

TURKEY'S ENGAGEMENT WITH ITS NEIGHBORHOOD: A "SYNTHETIC" AND MULTI-DIMENSIONAL LOOK AT TURKEY'S FOREIGN POLICY TRANSFORMATION

Kemal Kirişçi¹

A leading policy analyst of European integration, Charles Grant, reflecting on the recent uprisings in the Middle East takes a critical view of the EU's policies towards the Arab countries of the Mediterranean. He argues that the EU should pay closer attention Turkey's capacity to be an inspiration for reform in the Arab world. He adds that when reforming the EU's "flawed neighborhood policy" greater attention should be paid for developing projects "that could involve the EU and Turkey working together". Similar remarks have also been made by Peter Harling, from the International Crisis Group, and Katinka Barysch from the Centre for European Reform.² These observations are coming at a time when the developments in the Arab world following the uprisings in Egypt and Tunisia have reignited the debate on Turkey's role as a "model" for reform and democratic transformation.

Recently prominent personalities ranging from the Tunisian opposition leader Rashid al-Ganouchi to Tariq Ramadan, the grandson of Hassan al-Banna, the founder of the Muslim Brotherhood, have highlighted the importance of Turkey as a model or example for the transformation of the Arab world. These developments have been immediately accompanied by a lively debate on why Turkey can or cannot be a model for transformation and democratization in the Arab world. Considerable attention has also been paid to the question of "which Turkey", the Justice and Development Party (AKP) led or the previously military dominated one, would constitute a model. However, independent of this debate what is lacking is an analysis of how come there is a "demand" for the Turkish model. In other words what explains the growing awareness of the Turkish model, independent of whether the model is applicable or not? What is it that renders Turkey visible to those seeking or demanding reform in the Arab world? What are the channels/modalities through which this model is diffused or transmitted?

This paper argues that this is at least partly a function of Turkey's "new" foreign policy and especially of Turkey's growing engagement of its neighborhood. Current literature has done a great job discussing the substance of Turkish diplomacy embedded in the "zero problems policy with neighbors", including its limits and geopolitics. Considerable focus has also been directed to the analysis of diplomatic relations with neighbors often addressing issues to do with bilateral or regional relations and conflicts as well as efforts to

¹ Kemal Kirişçi is a Professor of International Relations and Jean Monnet Chair in European integration, Department of Political Science and International Relations, Boğaziçi University, Istanbul.

² Peter Harling, "Europe and the Middle East: Divorce by Mutual Consent?," *Al-Hayat*, 24 February, 2011; Katinka Barysch, "Turkey, the EU and the Mediterranean Uprisings," Centre for European Reform Blog, 16 March, 2011. See also Nathalie Tocci and Jean-Pierre Cassarino, "Rethinking the EU's Mediterranean Policies Post 1/11" IAI Working Papers 11/06, March 2011.

diversify energy supplies, expand trade opportunities while contrasting these developments with that of the collapse of EU-Turkish relations. The question whether Turkish foreign policy is indeed moving away from the West and whether a “shift of axis” is occurring has also attracted considerable attention. A wide range of factors have been offered for explaining the causes behind this “new” Turkish foreign policy.

These factors range from geopolitics to domestic and identity related developments.³ Furthermore, this literature also points out how Turkey's foreign policy making that had once been restricted largely to a narrow elite accustomed to viewing the surrounding world primarily from the perspective of “national security” considerations had become transformed. A wide spectrum of actors ranging from within the state to sub-national actors such as political parties, the business world and civil society, even the role of “think-tanks” have been referred to while highlighting a process of “de-securitization” in Turkish attitudes towards its neighborhood. The role of external actors such as the US and of course the EU has also been highlighted. “Europeanization” became a particularly popular concept utilized to account for Turkey's “new” foreign policy.

However, what seems to be missing in this literature is an appreciation and understanding of the larger picture associated with Turkey's “new” foreign policy that drives Turkey's ever deepening engagement of its neighborhood. It is this deepening of engagement that is attracting attention to Turkey somewhat independently of Turkey's “new” foreign policy in the narrower diplomatic sense of the word. The modalities of this engagement are reflected in a massive increase in transnational relations between Turkey and its neighborhood reflected in movement of people, trade as well as business, civil society, cultural and educational links. Entries of nationals from Turkey's immediate neighborhood, defined as Greece, Bulgaria, Romania, Ukraine, Russia, Georgia, Armenia, Azerbaijan, Iraq and Syria, increased from about 168.000 in 1980 to close to 10.9 millions in 2010, constituting an increase from 15 % to 38 % of overall entries into Turkey.⁸ In the course of the last decade between 2000 and 2010 more than 213 million people, just about three times the size of Turkey's own population today, entered Turkey and close to 40 % of this came from the neighborhood. Trade with this neighborhood, on the other hand, increased from 3.7 billion USD in 1991 to 64.6 billion, a 17 fold increase compared to a roughly seven fold increase in EU-Turkish trade that in the meantime saw the establishment of a customs union between the EU and Turkey. The extent of Turkey's engagement of its neighborhood is symbolically best represented by how Turkish Airlines flights to destinations in Turkey's immediate neighborhood increased from a total of six just as the Cold War was coming to an end to 29 flights at the end of 2010.

The paper tries to highlight how current literature on Turkish foreign policy remains primarily state-centric and that there is a need to compliment this literature with research that focuses on Turkey's engagement of its neighborhood through transnational relations and economic integration. This is important for a number of reasons. Firstly, this broader picture opens the prospects of a fascinating research agenda that goes beyond the current one centered mostly on what the state or government is doing. What is the extent of transnational relations

³ For a survey of this literature see Kemal Kirişçi, “The Transformation of Turkish Foreign Policy: The Rise of the Trading State,” *New Perspectives on Turkey*, Vol. 40 (2009), pp. 34-38.

relations between Turkey and its neighborhood? As much as it may be difficult to measure it, the impact that these relations are having on the transformation of the region and some countries of the region is worth researching. Such research could make important contribution to existing empirical as well as theoretical literature on regionalism, regionalization as well as transnational relations. It is an academic opportunity worth seizing. Secondly, these transnational relations and the Turkish government's policies encouraging economic interdependence and movement of people must be having an impact. This is evident in the current debates on the idea of Turkey constituting a "model" for transformation in the Arab world and on the EU having to extract lessons from Turkey's experience and its "default" neighborhood policy for reforming ENP and EMP. In other words however modest, Turkey's engagement of its neighborhood is having an impact, this impact is attracting growing policy attention and hence it should be studied. Thirdly, these transnational relations point at opportunities for a more interdependent and integrated neighborhood. This would be promising in terms of "win-win" outcomes for Turkey, the EU and the region in respect to greater trade, prosperity and reform. Such an interdependent and integrated neighborhood around Turkey could unleash economic, social and political processes that may eventually lead to a "democratic peace" in the very long run. Turkey is and would be a central player in that process. However, a number of tough challenges would have to be addressed. Some of these have to do with Turkey while others are beyond Turkey's control. Turkish governments ought to think about these challenges as much as civil society, academia and the think-tank world. The "missing link" if well understood can offer "a lot of food for thought" for academia and a multitude of opportunities for policy makers, business people and civil society activists. The outcome could be the transformation of a neighborhood traditionally mired in conflict to one that begins moving in direction of the experience that European integration has gone. It is a long shot but Turkey's "new" foreign policy offers this opportunity. It is worth grabbing it.

HOW SHOULD WE READ TURKEY'S CURRENT ACCOUNT DEFICIT?

Murat ÜÇER⁴

(This is a revised version of an article published earlier in Radikal Daily)

It is normal for a country to run a current account deficit, i.e., roughly speaking, import more goods and services from the rest of the world than export to it, and finance it for a while. This is no different than an individual or a company tapping the credit market; it's the level as well as the quality of the deficit that matters.

Let's start with the level. Economics literature has shown that the current account balance of a country is determined by a number of 'fundamental' factors like demography, terms of trade, energy dependency, fiscal balances, net foreign asset positions, and so on. Conditional on these fundamentals, economists estimate -- what are considered -- "normal" deficit levels for countries. Using some mechanical formulas, they also calculate "sustainable" deficit levels, i.e. the level that prevents a permanent increase in a country's external debt-to-GDP ratio. While both approaches have their own limitations, it is possible to show that normal and/or sustainable deficit levels for Turkey run, at most, around 5%-5.5% of GDP. In government programs, we also see current account deficits typically hovering around these levels. But, as it is well-known, Turkey's current account deficit (CAD) has reached 8% of GDP in the first quarter of 2011, and it looks like it is on its way to ending the year in the 9%-10% range. This is, no doubt, a nontrivial deviation from what is considered normal or sustainable level for Turkey.

The deficit quality -- like why we have it in the first place and how we are financing it -- also matters. For instance, it is important to know, since CAD is nothing but the gap between a country's investment and saving balance, whether CAD results from higher consumption (i.e. lower savings) or from higher investment. If it is the latter, we worry less because CAD today means more output and hence a higher payment capacity tomorrow. As well, since all deficits must be financed, the quality of financing matters greatly. Is the financing acquired from longer term and stable sources, or is it more of a fickle and short-term nature? Or to continue with the company analogy, are we financing ourselves with short-term loans or are we acquiring stakeholders that are short-term loans, asset repatriations, portfolio inflows and unidentified inflows has increased. willing to inject their own equity into our company?

In terms of quality issues, Turkey's CAD does not offer absolute comfort, either. True, the very recent increase in CAD is driven by higher investment rather than higher consumption. But data going back to the late 1990s show that Turkey's national savings rate, especially that of the private sector, has fallen quite noticeably over the past decade or so. Moreover, the ratio of imported (non-energy) intermediate goods to industrial production has been on the rise. This suggests that the economist's well-known defense in such circumstances - that "imports today mean investment, and therefore more foreign exchange earnings tomorrow" -- does not entirely cut in Turkey's case, because our import dependence seems to be rising, or put differently, Turkey's tradable sector does not seem to be expanding much despite all this investment. Quality problems are apparent on the financing side as well. In the aftermath of the global financial crisis, capital inflows to Turkey have resumed, but the share of long-term corpo-

⁴ Murat Üçer is a Consultant for Eurosource on Turkey and teaches economics at Koc University.

rate loans and foreign direct investment in total has declined, while that of short-term loans, asset repatriations, portfolio inflows and unidentified inflows has increased.

In sum, while it is perfectly acceptable to run a CAD for some time, there are reasons to believe that the current levels we see in Turkey nowadays are excessive and a cause for concern. One can derive two broad conclusions from all this. First, a serious and probably quite painful 'adjustment' is inevitable in the short-term, in order to bring CAD to more 'normal' levels. The math here is quite straightforward: the deficit has to move from around \$70-\$75 billion currently, to something more reasonable over time, like \$40-\$45 billion. The trouble is that when exports and imports expand at the same pace, CAD also increases by the same amount. So, if the deficit is to drop in nominal dollar terms, export growth should run markedly faster than import growth for a considerable period of time. Chances are, this can't happen with a weaker currency alone; growth will also have to slow visibly.

Second an excessive CAD level points to a structural weakness in the economy. It simply attests to our inability as a nation, to put forth enough of a presence in the global supply chain of goods and services. Put differently, it implies that our average dollar-based income - per capita as well as per worker, which runs around \$10,000 and \$30,000, respectively -- is simply too high, compared to our average productivity levels. By this interpretation, the current account deficit represents nothing but a structural deficit in our skills and institutions, to which quick fixes like granting subsidies for export or import-competing industries, subsidizing credit for SMEs, or imposing a Tobin tax and so on, might do more harm than good. Instead, an entirely different, a more medium term-oriented and politically more demanding strategy would be called for, whereby deeper challenges like lack of productivity in several segments of our SME sector or skill shortages in our labor force are tackled head on.

What, then, could be done? First and foremost, short-termism should be avoided, no silver bullets should be expected and the CAD should be recognized as a core weakness of our economy, rather than a sideshow that will in time disappear by itself. Second, government organizations should be properly incentivized to attract talent, and to produce long-term strategies and policies. In this connection, instead of piecemeal solutions or wish-lists, Ankara should produce a comprehensive strategy document as to how it plans to tackle the CAD. Third, rather than recklessly boosting aggregate demand for growth as we did in the aftermath of the global crisis, we should focus on policies that foster economy's supply side or productivity increases. Finally, the problem should be addressed in more sophisticated platforms than merely in newspaper columns or in financial channels, the depth and impartiality of which are entirely questionable.

The bottom line is this: Turkey has undergone a very successful transformation in the past decade whereby per capita incomes have tripled, economy has become more resilient, the poor has been empowered, and the access to basic services like health and transportation has greatly improved. But now this process appears to have reached its limits with productivity growth falling behind income growth. This is why, we think, we are seeing excessive CAD levels. Seen as such, CAD looks to us as a core weakness of our economy that needs to be addressed through a comprehensive and coherent strategy, rather than through hasty means that are likely to create more distortions along the way.

Bahri YILMAZ⁵

In the last years, something has gone wrong in the relations of Turkey with the European Union. It is evident that Ankara's economic and political interests are shifting from Western Europe to Russia and the Middle East. Interestingly, the negotiations between Brussels and Ankara for full membership have been sluggishly continuing but besides business as usual, the political dialogue between the two sides has almost broken down. The leaders of some EU member states such as France, Germany, and Austria publicly announced that Turkey's membership in the EU would not be possible in the foreseeable future. Meanwhile, Turkish authorities are complaining about the indifference and reluctant attitude of the European Union and the provocative statements of some European leaders such as Sarkozy and Merkel saying that they are impacting the political atmosphere and relations negatively. As a result of this, the Turkish population's support for Turkey's membership has been dropping dramatically during the last two years and this may be the main reasons why the weight and attention of Turkey's foreign policy is now moving from West to East.

Scenario I: Full membership:

Turkey will be a full member of the EU within the next two decades. For the time being this may be the most optimistic, irrelevant and unrealistic scenario. First of all the open-ended negotiations process comprising 13 chapters is ongoing without any light at the end of the tunnel. If Turkey became a full EU member, it would be an integral part of the European integration process in economic and political terms. This would also mean that Turkey's westernization (Europeanization) will be completed successfully and that Turkey will bring its "Europeanization process", starting officially in 1839, to a conclusion. This would bring economic and strategic advantages of the EU not only for the Middle East and the Eastern Mediterranean region, but also for Russia, the South Caucasus and Central Asia.

Scenario II: Turkey will not become a member of the European Union

"Accepting Turkey into the EU is out of the question".

Angela Merkel (CDU) German Chancellor, May 11, 2009, at a conference with French President Nicholas Sarkozy

If we draw some conclusions from the final communiqué of the European Council on 3rd of October 2005, the date on which the negotiations between Ankara and Brussels started, we can see that Turkey's full membership in the EU is a long and complicated process and full of written and unwritten obstacles: the shared objective is accession, but it is an open-ended accession process; the pace will depend on Turkey's progress; it can be suspended if democratic principles are persistently breached, accession not before financial report of 2014; derogations, permanently available safeguards; EU absorption capacity while integration continues. Therefore it should not be expected that Turkey will be integrated into the EU as long as the present political generation is in power.

⁵ Bahri Yılmaz is an EU Jean Monnet Professor and Professor in Economics at Sabanci University Istanbul-Turkey

Option 1: Privileged Partnership:

“Turkey should cooperate with the Union in economic and security matters without being a full member of the EU. This could happen best within a privileged partnership.”

Karl-Theodor zu Guttenberg (CSU), Former German Minister of Defence, October 28, 2009.

Turkey is fully integrated into the European economic Union but not into the political Union. This means that Turkey can join the Single European Market, but that it will not be represented in the European institutions such as the EU Commission, the European Parliament, the European Court of Justice and that it cannot actively participate in the decision making process in European affairs. For two reasons the option of privileged partnership, proposed mainly by German and Austrian politicians, seems to suffer from a fatal contradiction: Firstly, Turkey is already a member of the customs union without being a full member of the EU and secondly, the accession process with Brussels has been continuing since 2005, in a word Turkey is already a privileged partner. This option has always been strongly rejected by the Turkish government.

Option 2: Member of the Mediterranean Union:

President Sarkozy originally advanced the idea of a ‘Union of the Mediterranean’ during his election night press conference on 6 May 2007. He later developed the idea at a speech in Tangier on 23 October 2007, according to which only the coastal states of the Mediterranean, including Turkey, would aim at a “political, economic and cultural union”.

The proposal encountered criticism at the highest levels. Turkey immediately rejected the idea that this might be considered an alternative to accession to the European Union.

Scenario III: Candidate forever!

“Turkey is not ready for accession; the EU is not ready for Turkey’s accession either. We have a strong interest in avoiding Turkey’s slipping to the East and to religious fundamentalism...”

*“Stopping Turkey’s accession process will be the end of an intelligent policy.”
Guido Westerwelle (FDP), German Foreign Minister, May 5, 2009.*

The negotiation process between Turkey and the EU will continue forever without reaching any final decision. This scenario seems to be the most realistic scenario as long as the current generation of EU politicians remain in power. Brussels will continue to give the impression that the negotiations process can continue forever without a happy ending, letting Turkey hope against hope. “Erst verschlafen lassen, dann vergessen.” (First ignore, then forget.)

Scenario IV: Looking West going East: No Europe

It is obvious that Turkey has been coming closer to the Middle East/Eastern Mediterranean region in the last two years. All present economic and political indicators show that the relations between Turkey and the EU are remarkably cooling and that Turkey is going to distance itself from Europe. Due to the EU's indecisive policy towards Turkey's accession, the attention of Turkey's foreign policy moves from the West via Russia to the Middle East. As long as the present AKP remains in power, the economic and political relation between Turkey and the Middle East/Eastern Mediterranean region will intensify.

Ankara strongly intends to take an active role in the reshaping of the Middle East. Here Turkey apparently has two choices: One may be a strategic partnership with the USA in the security realm in the region. But Washington's strategy to sustain its dominance of the Middle East/Eastern Mediterranean region rests on two pillars: maintaining the uninterrupted flow of the Middle East's energy resources to the U.S-Atlantic Alliance and preventing any single power or constellation of hostile powers from dominating the region. Another one is the close cooperation between Ankara and Brussels in the EU's defence and security policy matters.

But there are three important obstacles to this idea of a strategic cooperation in the region:

(1) The pro-eastern policy preferences of the newly admitted member states along with Germany cause the ENP to move closer to the east at the expense of the South, therefore negatively affecting the present and the future of the Euro Med policy. This means that the Northern and Eastern EU members give the impression that they look overwhelmingly uninterested in crisis in the region. These members therefore distance themselves from the Mediterranean region. The Southern European countries such as Spain, France and Italy only feel responsible for and committed to the region.

(2) As a close and strategic partner of the USA in the EU, the British government will continue to cooperate with Washington rather than the EU, in order to establish security and to foster modernization in the region.

(3) As former Chancellor Helmut Schmidt argues, in the case of Turkey's membership, the EU will have common borders with Iran, Iraq and Syria. So the EU would come into conflict with the Islamic world and quite possible get involved in their regional conflicts.

As a conclusion it can be summed up: First, the open-ended negotiation process between Brussels and Ankara will continue without reaching any conclusion in the foreseeable future. Second, the economic and policy interests of Turkey will continue to focus on Russia and the Middle East. The political relations of Turkey with the EU will cool down for a while. Considering the current unrest, revolutions and unstable regimes in the Arab world, it seems to be very difficult to make a prediction how far Turkey would be involved in the Middle Eastern conflicts. I think it is the right time for both sides to draw some lessons from the past experiences and to start assessing the cost and benefits of full membership or non-membership of Turkey in the EU.

NEWS FROM EDAM

EDAM cooperated with the European Council on Foreign Relations and the Centre for Liberal Studies in Sofia for a project entitled "What does Turkey Think". The project was supported by the Mercator Stiftung and it aims to shed light on some of the main themes that are at the centre of political debates in modern day Turkey. A publication came out in June 2011.

http://www.ecfr.eu/page/-/ECFR35_TURKEY_AW.pdf

Under a new project entitled "Black Sea Discussion Paper Series" and supported by the Black Sea Trust a series of discussion papers on several themes related to Turkey's relations with the countries of the Black Sea are to be published.

The Black Sea region in the new Turkish foreign policy, Özgür Özdamar

The Black Sea region in Turkey's international economic relations, Tolga Bölükbaşı

Russia and Turkey : Rivals or partners in the Black Sea ? Oktay Tanrısever

EU and Turkey in the Black Sea : testing the limits of foreign policy cooperation, Kıvanç Ulusoy

Turkish policy in the Caucasus: a reassessment, Nigar Göksel

Under EDAM's research project on Turkey's transition to nuclear energy, the following working papers will be published in October 2011.

An assessment of nuclear risks, İlhan Or-Hasan Saygin

A primer on nuclear accidents, Hasan Saygin

The economics of nuclear energy and the Akkuyu deal, Gürkan Kumbaroglu

Turkey's investment model for nuclear energy, İzak Atiyas

Turkey's non proliferation policies, Sinan Ülgen