedom to provide services. The second set of challenges is related to the institutional quality and capacity of the independent regulatory bodies in Turkey. Assuming that these challenges are met and a proper sectoral sequencing for liberalisation is formulated, services trade liberalisation between the EU and Turkey should be accelerated. An accelerated calendar for trade liberalisation in the services area, not necessarily linked closely to the full membership negotiations, would be of benefit to both parties.

The challenge for the next few years is thus to make the asymmetry in the customs union politically acceptable until Turkey's accession takes place and to complete the regulatory convergence, in particular by extending free trade to the area of services. The latter will require innovative solutions regarding the movement of service workers, an issue closely linked to the set of issues that arise in the area of the cooperation in justice and home affairs (see in particular the paper prepared for this project by Apap et al., 2004).

#### **5.4 The human potential of the Turkish economy**

The success of any economy is ultimately based on its people. In this respect Turkey shows some remarkable features that distinguish it from most old and new member countries. The first, and best known difference is the fact that Turkey's population is still growing, whereas that of most member countries is already, or is about to start declining. A second difference concerns the educational system, which again sets Turkey apart from most member states. Finally, a third difference arises from the dual nature of the Turkish economy with a sharp division between those working in a strong modern sector and the remainder, whose productivity is very low.<sup>65</sup>

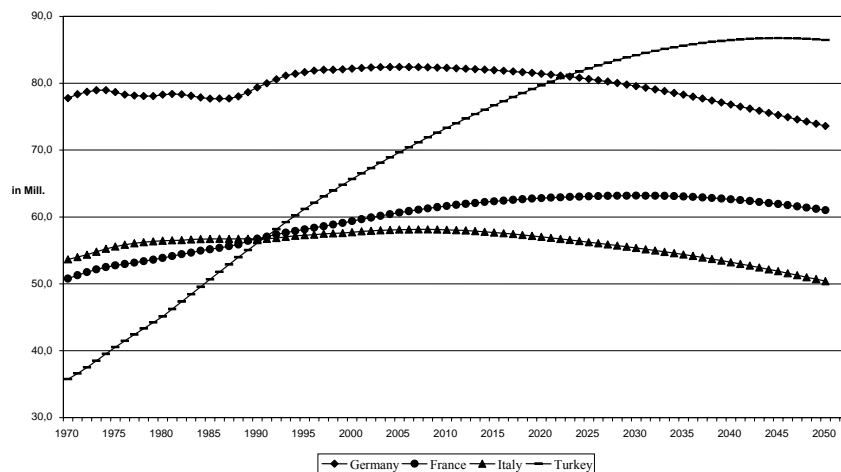
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<sup>64</sup> See Alfred Steinherr, Ali Tukel and Murat Ucer, *The Turkish Banking Sector: Challenges and Outlook in Transition to European Union Membership*, EU-Turkey Working Paper No. 4, Centre for European Policy Studies, Brussels, August 2004 (available at [www.ceps.be](http://www.ceps.be)).

<sup>65</sup> This section relies heavily on another contribution to this project: see Kemal Derviř, Daniel Gros, Faik Öztrak and Yusuf Iřık, *Relative Income Growth and*

**Demographic dynamics.** In contrast to most member countries Turkey's population is still growing, but the rate of increase has already slowed considerably compared to the last decades. Figure 5.2 shows the evolution of the population of Turkey and that of the four largest member countries. It is apparent that the 'old' Europe has either been stagnating (Germany and Italy), or growing rather slowly over the last 30 years. By contrast, the population of Turkey has doubled in this period, although the available projections imply that Turkey's demographic growth will abate in the future. For the next two decades the population of Turkey is thus forecast to grow by another 25%, which represents a much lower growth rate than that of the past, but this should be compared to the declining populations that are predicted for Germany and Italy. For the next generation, Turkey will thus remain much more dynamic in population terms than all other EU members.

Figure 5.2 Demographic dynamics compared: Turkey vs. 'old' Europe



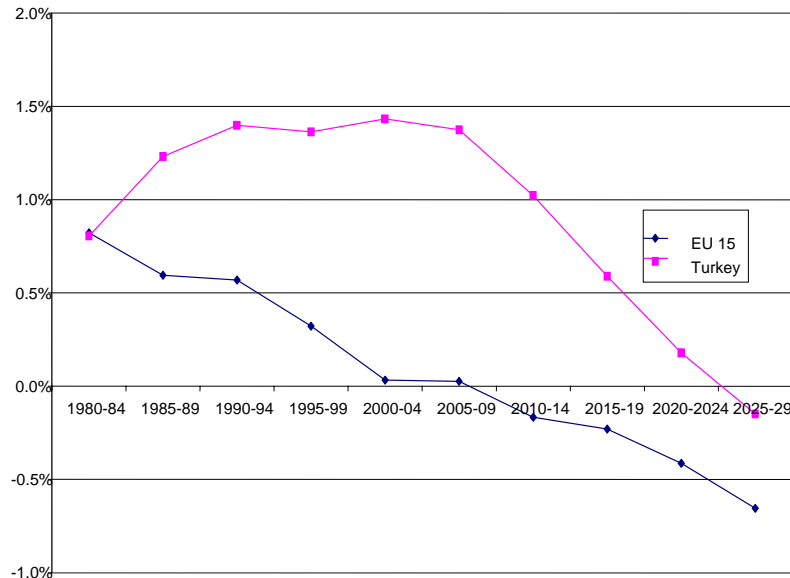
Source: U.S. Census Bureau, IDB.

Whilst being more dynamic, Turkey is also in the midst of a demographic transition, reflecting a fairly rapid decline of the population growth rate, from the 2.5 to 3% range in the 1950s and 1960s, to less than 1.5% at the beginning of the new century. This implies a rising proportion of the 15 to 64 age group in the total population, as fewer new babies are born to fill the below 15 age group, and as life expectation, while lengthening, is not yet long enough to result in a large proportion of the total population above age 64.

*Convergence*, EU-Turkey Working Paper No. 8, Centre for European Policy Studies, Brussels, August 2004 (available at [www.ceps.be](http://www.ceps.be)).

Figure 5.3 below shows the demographic bonus in the form of the change in the share of the total population that could be potentially active (i.e. those between 25 and 65). The level of this ratio measures in a certain sense potential GDP per capita. Changes in this ratio show, *ceteris paribus*, to what extent the room for re-distribution is affected by demography. For example, if this ratio increases by 1%, potential GDP per capita should go up by 1% *ceteris paribus*, i.e. holding constant productivity, employment rates, etc. A fall in this ratio indicates the opposite: potential GDP per capita falls, implying that there is less to redistribute to pensioners and other interest groups.

Figure 5.3 Demographic bonus: Change in potential labour force (25-65) as a percent of total population



The large hump-shaped curve of Turkey puts it well above the average for the EU-15, whose curve is declining all the time and will even turn negative over the next decade. Turkey is also better off in this respect than all current and prospective member countries taken individually, because their demographic ‘transition’ happened a generation earlier. Even the poorer among the EU-15 had their demographic transition earlier. The Spanish and Portuguese curves would be below that of Turkey and anticipate its movements by about 20 years.<sup>66</sup> Turkey can thus rely on a strong

<sup>66</sup> Poland is a special case because of the horrendous losses the country suffered during World War II. This implies that there will be fewer pensioners falling out

demographic bonus. The size of this bonus can be read directly from the figure: it was about 1.5% per annum in the five-year period preceding 2005, implying that each year the working age population increases by 1.5% more than the total population (allowing, *ceteris paribus*, as explained above, for an increase in potential GDP per capita of 1.5%). On this count Turkey has clearly a strong advantage over the EU-15 (and even the poorer EU member countries), whose value, leaving apart the special case of Poland, are usually around 0.5%.

Demographics should thus in principle provide a substantial boost to growth over the next decade. But one should not forget that this bonus was already available over the last decades. It seems that this bonus has not been used to Turkey's advantage so far in the sense that for two decades the country has stopped converging to EU norms in terms of GDP per capita. Turkey's demographic bonus will even increase over the next decade, from somewhat below 1% per annum to somewhat above that figure (depending on the exact comparator country chosen).

An expanding population provides economic opportunity only if employment increases as well. This does not seem to have been the case for Turkey so far. Table 5.3 describes the basic age structure and employment ratios in Turkey and selected new member countries which are used here as comparators because employment rates tend to go up with income. The key result is that the ratio of total employment to total population is substantially below (almost one-third lower) than in the comparator countries, because of a lower ratio of the 15 to 64 age group as well as a lower participation rate. Similar differences in labour force participation rates also exist among the EU-15, with generally the highest value to be found among the Scandinavian countries. But Turkey would find itself at the lower end even of the 'Southern' group within the EU. An important part of the lower employment ratio of the population in working age in Turkey stems from the very low labour market participation rates of women.

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of the labour force each year until 2015. Nevertheless, after that year, the low birth rates will make themselves felt in a rapidly deteriorating demographic situation.

Table 5.3 Employment, 15-64 age group and total employment population (15-64) 2002

	Employment (thousands)	15-64 age group / total pop	Total emp./ 15-64 age group	Total emp./total pop**
Bulgaria	2998	0.68	0.55	0.37
Czech Rep.	4760	0.70	0.67	0.46
Hungary	3855	0.68	0.55	0.37
Poland	13782	0.67	0.52	0.35
Romania	7745	0.68	0.52	0.35
Turkey *	20836	0.64	0.44	0.28

\* Year 2000.

\*\* Equals the product of the previous two columns.

Source: Calculated from EUROSTAT, SY, SIS.

To sum up, the Turkish population in working age has grown rapidly, but employment has not, leading to the low employment ratios documented above. This is a pattern that needs to be broken if Turkey is to use its demographic bonus.

*Human capital accumulation.* For economic growth, however, it is not quantity, but quality that counts. In other words, the economic potential depends crucially on the quality of the actual and potential work force in terms of its 'human capital'. On this score Turkey starts from a weak position. Tables 5.4 and 5.5 show the relevant data concerning both how investment in formal schooling takes place and the output in terms of educational achievements. It is apparent that Turkey is investing relatively little in education, less than most EU member states. The difference would be even larger if one takes into account that the share of the school age population is so much higher in Turkey.

In terms of educational achievements, the picture is similar: there is only one member that has a worse performance. It is not surprising that this is Portugal which is showing signs of facing increasing difficulties in adapting to the increased competition in the internal market resulting from enlargement. The two new member countries for which this internationally comparable data are available, Poland and Hungary, are both investing much more in education and start from a much better starting point. Turkey is unique in having both a very low rate of investment in education and a bad starting point.



Table 5.4 Total expenditure on education and adult population with upper secondary education

	Total expenditure on education (% of GDP)	Adult population with upper secondary education (%)
Turkey	3.91	24.3
<b>Poland</b>	5.31	45.9
<b>Portugal</b>	5.69	19.8
<b>Greece</b>	3.86	51.4
<b>Hungary</b>	5.15	70.2

Source: OECD.

The available data on enrolment rates and the educational attainment level of the younger generation indicate that the gap in terms of education is not about to be closed soon, even in the cohort that just entered the labour force (the 25-34 year olds) in which less than a third has finished at least upper secondary education. In terms of investment in human capital, Turkey will thus face a considerable handicap in a 'convergence race' with the new member countries.

Table 5.5 Percentage of the population that has attained at least upper secondary education, by age group

	Age group				
	25-64	25-34	35-44	45-54	55-64
Poland	45.9	51.7	47.5	44.5	36.4
<b>Portugal</b>	19.9	32.5	19.9	13.6	8.5
<b>Greece</b>	51.4	72.6	60.3	43.1	27.6
<b>Turkey</b>	24.3	30.2	23.5	19.2	13.3

Source: OECD.

*Duality.* Aggregate figures provide important information on national averages, but in the case of Turkey, it becomes particularly important to look closer at sectoral and regional data because they reveal the existence of two economies: a large and poor agricultural (or rather rural) sector, and a modern sector that is at the level of the new member states.

Table 5.6 below shows that Turkish average labour productivity (measured by value added per employed person) is close to that of the Czech Republic, Hungary and Poland, the three biggest countries among the new EU members. This is so *despite the fact* that gross value added per person

employed in agriculture, lowers the Turkish average (with the exception of Poland in this case). Productivity in services, construction and, even more so in industry, is high in Turkey, when compared to the new member countries, reflecting the degree of modernity and sophistication reached by Turkey's "modern sector". The situation looks even more favourable to Turkish industry when productivity levels are compared to Romania and Bulgaria, the two remaining candidate countries other than Turkey.

*Table 5.6 Sectoral gross value added per person employed, 2000  
(thousands of current euros)*

	<b>Agriculture</b>	<b>Industry</b>	<b>Services</b>	<b>Economy average</b>
<b>Bulgaria</b>	4.3	3.7	4.3	4.1
<b>Czech Rep.</b>	9.7	12.4	12.1	11.7
<b>Hungary</b>	7.6	12.0	12.1	11.5
<b>Poland</b>	2.1	11.8	13.5	10.9
<b>Romania</b>	1.1	5.8	7.5	4.2
<b>Turkey</b>	4.6	13.5	15.7	10.9

*Source:* Eurostat.

These productivity comparisons show that the Turkish economy is not only on average "more developed" than the economies of Romania and Bulgaria, but Turkish productivity outside agriculture is close to, or in some cases even higher than what we observe in the new member countries.

The very large sectoral differences in productivity levels are also reflected in regional disparities as the modern, productive sector (mainly industry plus some services) is concentrated in a small number of regions in the western part of the country. With the result that the poorest regions produce less than one-fourth of the GDP per capita than the richer ones.

## **5.5 Agriculture**

Agriculture still plays a large role in the Turkish economy. This sector employs over one-third of the work force (the precise numbers vary) and only about 12% of national income. The difference between these two figures shows immediately that agriculture is, on average, the weakest sector of the economy. In this respect Turkey does not constitute an exception: in most member states agriculture produces a much lower share of national income than one would expect from the share of overall employment. Turkey resembles in particular some other CEECs. In terms of the share of the work

force officially employed in agriculture, Turkey falls somewhere between Poland (where the share is a bit below 20%) and Romania (where it is close to 40%).

An important difference with respect to the CEECs is, however, domestic agricultural policy. In contrast to Turkey, most CEECs did not have a pronounced policy to support agriculture during the 1990s. Moreover, not only did Turkey protect its agriculture, it did so in a particularly inefficient and costly way. As Cakmak puts it: "After the middle of the 1980s, Turkey may be considered as a perfect example of mismanagement of agricultural policies."<sup>67</sup> This policy contributed to the large fiscal deficits which ultimately precipitated the 2001 crisis but did not foster the much-needed structural adjustment in the sector. As the fiscal, economic and social costs of agricultural policies became unbearable, a radical reform programme was enacted, which is still being implemented today.

This subsection first provides an overview of Turkish agricultural policy as it moves, eventually, to an adoption of the CAP. This is then followed by a brief evaluation of the economic potential of the sector.

*The domestic policy framework.* As in other areas, it is rather difficult give an adequate account of this sector within a rapidly evolving policy environment as the reform programme enacted in 2000-01 is still being implemented. Implementation is sometimes partial and a number of measures have yet to be taken. In principle, however, the reform programme foresees a further market opening for the sector and a gradual partial replacement of support via market prices by income support that is not linked to ('decoupled' from) production.

Support to agriculture still amounts to around 4% of GDP (according to OECD estimates). This is much higher than in the EU for the simple reason that agriculture is so much more important in Turkey. Ultimately the aim of support to agriculture is to increase the income of those employed in that sector. It is clear that it costs much more to support over 30% of the population than the little over 3% that still work in agriculture in the richer EU member countries. The political weight of agriculture is high in all countries, even in countries with a very small fraction of the population in agriculture. Turkey is no exception. The main aim of the reform initiated in 2001 was to recognise the aim of agricultural policy, namely higher income for the rural sector, but to switch to policies (income support) that minimise economic distortions (such as the huge subsidies for inputs that had been granted until then).

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<sup>67</sup> See Erol H. Cakmak, *Structural Change and Market Opening in Agriculture*, EU-Turkey Working Paper No. 11, CEPS, Brussels, September 2004.

*Box 5.1 Agricultural subsidy reform of 2000 and beyond*

Turkey enacted a radical reform of its agricultural subsidy system in 2000. The aim was both to reduce the cost (thus contributing to fiscal stabilisation) and to promote allocative efficiency. The reform called ‘Agricultural Reform Implementation Project’ (ARIP) focused on three main themes:

1. To cut out government intervention in the output, credit and fertiliser markets and the introduction of direct income support (DIS) for farmers through per hectare payment independent from the crop choice (similar to the approach taken over the last years by the EU).
2. The commercialisation and privatisation of SEEs (state economic enterprises), including TURKSEKER (Turkish Sugar Company) and TEKEL (Turkish Alcohol and Tobacco Company); and restructuring of TMO (Soil Products Office) and quasi-governmental Agricultural Sales Cooperative Unions (ASCUs) which in the past intervened to support certain commodity prices on behalf of the government.
3. One-time alternative crop payments. This element provided grants to farmers who require assistance in switching out of surplus crops to net imported products. The programme was intended to cover the costs of shifting from producing hazelnuts and tobacco to the production of oilseed, feed crops and corn. Participation in this scheme has so far been limited outside the tobacco sector.

The policy framework continues to evolve. The government intends to restructure ARIP and to add new components. Starting in 2006, the weight of DIS payments in the total budgetary support to agriculture is scheduled to decrease. The payments per hectare are planned to remain constant in nominal terms, but they should be more targeted. The share of crop-specific deficiency payments, alternative crop grants and support to livestock production will slightly increase. The new items in the short term are related to environmental protection schemes, crop insurance support and a pilot project on participatory rural development. Other medium-term policy agenda items of the government include promotion of a sustainable rural finance system, increased expenditures in rural infrastructure targeted to irrigation, storage and marketing facilities and expansion of agricultural extension activities.

In this general sense, Turkish agricultural policy is moving towards the approach used by the EU’s Common Agricultural Policy (CAP). However, the latter is also moving and the initial starting points are so different that Turkey will have to undertake further radical opening of its agricultural sector before it can join. In principle this would not need to be done until just before accession, although it would probably be in Turkey’s interest not to wait. One key reason is that even the present (evolving) system implies a

high burden for the economy. Simulations with large-scale sectoral models suggest that Turkey could obtain small, but non-negligible economic gains from opening its agricultural sector to the EU and to external trade in general. Some parts of Turkish agriculture are quite competitive (fruits, vegetables, nuts and flowers) and other parts could be competitive in the absence of rich-country subsidies (cotton). A reduction in the rate of protection for the non-competitive parts of agriculture would, of course, lead to lower production and exports in those sectors that are still most heavily protected. There would no doubt also be employment problems which would have to be taken into account. But consumers would gain from lower food prices. In Turkey households spend a much higher proportion of their budgets on food than in richer EU member countries. This implies that higher prices for agricultural goods have a rather strong impact on the cost of living of most households. Extending the customs union agreement to cover agriculture would thus benefit consumers more than it might hurt some producers (see Camak, 2004, for details). As the CAP moves more and more towards direct income support under the pressure of global trade negotiations extending the EU-Turkey customs union agreement would thus be equivalent to opening Turkish agriculture to trade with the rest of world as well.

*Potential.* Turkey produces a wide variety of products and, given its size, is an important producer in a number of products even on a global scale (especially some fruits and vegetables in which it is ranked first or second).

Modern agriculture requires a combination of intensive human and physical capital inputs. But the intensive use of capital makes sense only in farms above a certain size, which, for certain field crops in the EU, is measured usually in hundreds of hectares.<sup>68</sup> All the available indicators show that Turkish agriculture lacks in all these aspects. The handicap is particularly apparent in terms of human capital and unit size (which is, however, less relevant in some sectors which are important for Turkey).

It is not surprising given the large share of the population engaged in agriculture that the average farm in Turkey tends to be small. Depending on the exact statistical source used, there are between 3 and 3.5 million farms in Turkey. (It is difficult to obtain a precise picture of the contribution of agriculture to the overall economy in Turkey because agriculture and 'rural' tend to get mixed up.) The average farm size is around 6 hectares, which is close to the figures for Poland and Romania. As usual this average hides great disparities with 85% of the farms being smaller than 10 hectares, occupying around 40% of the land. The remaining 15% of farms thus account for the bulk, namely 60% of the land. Most of the value added of the

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<sup>68</sup> This does not imply that most EU farms are of an optimal size. Only 3% of all farms, in fact, cultivate more than 100 hectares.

sector is thus produced by a relatively small proportion of larger units. A similar trend exists also in most EU member countries, but in Turkey (as well as Poland and Romania) the smaller farms are so small that they probably can offer little more than subsistence.

*Table 5.7 Job status of agricultural employment, 2000-03*

	Employed (thousands)		Share of total (%)	
	2000-01	2003	2000-01	2003
<b>Total</b>	<b>7,929</b>	<b>7,165</b>	<b>100.0</b>	<b>100.0</b>
Wage earner	393	389	5.0	5.4
Employer or self-employed	3,314	3,130	41.8	43.7
Unpaid family labour	4,223	3,646	53.3	50.9
<b>Male</b>	<b>4,285</b>	<b>3,719</b>	<b>100.0</b>	<b>100.0</b>
Wage earner	274	268	6.4	7.2
Employer or self-employed	2,749	2,552	64.1	68.6
Unpaid family labour	1,263	899	29.5	24.2
<b>Female</b>	<b>3,644</b>	<b>3,446</b>	<b>100.0</b>	<b>100.0</b>
Wage earner	119	121	3.3	3.5
Employer or self-employed	565	578	15.5	16.8
Unpaid family labour	2,960	2,747	81.2	79.7

*Source:* Camak (2004).

In evaluating these figures one has to keep in mind the great diversity of farming in Turkey. For raising grain or extensive meat production, the small farm size is a serious handicap. However, in hilly areas devoted to fruits and vegetables the situation is quite different. In this type of area the structure of farming in Turkey might not be too dissimilar from that in the Mediterranean EU-15 countries where 75% of farms use 5 hectares or less.

As in the EU, Turkish agriculture is dominated by family farms since wage earners account for only 5% of total employment in the sector. In the official statistics the ±3.5 million farmers are helped by roughly a corresponding number of ‘unpaid family labour’ which are mostly female, as illustrated in the table below. Since the crisis the overall number of those officially employed in the sector has declined by about 10%, mostly because of a reduction in the category ‘unpaid family labour’. However, the relative shares have not changed a lot with the latter category still accounting for half of total employment in the sector. The average family farm thus consists of one farmer helped by one female member of the family. This situation seems

quite different from that in the EU-15, where three-quarters are part-time farmers.

*Human capital.* This is the area that causes the biggest concerns. The human capital in this sector is not only important for its productive potential but also for another reason. If average farm size is to increase to a more efficient unit size, many farmers will have to find employment in the rest of the economy. This can happen only if the surplus labour from agriculture has the human capital required by services and manufacturing. Unfortunately, however, this does not seem to be the case as the data in Table 5.8 show.

*Table 5.8 Employment and education in agriculture and the rest of the economy, 2003 (percent)*

	Illiterate	Literate no school	Primary	Lower Secondary	Higher Secondary	Higher Education	Total
<b>Agriculture</b>	<b>18.1</b>	<b>6.1</b>	<b>65.0</b>	<b>6.0</b>	<b>4.4</b>	<b>0.4</b>	<b>100</b>
Male	8.5	6.5	69.7	8.0	6.7	0.6	100
Female	28.5	5.8	59.9	3.8	1.9	0.1	100
<b>Manufacturing</b>	<b>1.2</b>	<b>1.1</b>	<b>51.9</b>	<b>15.1</b>	<b>23.5</b>	<b>7.2</b>	<b>100</b>
Construction	2.6	2.6	58.2	13.8	15.8	7.2	100
Trade and Services	1.4	1.1	34.2	13.9	28.2	21.3	100
<b>Total</b>	<b>7.1</b>	<b>2.9</b>	<b>48.8</b>	<b>11.4</b>	<b>18.8</b>	<b>11.0</b>	<b>100</b>

*Source:* Camak (2004).

Only about 10% of those employed in the sector have completed at least the first years of secondary school, compared to over 60% in trade and services (and 40% in manufacturing). Moreover, almost a quarter of the workforce in agriculture is either illiterate or unschooled (for women the proportion is almost one-third). This part of the workforce is essentially unemployable in the modern sector of the Turkish economy described above.

A key difference between Turkey and most other CEECs (e.g. Poland, Romania and Bulgaria, which also have a rather high share of agricultural employment) is that in Turkey most of the 'farmers' are young, whereas it has been estimated that over one-half of all Polish farmers are close to retirement age so that the share of agriculture in employment in the latter should diminish rapidly over the next decade even in the absence of any structural adjustment.

The fact that Turkey has a much younger agricultural work force, compared to either the CEECs or the EU-15 (where more than half of all farmers are older than 55 years), can also be seen as an opportunity. One cannot expect much from training and vocational programmes in countries with an elderly

agricultural population. But this need not be the case in Turkey. Educational programmes may have a significant impact in raising productivity and reducing labour market constraints. This might be an area where future SAPARD (Special Accession Programme for Agriculture and Rural Development) support might be concentrated.

Turkey is the only candidate to run a sizeable trade surplus in this sector with the EU. One reason that this has been possible is that Turkey specialises in products for which the EU is relatively open. While Turkey might have been lucky in the sense that the EU is relatively open for the fruits and vegetables that its climate favours, Turkey has been one of only a few countries that have actually been able to take advantage of the EU's openness. Its large exports of fruits, vegetables and nuts show that parts of Turkish agriculture have been able to adapt to the requirements of the EU market.

A second reason is the heavy trade protection on the Turkish side. Given the size of the agricultural population, trade protection for agriculture is a deeply political issue. As such, it was only after a serious economic crisis that agricultural policies were able to be overhauled. As regards trade protection in agriculture, the framework agreements reached in Geneva for the liberalisation of trade in agriculture under the WTO, would have a serious impact on the nature and scope of agricultural protection in Turkey. In sum, we would expect Turkey's trade surplus with the EU to diminish as its agricultural reform progresses and once it starts to implement its commitments under the Doha Round.

All in all, one must thus conclude that agriculture illustrates the dualism of the Turkish economy and its prospects: A relatively small modern sector produces the large exports to the EU, while the rest, which employs the majority of the workforce, is not competitive. The outlook for the sector is thus also mixed. On the one hand, with access to the EU it has ample growth opportunities mainly in the fresh fruits and vegetables subsectors, the few areas in agriculture where cheap labour costs can still make a difference. On the other hand it is difficult to see how the rest of the sector can adapt to stringent EU phyto-sanitary standards and the grades and standards demanded by the big EU supply chain systems without major modernisation efforts.

Advantages in organisation, grading and the organisation of the supply chain are essentially what made EU food products competitive vis-à-vis CEEC products (ignoring export subsidies). Two aspects are worth mentioning in this context. One is the role of the government in investing in key public institutions and infrastructure (grading and control systems and standards). The second is the importance of the private sector. Much of these grades and standards are now driven by private companies imposing private standards.



An increase in foreign direct investment (FDI) would thus be key to diffusing the adoption of the grades and standards required for export to the EU.

In Turkey right now, for example, there are significant investments taking place by large retail companies which are developing supply systems with local farmers, in particular for fruits and vegetables. These private supply systems are very important, in particular because they are able to introduce EU standards despite very low human capital on the farms, e.g. by introducing their own extension and management advisory systems for farms. This is another illustration of the importance of FDI in fostering growth, as analysed in Dervis et al. (2004).

## 5.6 Financial markets

*From crisis to recovery and the financing of growth.* Since the late 1950s, the Turkish economy has repeatedly been hurt by macroeconomic instability. There have been major crisis episodes in 1958-60, 1970-71, 1978-80, 1994 and finally in 2001. The earlier episodes were essentially balance-of-payments crises, during which foreign exchange reserves dwindled and foreign payments difficulties led to the need to devalue the Turkish lira (TL). The most recent crisis had a somewhat different nature. It followed a decade of increasing *domestic* public debt and *premature financial sector liberalisation* before adequate regulatory mechanisms and supervision were developed. It is fears of a 'debt event' (involuntary restructuring) and worries about the health of the banking system that led to an attack on the TL, rather than balance-of-payments problems as such.

The 2001 crisis was the result of a combination of two factors: persistently high real interest rates on an increasing stock of domestic debt caused by chronic macroeconomic and political instability during the 1990s, and an accumulation of contingent liabilities in both the public and private portions of the banking sector. The 'recapitalisation' of this sector during and immediately after the 2001 crisis ended up costing the Treasury about 30% of the crisis year's GDP, adding that amount to the ratio of public debt to GDP.<sup>69</sup>

One of the root causes of the banking crisis had been a strong politicisation of bank management and of the lending 'culture' in the *public* banks that took place throughout the 1990s. The public banks were directed to lend at interest rates well below the cost of their liabilities, accumulating 'duty losses' on their balance sheets. These duty losses ended up rising to more

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<sup>69</sup> In addition to the 30% of 2001 GDP equivalent of recapitalisation costs funded by the Treasury, there was another 6 percentage points of GDP equivalent funded by shareholders or by the deposit insurance fund.

than 10% of GDP in the months leading up to the crisis. The situation in the private sector was more complex, with many private banks appearing very profitable. These high profits were due, however, to an imprudent build-up of open foreign exchange positions (the so-called ‘carry trade’) as well as a lot of badly supervised connected lending. The 2001 crisis brought down this house of cards, aggravated by the exorbitant interest rates that banks had to pay on some of their liabilities during the peak weeks of the crisis.

The depth of the banking crisis and the visible damage the economy suffered, however, created an unprecedented *political and psychological opportunity for comprehensive legal and institutional reforms*.<sup>70</sup> These reforms were undertaken in three phases. The most urgent first phase was to arrest the spiralling losses of the public banks and eliminate the liquidity risk they posed to the whole payments system in early 2001, and to take over some of the private banks on the verge of failure which were also threatening to generate a systemic run on deposits and financial sector panic. This was achieved in the spring and summer of 2001, at the same as the launching of the new macroeconomic programme and the mobilisation of the foreign resources from the Bretton Woods institutions that allowed the imminent ‘debt-event’ fears to subside. The second phase was to orchestrate a comprehensive recapitalisation of the entire banking system and establishing much more rigorous regulatory and supervision standards. This was achieved in the period from February 2002, the date of passage of amendments to the banking law that included detailed provisions on how recapitalisation was to proceed, to July 2002, when the recapitalisation was completed. The third and last, longer-term phase of the reform, which was launched together with the recapitalisation phase, and which is still ongoing, aimed at transforming the structure of the Turkish banking system from one with more than 45% of its assets in the form of government debt in the immediate post-crisis period, to one that can channel savings to private investment and growth. This last phase requires i) a continued decrease in the ratio of domestic debt that needs to be rolled over and a downward trend in domestic real interest rates ii) a recovery in the ‘real’ sector of the economy, including corporate ‘work-outs’ reducing the burden of bad loans on the balance sheets of the banks; and iii) a new banking sector management and lending culture that sees the main source of balance sheet growth and profits in the expansion of lending to finance investment, trade and employment creation.

The resumption of rapid growth in an environment of drastically reduced inflation and the continuous decline in the debt-to-GDP ratio foreseen under the ‘stabilising stability’ scenario referred to above provide the environment

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<sup>70</sup> See Steinherr et al. (2004) for a comprehensive discussion of the 2001 banking crisis and detailed data on the banking sector and the reform measures.

that would allow the Turkish banking sector to restructure its balance sheet, lowering the share of government bonds in its assets and increasing the share of private sector loans. This restructuring has started, with the share of private sector loans rising from the extremely low 17.8% at the end of 2002 to 25% by end-2003, and to a projected 30% by end-2004. Comparable ratios in the EU are in the 50 to 120% range and in the new accession countries, in the 25 to 40% range. So Turkey has still some ways to go, although the rapid rise in the loans to total assets ratio is clearly encouraging and has already brought Turkey close to the new accession countries in terms of this indicator.

The combination of the remarkable post-crisis rebound in output followed by rapid growth and the real appreciation of the exchange rate, after the overshooting in the opposite direction during 2001, has allowed a strong recovery in profits and on the balance sheet of important parts of the corporate sector. Many enterprises had heavy foreign exchange debts. The recovery of the TL greatly improved their balance sheets in 2003 and 2004. The recovery in domestic demand that gathered steam in 2004, complemented this improvement with increased sales and profits. It is these macroeconomic developments rather than targeted corporate 'work-outs' that have been responsible for a marked improvement in the health of the banks' loan portfolio. It is important to stress, however, that the recovery in the real sector has so far been quite uneven. The larger corporations with access to reasonable finance, including directly from foreign banks, have been doing much better than the smaller enterprises which still face near prohibitive interest costs. Because it is these smaller enterprises that have always been the main channel of employment creation, the remarkable aggregate expansion in output has not, so far, led to an appreciable increase in employment. One should also add that the balance sheets of some corporations with substantial foreign debt, but with sales still mainly in the domestic market, remain very vulnerable to possible exchange rate depreciation. Given the increasing export orientation of the Turkish economy, these domestic market-oriented and yet foreign exchange-indebted enterprises no longer represent a large fraction of the manufacturing or service sector. They remain, however, a risk factor on the balance sheets of those banks exposed to them.

In terms of productivity and efficiency indicators, the Turkish banking sector has made significant progress over the last three years. Even before the 2001 crisis, most *private* banks had invested in IT infrastructure and new distribution channels, including internet-based operations and telephone banking. The restructuring and reform effort in the *public* banks that took place over the last three years has narrowed the gap that existed in these

areas between the private and public banks and has raised the overall productivity of the sector.

In terms of commonly-used efficiency indicators, such as the 'non-interest-cost to total asset ratio' and the 'operating-cost to income ratio', the performance of Turkish banks is comparable to the average performance of banks in the EU.<sup>71</sup> It is only in the ability to offer sophisticated capital market products that the Turkish banks are way behind their EU and international competitors.

On the basis of the much higher capital adequacy ratios that they have now attained<sup>72</sup> and provided the macroeconomic environment remains broadly stable, it is now time for the Turkish banking sector to become a major instrument of growth by stimulating an increase in domestic savings and channelling these savings into productive investment, financing not only the larger corporations but also the medium- and small-scale enterprise sector which could be the vehicle for broader-based, more employment oriented and more equitable economic growth. Public policy should steer the banking sector in this direction by i) strictly enforcing the tougher restrictions on connected lending introduced in 2002, ii) gradually reducing the tax burden on financial intermediation while providing incentives for the lengthening of maturities on both the asset and liability side of the banks' balance sheets, iii) encouraging more significant foreign capital participation in the sector, and iv) implementing a modern, market-based yet strong programme of support to the small- and medium-scale enterprise sector. The latter might include a reduction in the social security-related charges that act as a tax on formal employment, help for education and on-the-job training programmes, possibly in close cooperation with European institutions and a focus on regional infrastructure improvements in areas of potential growth hampered by inadequate infrastructure, again in cooperation with European institutions such as the European Investment Bank (EIB).

These efforts by public policy-makers must be accompanied by a completely new strategic focus and management of the banking system, developing risk

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<sup>71</sup> For details see Alfred Steinherr, Ali Tukel and Murat Ucer, *The Turkish Banking Sector: Challenges and Outlook in Transition to European Union Membership*, EU-Turkey Working Paper No. 4, Centre for European Policy Studies, Brussels, August 2004 (available at [www.ceps.be](http://www.ceps.be)).

<sup>72</sup> By the end of 2003, the capital adequacy ratio of private banks had reached 23.5%, well above the minimum required 8% and above the ratio prevalent in the EU or the accession countries. It should be kept in mind, however, that international accounting standards give government securities a zero risk weighting, so that the still high ratio of these securities in the assets of Turkish banks must be kept in mind when making comparisons.

management and risk evaluation capabilities encompassing large, medium and small enterprises, and including full use of global capital markets. Turkish bank managers must encourage the formation of risk capital and entrepreneurship and work closely with new foreign partners and shareholders while providing the sector with the intimate and in-depth knowledge of the Turkish economy that is, and will remain, their natural comparative advantage.

*External debt.* Turkey suffered from a massive attack on the Turkish lira in February of 2001. But were the external accounts of Turkey in such a bad state to justify such a speculative attack? The answer depends on what external accounts one looks at: external indebtedness or the current account. Turkey has a large external debt, but it is difficult to see where it comes from. For the end of the year 2002, the net external debt of Turkey was, according to the IMF, about \$100 billion (a bit above €80 billion). In recent decades, however, the country has not run current account deficits that would justify such a large foreign debt. Since 1963, in fact, the sum of the recorded current accounts has been only \$42 billion. Hence there must have been considerable capital flight, on the order of \$60 billion.

This apparent capital flight has been going on until very recently. Table 5.9 displays some of the relevant data. For example, over the five years between 1997 and 2002, the net external debt of Turkey as recorded by the IMF increased by \$40 billion (from \$60 billion in 1997 to \$100 billion in 2002). During the same period, the cumulated current account deficit was only around \$7 billion, resulting in an estimate of capital flight of around \$33 billion (about 15% of today's GDP or about 60% of annual exports).

*Table 5.9 Where does Turkey's foreign debt come from? (\$ billions)*

	1963-2002	1997-2002
Current account deficits	- 42.1	-7.3
Capital flight*	59.0	33.5

\* Estimated as the difference between debt and the cumulated current account.

*Source:* Authors' own calculations from the International Monetary Fund and the Institute for Fiscal Studies (ISF).

In this respect, Turkey is unique among the other candidates and the new members. Most of them had the opposite experience over the last years: foreign debt did not increase as much as one would expect given their large current account deficits. To take just one example: Romania has had over the last decade inflation rates similar to those of Turkey and its governments have only recently started to make serious reforms. In spite of all the economic and political uncertainty, Romania has not had any capital flight;

on the contrary, its foreign debt has increased by *less* than one would expect given the continuing current account deficits Romania has run over this period. If one takes all the data since the country started on the road to a market economy (i.e. since 1991), the net foreign debt of the country increased by about \$4 billion less than one would expect given the cumulated current account deficits. Over this period, Romania has thus experienced ‘reverse’ capital flight equivalent to about 8% of today’s GDP. Among the new members, Poland provides another example of a country which that ran very large current account deficits but did not experience any capital flight, since the recorded increase in the net foreign debt is almost exactly equal to the cumulated deficits.

Returning to the case of Turkey, one finds, as usual, that when there is capital flight most of the foreign debt is owed by the government. Table 5.10 shows this as well: almost 70% of the total foreign debt of Turkey is owned by the government. This government debt alone is much higher than the cumulated current account deficits. (The monetary authorities incurred some debt to accumulate reserves. However, since reserves are counted among the assets of the government, this type of operation does not influence the net debt figures used here.) This is the classic constellation of capital flight: residents do not trust their own government and transfer everything they can abroad while the government is saddled with the task of servicing a mounting foreign debt. What is puzzling about the case of Turkey is that this process continued even over in recent years when real interest rates were extremely high. The best explanation might be a parallel to what happened in Russia: residents took their money abroad, some of which they then invested as a foreign investor in T-bills, which yielded real ex-post returns in the 10-20% range. The crisis occurred when it became uncertain whether the government could actually continue paying such a high price on its debt. The 2001 crisis was primarily a ‘public debt’ crisis, not a balance of payments crisis, as already alluded to above. Something similar to what happened in Russia seems to have happened in Turkey where until recently about 40% of all bank loans originated abroad.

*Table 5.10 Who has to pay for Turkey’s foreign debt?*

<b>Net asset stocks (\$ billions)</b>	<b>Level at end 2002</b>	<b>Change 2002-1997</b>
Overall net foreign assets (debt)	-101.0	-40.8
Of which:		
Monetary authorities + government	-70.6	-37.9
Banks plus other sectors	-23.5	3.9

*Source:* Authors’ own calculations from the International Monetary Fund and the Institute for Fiscal Studies.

The capital flight that has apparently taken place in recent decades is again a challenge and an opportunity. The challenge is to provide the conditions under which this capital can return. The opportunity derives from the fact that, if the foreign debt of the country is much lower than generally assumed, it will also be able to attract more foreign capital in the future. For example, Poland, then widely considered over-indebted, started a sustained period of growth coupled with large current account deficits and large FDI inflows in the mid-1990s when its net foreign debt was worth about 100% of annual exports. By contrast, Turkey's starting position today would be a ratio of debt to exports close to 200% (debt of \$100 billion and exports around \$50 billion annually). But the cumulated current account deficits of Turkey over the last four decades were only about \$40 billion, implying that the true foreign debt of the country is probably only somewhat less than one-half the figure suggested by official statistics. If most of the capital flight returned, Turkey's debt ratio would thus be only about one-half (around 100% of annual exports), affording the country much more room for subsequent capital imports.

### 5.7 The quality of institutions

The EU does not have its own apparatus to enforce the *acquis*, to ensure a level playing field in the internal market and see that its principles are applied uniformly throughout its vast territory. It does not have its own customs officers, nor its own tax policy and only a small judicial system (the European Court of Justice), which relies in the end on cooperation from national courts. The EU can thus function properly only if the governmental institutions in the member states work at a broadly comparable level. Improving the quality of the government in this broad sense is thus an essential condition for successful membership.

Preparing for EU membership is of course not the only motive for looking at the quality of governance. Improving it should also yield concrete economic benefits in terms of growth. The empirical literature on the determinants of long-term growth shows conclusively that the quality of the domestic institutions is a further key determinant of growth. A lot needs to be done in this area. The starting point is not good, even if one compares Turkey not to the EU-15 countries, but to the newer member countries. Table 5.11 below shows the data on six different indicators of the quality of domestic economic governance as collected by the World Bank. It is apparent that the score of Turkey is much below that of either the EU-15 average (higher values mean a better performance, i.e. more control of corruption, a more effective government, etc.), or indeed of all the new member states in all of the indicators used here. Only Romania and Bulgaria have similar values to Turkey.

*Table 5.11 Indicators of the quality of governance*

Country	Country2	Control of corruption	Government effectiveness	Political stability	Regulatory quality	Rule of law	Voice & accountability
EU-15	Mean	1.70	1.67	1.15	1.57	1.58	1.42
	STDEV	0.52	0.43	0.31	0.26	0.42	0.20
<b>EU-27</b>							
Bulgaria	BGR	-0.17	-0.06	0.56	0.62	0.05	0.56
Estonia	EST	0.66	0.78	0.98	1.35	0.8	1.05
Hungary	HUN	0.6	0.78	1.08	1.21	0.9	1.17
Poland	POL	0.39	0.61	0.71	0.67	0.65	1.11
Romania	ROM	-0.34	-0.33	0.42	0.04	0.12	0.38
<b>Turkey</b>	<b>TUR</b>	<b>-0.38</b>	<b>-0.2</b>	<b>-0.61</b>	<b>0.08</b>	<b>0</b>	<b>-0.47</b>

*Source:* Authors' own calculations based on World Bank data.

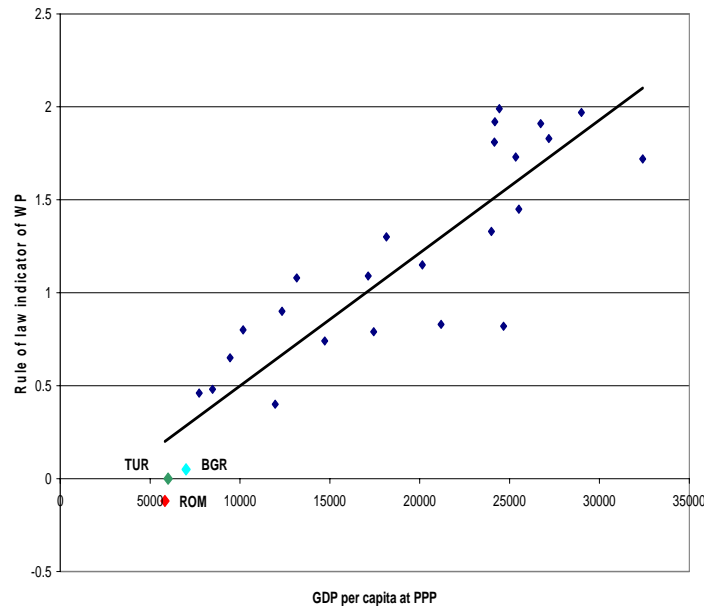
Dervis et al. (2004)<sup>73</sup> provide a brief statistical analysis of the same data, which shows that (in statistical terms) the values for Turkey as of 2002 in most cases were so far from the EU average that it should be considered belonging to a different set. They also show that if one compares Turkey to the EU-27 average, one sees that the distance separating Turkey from the EU-27 is about as large as the distance that separates the CEECs from the EU-15. This implies that even in an enlarged and thus more diverse EU-27, Turkey would be far behind the average with respect to the low quality of all indicators of the quality of governance that have been measured and quantified. However, Turkey would not be totally alone as its values are generally quite close to that of Bulgaria and Romania, which are scheduled to join in 2007, which is well before Turkey's probable accession date.

While the quality of domestic governance is undoubtedly low, one might ask whether this does not represent simply the level of development of the country. Poorer countries in general have weaker institutions. Perhaps these institutions will improve as income grows and the country develops. Figure 5.4 shows that if one measures the indicator concerning the 'rule of law' relative to GDP per capita, the performance of Turkey appears to be closer to the general ranking of the Turkish economy. Turkey is clustered together with Romania and Bulgaria at the lower end of the scale. Its value is, however, clearly below the regression line. This implies that Turkey, with Bulgaria and Romania, perform even worse on the 'rule of law' indicator than one would expect given their low present GDP per capita.

<sup>73</sup> See EU-Turkey Working Paper No. 8.



Figure 5.4 Rule of law and income among EU-27

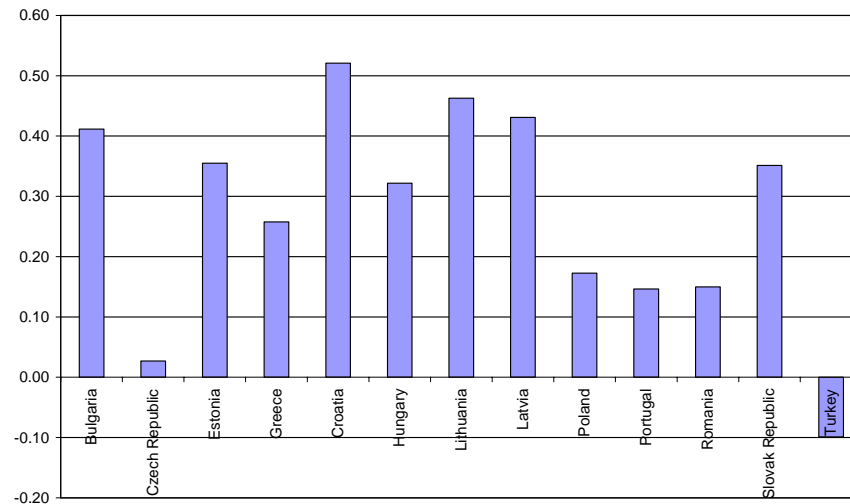


Has the problem of poor governance become less severe over time? Unfortunately the indicators used so far are not available for a longer time period. Hence it is difficult to go beyond snapshots. A recent publication by the World Bank<sup>74</sup> allows one, however, to make at least a comparison over half a decade, namely from 1996 to 2002. Figure 5.5 below shows thus the change registered by an average of the five governance indicators established by the World Bank. On this score it appears that Turkey is the only one among the new member countries (and some poorly performing 'old' member countries) to have registered deterioration in this composite index of the quality of governance. The 2002 data cannot, of course, reflect the reforms that started after the 2001 crisis, but the record so far shows that at least until very recently Turkey has fallen behind the countries one could take as comparators.

The general improvement one observes for the new member states (before they actually became members) occurred during a period that was dominated by accession negotiations. The opening of membership negotiations with Turkey could thus provide a similar impetus for improvement in the quality of governance.

<sup>74</sup> World Bank, [Worldwide Governance Research Indicators Dataset, 1996-2002](http://www.worldbank.org/wbi/governance/dataset2001) (available at <http://www.worldbank.org/wbi/governance/dataset2001>).

Figure 5.5 Change in composite quality of government indicator, 1996-2002



Source: World Bank (2002).

One area where this process might have started already is that of the independent regulatory authorities. The Competition Authority for instance was established in Turkey in 1997. Since then competition policy has been applied in a way that is very similar to the EU. The functioning of this agency was also lauded by the Commission in its progress reports. Sectoral regulatory authorities have also been established recently such as the Telecommunications Regulatory Authority and the Energy Regulatory Authority. Although their performance record varies, the general view is that the quality of decision-making has increased considerably compared to the previous situation where the relevant ministry had been entrusted with this task. The two factors that led to this improvement are the higher-quality and better paid and trained personnel employed by these authorities and their greater independence from the body politic. The success of regulatory reform and the good performance of these regulatory bodies should also translate in time into better government effectiveness, less corruption, more respect for the rule of law and higher regulatory quality. It would therefore be important to support these relatively new institutions and introduce a cooperation programme that would enable the EU to provide support to the Turkish regulatory authorities.

One particular aspect of the quality of institutions that is very important for the proper functioning of the EU is the role of corruption. Putting the *acquis* on the rule books is meaningless if it is not properly enforced because of widespread corruption. There is no easy solution in the fight against

corruption, however. It must be fought on many fronts; an increase in enforcement effort helps, as does paying public officials to make it possible for them to live decently while remaining honest. But a sustained effort is required to change the perception and make the pendulum swing the other way.

A key problem in the fight against corruption is that a low starting position can make progress extremely difficult. Consider first a country where corruption is close to zero. Then the effectiveness of even a small enforcement effort is very high because the few cases that exist can be dealt with thoroughly. As a result corruption is likely to remain controlled. By contrast, consider a country with a very high level of corruption. In this case even a strong enforcement effort cannot achieve a lot because there are so many cases to deal with. Once corruption has crossed a certain level, it becomes difficult to contain it over time. Unfortunately, Turkey, as well as some countries from Central and Eastern Europe seem to be close to this situation: the starting point was bad and, in the case of Turkey, the situation seems to have deteriorated in the late 1990s. Given its relatively bad starting point the efforts to control corruption might thus have to be much stronger to start pushing the country towards the better equilibrium with low corruption, which can then be maintained at a lower effort.

Curbing corruption is important, but it is not everything. A growing economy needs a bureaucracy that enforces laws and regulations in a way that allows the market to work. How can this be achieved? Gros and Steinherr provide a simple model of the extent of autonomy in decision-making by bureaucrats that is consistent with minimising corruption and the social objective of making bureaucrats act responsibly and flexibly, in the interest of efficiency.<sup>75</sup> The model suggests that better education and better pay for civil servants are the keys to success. Better-educated officials can be given more leeway to interpret decisions because they are also less likely to use discretion for their own personal advantage as their prospects outside the public sector would also be tarnished by corruption.

This analysis suggests ways to improve a poor public sector performance in poor countries beset with financial difficulties. At the start of the 'clean-up' campaign, it might thus be necessary to enact strict laws and regulations that leave little leeway for interpretation. Over time, with better training (in which governments should invest more) and higher remuneration, civil servants should be able to use discretionary power more responsibly. They may then be given more discretion.

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<sup>75</sup> Daniel Gros and Alfred Steinherr, *Economic Transition in Central and Eastern Europe: Planting the Seeds*, Cambridge: Cambridge University Press, 2004.

A necessary pre-condition is that the social goals are clearly defined and widely shared by society, thereby increasing the probability that discretion is used in a way that enhances social welfare and that deviant behaviour becomes socially unacceptable. Only then will it be possible to rely on the discretion of public sector employees.<sup>76</sup>

### 5.8 The outlook for growth

Sustained rapid growth will be essential to create a positive background for the membership negotiations that might last for quite some time. If Turkey can start narrowing the gap in terms of GDP per capita over the next decade, the perception that the EU is about to take in ‘yet another poor country’ will be weakened. Moreover, a solidly-growing economy will make it easier for Turkish policy-makers to adopt all the domestic changes that will be required in the run-up to membership.

Over the last three years, Turkey has experienced a strong rebound, with growth rates in the 6-8% range. But how durable is this boom? Can Turkey grow at these rates for the next decade? Assessing the longer-run growth prospects of the Turkish economy is rather difficult. Even a cursory examination of the Turkish growth record leads one back to the fundamental difficulty of judging the prospects of a country whose past performance has been so variable. Indeed one finds periods of extraordinary dynamism followed by deep slumps (and vice-versa) in both a longer-run and a shorter-run perspective.

Since we are concerned with the outlook for the Turkish economy over the next decades, it might be useful to start with the longer-run perspective. The longest period over which comparable data are available is since 1960. If one takes such a long-run perspective, one could say that the performance of Turkey has not been bad in absolute terms, since GDP per capita grew at more than % over these four decades. But, compared to the other poorer European countries for which long-term data are available, Turkey’s performance has been disappointing. The difference between Turkey and Greece in particular is not large, but the difference, for example, between Turkey and Portugal or Romania is more substantial – close to one half a percentage point.

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<sup>76</sup> The goal is to evolve from Lenin’s maxim “Confidence is all right, but control is better” to the Prussian maxim of the reform years after the Napoleonic defeat: “Confidence ennobles”.

*Table 5.12 Turkey's long-term growth performance in a long-term perspective*

	GDP per capita at PPP		Compound growth rate
	1960	1999	1960-1999
Turkey	1.847	6.126	3.07
Romania	1.375	5.647	3.62
Greece	4.329	14.595	3.12
Portugal	3.538	15.417	3.73
Spain	4.460	16.73	3.39

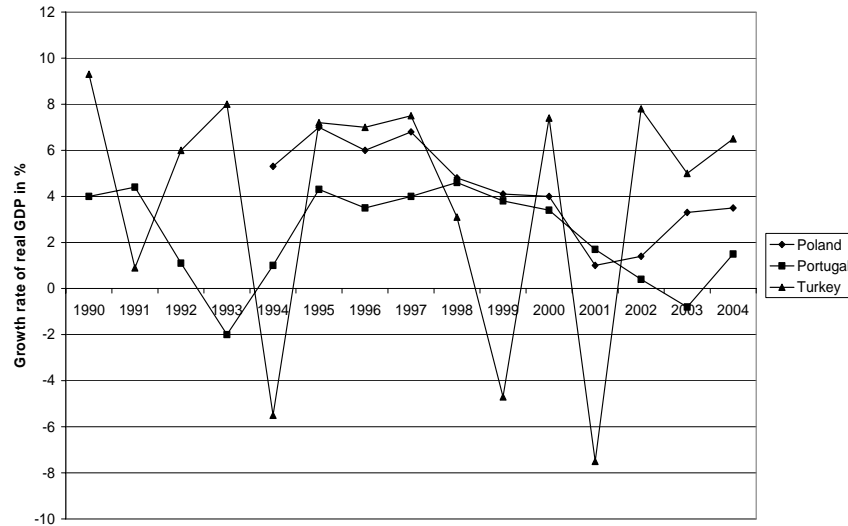
*Source:* GDP per capita measured in 1999 dollars at PPP adjusted exchange rates.

The average over 40 years is, however, composed of two quite distinct sub-periods: one with an average close to 4% and another one with an average only slightly above 2%. The first two decades (roughly 1960-79) constituted a period of more rapid growth, but they were followed by two decades of relative stagnation, in the sense that during this period (approximately from the mid-1980s to the present) Turkey failed to catch up to the OECD average. This latter period was characterised by significant macroeconomic instability, including in these two decades, three episodes of serious financial crisis (1978-1980, 1994 and 2001) and very high real interest rates. The combined effect acted as a break on growth, particularly during the 1990s.

Turning to the shorter-run perspective, one notices that Turkey has undergone booms and bust of unusual magnitudes, with GDP falling by 8% one year, only to rebound the next year by a similar amount. No EU member country has experienced such fluctuation. The record of Poland and Portugal, both of which underwent turbulent periods over the last decade with deep structural change, seems positively stable when viewed against that of Turkey.

A first conclusion must thus be that Turkey has a potential for strong growth, but that macroeconomic volatility has made sustained growth impossible so far. In other words, the patient must have a very strong constitution given that he has survived all the mistreatment administered in the past!

Looking towards the future, all of the factors that inhibited growth during the last two decades should improve, especially when compared to the 1990s.

*Figure 5.6 Turkey's growth record, 1990-2004*

In particular, the new economic and political anchor provided by the start of EU membership negotiations should ensure the consolidation of the structural and governance reforms undertaken in the 2001-03 period. The consolidation of the deep reforms of the banking system and fiscal policy whose implementation has already started should now allow a growth path without episodes of financial collapse. Together with the prospect of membership in medium term, this should encourage FDI flows of the order of 2-3% of GDP, helping to increase the investment rate in a sustainable way. A high investment rate would then allow Turkey to unlock its vast potential for extensive growth by drawing the remaining half of the population into its modern sector. Over time, the qualification of the new entrants into the labour force could also increase considerably if the EU provides some financial support for Turkey's own efforts in this area.

What are the magnitudes of the factors? How fast could Turkey converge once the major impediment to growth, namely macroeconomic instability, has been removed?

The accumulation of factors of production can take mainly three forms: investment in physical capital, investment in human capital and population growth.

The strongest factor working in Turkey's favour is the demographic trend. The key point here is not the (declining) growth rate of the overall population, but the favourable evolution of its composition with an

increasing proportion in working age. As illustrated above, this factor alone should lead to an increase in the potential GDP per capita of around 1.5% per annum over the next decade. Since the proportion of the working age in overall population is not rising in the EU-15 (in some cases, it is actually falling due to ageing), this factor should thus, on its own, allow Turkey's GDP per capita to grow 1.5% per annum faster than that of the EU-15.

Moreover, Turkey has the potential for a large-scale absorption of underemployed labour, especially from the rural areas and among women, into higher productivity activities in industry and services. Over a decade it should be possible to shift about one-third of those currently employed at extremely low productivity rates in the rural areas into industry and services. This would on its own constitute about a 10% increase in the effective workforce. Although the productivity of these migrants from the rural areas might be somewhat lower than the existing workforce, this factor should provide for an additional increase in potential GDP per capita of almost 1% per annum. This differentiates Turkey again from the eight Central and Eastern European countries of the class of 2004 and should thus allow for some narrowing of the difference in GDP per capita with respect to the new members. Only Romania shares with Turkey the potential of deriving substantial growth from the internal transfer of labour from low productivity to much higher productivity sectors.

Drawing from the pool of those currently outside the workforce (mainly women) would provide an additional boost to growth. As documented above, only about 44% of the population in working age is currently employed in Turkey, compared to about 55% on average for the new member countries (and an even higher 64% for the EU-15). Even if only one half of the current difference between Turkey and the new member is eliminated over the next decade this would mean an increase in the labour force of about 1% per annum. This factor could provide for another boost to GDP per capita of close to 1% per annum (less than 1% because the new entrants are likely to have a somewhat lower productivity than those already working).

Finally, with an increasing transfer of technology (partially via higher FDI), total factor productivity should accelerate. For the new member countries one has observed in recent years that labour productivity has consistently increased by between 3 and 4% per annum. This is substantially more than the meagre 1-1.5% achieved by the EU-15. If Turkey were to match the performance of the new member countries (during their pre-accession period) in this respect, its TFP should grow faster than the EU by up to 2.5% per annum.

What does it all add up to? If one compares Turkey to the EU-15, one finds that the total effect of all the growth-enhancing factors could be between 3

and 6% per annum, suggesting that rapid convergence should be possible. Compared to the new member countries Turkey would mainly have the labour supply working in its advantage, which amount to somewhere between 1 and 3% per annum. This suggests that if Turkey were to be able to take full advantage of its potential labour supply, it might even catch up with respect to them. Table 5.13 summarises this brief evaluation of the factors that should boost potential growth in Turkey, compared both to the EU-15 and to the new member countries.

*Table 5.13 Factors boosting potential growth in GDP per capita (in % per annum)*

	<b>Compared to EU-15</b>	<b>Compared to new members</b>
Higher proportion in working age	1.0-1.5	0.5-1.0
Transfer from rural sector to industry and services	0.5-1.0	0.5 -1.0
Increasing labour force participation rate	0.5-1.0	0-0.5
Total Factor Productivity (TFP)	1.0-2.5	0-0.5
Total	3.0-6.0	1.0-3.0

*Source:* Authors' own calculations.

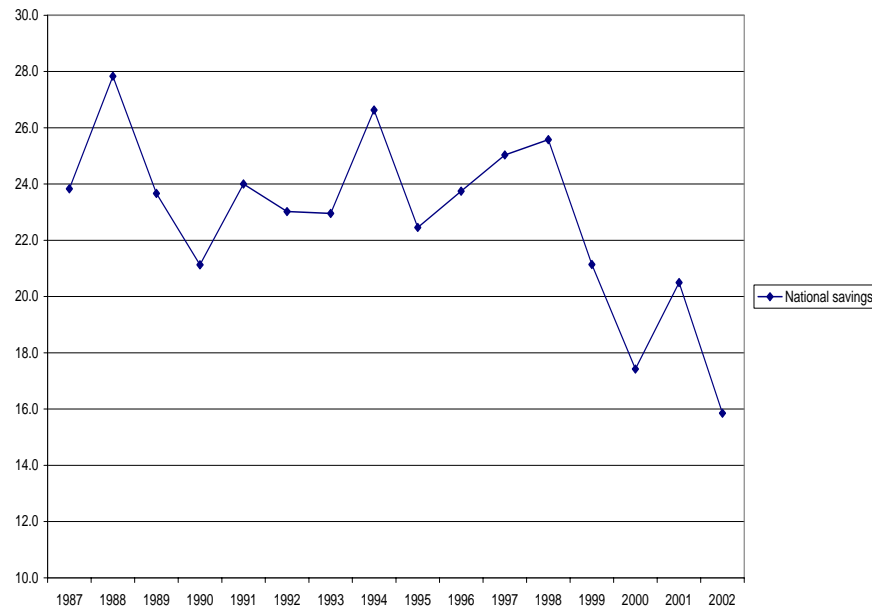
The arguments and data presented so far suggest that Turkey's biggest potential advantage could lie with a better utilisation of its human resources. But increasing employment without lowering productivity levels too much can only be done if investment is high enough to provide the new participants in the labour force with an adequate amount of capital. In other words, high rates of extensive growth also require high rates of investment.

Until recently Turkey did have respectable investment rates. The poor growth performance over the last decade, however, suggests that this investment was perhaps not very productive, most probably because it was distorted by macroeconomic instability and political interference. The reforms undertaken since 2001 combined with the ongoing disinflation process should change this radically. The cost of capital should increase for those sectors that in the past relied on the political process to obtain cheap credit (a 'credit' at a single-digit interest rate with inflation close to three digits is more a gift than a credit), but it should fall for those sectors (probably the bulk of the economy) that were cut off from credit because the government absorbed so much of it. One would thus expect over time a rebound in investment and a higher productivity of capital. This is indeed what seems to have happened since 2002.



Where can the increase in the investment effort be found that is needed in order to equip the new entrants into the expanding modern sector with the capital stock that can keep their productivity close to that of those few already employed? While part of the capital will come from abroad, it is clear that most of the effort has to be raised domestically. This implies that it will be essential to increase domestic savings. This should be possible in an historical perspective, but the starting point is again rather difficult. Figure 5.7 below shows how national savings have declined from a respectable average of around 24-25% of GDP until the end of the 1990s to only 16% in 2002. A sustained high growth rate will be possible only if Turkey goes back to the historical pattern of savings.

Figure 5.7 National savings as a % of GDP



What does the illustrative quantification of the growth-boosting factors imply for convergence? Dervis et al. (2004)<sup>77</sup> pursue two approaches, which arrive at a similar result: within the next decade, the gap in GDP per capita could be substantially narrowed so that by the time of its potential accession Turkey could have about the same GDP per capita in relation to the EU-27 as the new member countries had when they joined in 2004. Over an even longer perspective, say up to the year 2025 (when transition periods for the full

<sup>77</sup> See EU-Turkey Working Paper No. 8.

mobility of labour might expire) GDP per capita in PPP terms might increase from the present 25% to about 60% of the EU-15.

## 5.9 Conclusions

‘Health not wealth’ should be the decisive criterion when considering Turkey's prospects for membership of the EU. Viewed this way, the outlook is promising. Turkey is still very poor, compared to the present EU members, but is also more dynamic. Full catch-up in terms of GDP per capita might take more than a generation, rather than years, but full catch-up is not the relevant criterion if one is concerned about the impact of the accession of Turkey on the EU. Experience has shown that problems are much more likely to arise from established rich member countries with stagnant economies (Belgium in the 1980s, Italy and Germany today) than from poorer, but more dynamic states (e.g. Spain and Greece in the recent past, Hungary and other CEECs today). The fact that most of the so-called ‘periphery’ is now growing more strongly than the ‘core’ confirms that within an enlarged EU, the poorer member countries are likely to prosper and thus cause fewer problems than widely anticipated.

Our evaluation of the growth prospects for Turkey is quite optimistic. In our view, Turkey should now be able to embark on a sustained period of convergence which should reduce the huge differential in GDP per capita of today to a more (politically) acceptable level by the time Turkey joins the EU. This optimism is not based on the growth performance of the Turkish economy in the decade of the 1990s, which was rather weak. We observe that the macroeconomic instability over that decade was so severe that it is actually surprising that there was any growth at all. With the structural reforms launched in 2001, with inflation now at a 30-year low and with the negotiations process providing an anchor for the political system, these vital forces should come to the forefront, provided that there is no backsliding on the reforms and that the rules-based transparent system that these reforms aimed to establish does not again fall victim to political populism.

Any evaluation of the Turkish economy is made difficult by its extraordinary heterogeneity; parts of which are very modern and productive, but other parts of which are close to subsistence level and cannot compete. The productive and modern sector is still small, but if it can expand by absorbing the surplus labour from the rural part of the country, the Turkish economy should be able to reach the level of the new member countries in the not too distant future.

Provided the Turkish economy can be set on a balanced and rapid growth path, are there any particular areas in which EU-Turkey cooperation could start before membership?

Our examination of trade relations, in particular the discussion of the EU-Turkey customs union in force since 1996, suggests one such area. The challenge for the next years is to make the asymmetry in the customs union politically acceptable until accession takes place and to extend free trade to the area of services. The former will require the EU to take Turkish interests into account when negotiating trade agreements with third countries; agreements that Turkey will have to accept without being able to exert any influence in the negotiations. The latter will require innovative solutions regarding the movement of service workers, an issue closely linked to the set of issues to be addressed in the area of justice and home affairs.

A further conclusion emerges from our analysis of Turkey's human resources. Given the large gap in human capital formation between Turkey and the EU, any financial support during the pre-accession period should be focused on human capital formation, rather than the standard 'hard' infrastructure projects. About €3 billion per annum would be comparable to the support received by other candidates and would allow spending on education to be increased by about 1% of GDP, thereby bringing Turkey closer to the European standard in this area.

## Chapter 6

### Conclusions

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There is a tide in the affairs of men  
Which taken at the flood, leads on to fortune;  
Omitted, all the voyage of their life  
Is bound in shallows and in miseries.

*Julius Caesar, Act iv, Sc. 3*

There are some truly important moments in history. A decision by the European Council in its December 2004 meeting in the Netherlands, to start negotiations towards full membership with Turkey without delay, some time in 2005, would be an historic step for Europe, for Turkey and indeed for the world. It would be a signal that Europeans want to build the new world of the 21<sup>st</sup> century on the basis of common values and with a will to be major actors shaping this century, looking forward, not backward, driven by hope and confidence, rather than by fear. For Turkey, it would be a crucial step forward on the road to fulfilling the Republican dream of joining the family of modern and prosperous nations. For the world as a whole, such a decision would show that past conflicts belong to history and that there are no religious barriers to modernity, freedom and the consolidation of peace. In an age of new threats and new tensions, Europe can again show the way forward, as it did when the European Community was created and as it did after the fall of the Berlin wall.

The aim of this study was to look in detail at the issues likely to emerge during the process of negotiations, on the assumption that they will start soon. The working papers prepared as part of the project analysed the challenges and opportunities arising in the fields of foreign policy, security policy, justice and home affairs, domestic governance, macroeconomic policy and income convergence, energy, banking and agriculture. In some areas, such as trade integration, Turkey is actually already today more advanced than some of the new member countries. In other areas, Turkey lags behind and needs to catch up over the coming years. There is no doubt that the negotiations will be difficult. European governance is complex and in transition, and Turkey is comparable, in size, to the 10 new member states put together. It is reasonable to expect, therefore, that both Turkey and the European Union would need a period of between seven and ten years before Turkey's full membership is achieved.

During this period, the 'new' Europe of the 21<sup>st</sup> century will emerge. The process of negotiations will be affected by what happens to the new Constitution, by a likely reformulation of the Growth and Stability Pact and the functioning and size of the eurozone, as well as by developments relating to common foreign, security and defence policies. It is also very likely that it

is during this period of negotiations with Turkey that the process of including the Western Balkan countries in the European Union will begin.

The 'end point' aimed at by the negotiations with Turkey would be full membership in the Union. No other objective can meet the challenge that Europe and Turkey face together and no other outcome can be acceptable to Turkey. As discussed in the introduction, however, the Europe of 2012 or 2015 will no doubt contain various forms of enhanced cooperation and partially overlapping circles and groupings of countries, allowing for flexibility in multi-level governance and different speeds in the degree of integration. This is already the case today when we consider, for example, the Schengen arrangements and the eurozone.

It would be natural, therefore, for the EU and Turkey to consider certain opportunities for 'enhanced cooperation' even *before* full accession, given the likely length of the negotiation period. Turkey could commit to certain EU policies in advance of membership while the EU could provide Turkey with some role in the Union's decision-making process. Foreign and security policy, justice and home affairs as well as trade are areas where there could be scope for such, 'virtual' membership. The studies were able to identify clear mutual benefits in each of these areas. In the area of foreign policy, a close, structured cooperation could allow the EU and Turkey to achieve foreign policy objectives that neither side could achieve alone. Such cooperation could be most useful in the Balkans, in the Caucasus, in Central Asia and the Middle East. Much greater cooperation would also seem possible on defence matters, without giving up the overall framework of NATO. Similarly, in the domain of justice and home affairs, a more integrated model of cooperation would ensure a smoother transition for the crucial issues of border regimes and immigration policy. Finally, the widening of the customs union to allow progressively freer trade of services could provide very substantial economic benefits to Turkey and to the EU. Imaginative thinking is needed so that the appropriate cooperation formulae can be designed. Turkey must realise that there is a European *acquis communautaire* to which it must conform, even if some details seem cumbersome or even unreasonable. On the other hand, the EU negotiators must act in the spirit of trying to find joint solutions to common problems and behave as they did during the negotiations with the Central and Eastern European countries, not forgetting that the goal is indeed to solve transition problems and move towards full membership.

It is also apparent that in other policy areas such as energy, agriculture and especially education, implementation of joint and specific transition policies could be very useful. In agriculture, for example, Turkey constitutes a particular case given the absolute size of its agricultural population. A gradual and coordinated reform and investment programme, however, would

certainly enable the two parties to manage the transition process successfully. The energy sector presents another similar opportunity. Given Turkey's geo-strategic position, there is an urgent need for the two sides to closely coordinate their future energy policies. Energy is an area where Turkey needs the EU to fulfil its ambitious objectives to become a major bridge for the supply of energy to Europe and where Europe needs Turkey to help ensure the viability and security of its energy supplies in the long run. Finally, Turkey's education sector should be the primary focus of pre-accession EU assistance. Turkey must upgrade the way it produces skills in its labour force. At the same time, education, trade in services, well-managed migration and the resolution of social tensions in the EU are all parts of a common challenge and should benefit from an integrated policy approach whose implementation should not be delayed until full membership is achieved.

In the macroeconomic domain, Turkey has to 'stabilise the stabilisation' it succeeded in establishing after the 2001 crisis, while accelerating growth to be able to converge towards European income levels. As explained in the section on macroeconomics and growth, demographic factors and the high level of labour productivity already attained in the modern sector of the Turkish economy create a great opportunity for rapid growth and steady convergence. It is important that the EU accession negotiations provide an anchor for stable convergence policies. These will have to be set in the context of the final objective of Turkey joining the eurozone. A large country like Turkey succeeding in growing at a rhythm of 6 to 7% a year for a number of years, would soon be able to contribute to the acceleration of European growth as a whole, although Turkey embarks on this process with a small GDP. In this context, it would be useful for Turkey to start participating as an observer in some of the economics and financial affairs-related meetings of the European Council, perhaps not immediately, but some time during the progress of the negotiations.

The European Union and Turkey today, jointly, stand before a great opportunity. To seize this opportunity, Turkey must continue decisively its process of modernisation, economic reform and full democratisation, with great emphasis on education and skill formation. While asking Europe to respect the separation of church and state and not to allow the introduction of religion as a new barrier between people, Turkey must itself cherish the secular nature of the Republic and the separation between private faith and public policy. Europe must realise that the world needs it as a power for, and an example of, peace, and that it can only be safe and prosperous in a world that overcomes all fundamentalisms. Together, Turkey and Europe can set an example that will carry hope and confidence in our century across the globe and put new passion and vitality into the great European adventure.

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