

Turkey's Dilemmas in Foreign Policy and External Economy in the Early 21st Century



TAMÁS SZIGETVÁRI

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AND EXTERNAL ECONOMY
IN THE EARLY 21ST CENTURY

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Tamás Szigetvári

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DIALÓG CAMPUS ❖ BUDAPEST, 2020

The work was created in commission of the National University of Public Service
under the priority project PACSDOP-2.1.2-CCHOP-15-2016-00001 entitled
“Public Service Development Establishing Good Governance”.

Translated by
Zsuzsanna Roe

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Introduction

This volume analyses the key orientation dilemma of Turkey in the early 21st century. Should Turkey continue to follow its Euro-Atlantic policy which aims at Western modernisation and seeks to join the West at all costs? Or, should it return to its Oriental roots and follow an alternative path of development? Turkey, as Huntington says, is a torn country with a Muslim culture yet with a legal system and efforts that make it shift towards the Western civilization.¹ In the Cold War period, Turkey fostered strong connections with the West and received external support, but after the end of the Cold War, the issue of Turkey's real identity was raised again. The Kemalist model, based on secular fundamentals and seeking to adopt the Western pattern, is being augmented or replaced by an emerging ideology of modernisation that is based on Islam yet – as opposed to ideas of Islamist fundamentalists – does not basically reject the Western model.

At the same time, Turkey has long sought to act as a bridge between the East and the West, and today it aspires to be not only a bridge but a regional factor that is significant on its own right in a strategically important region. Turks often say that Turkey is the Easternmost part of the West and the Westernmost part of the East, i.e. they understand the Western and Eastern way of thinking alike, and as such are natural mediators between the two civilisations. A Turkey that can combine the elements of both civilisations and ways of thinking may become a most successful and competitive society of the 21st century, and may serve as a model and regional hub for neighbouring countries and regions.

The first part of the book discusses the radical turn that took place after the beginning of the new millennium. The Turkish nation state, established in 1923, opted very radically for embracing Western civilisation when it changed its laws, system of writing and ways of dressing. Islam was removed from public life. European countries came to be regarded as primary political and economic partners, while relations with the neighbours were given a lower

¹ HUNTINGTON 1993, 42.

priority. Yet the modernisation process based on the Kemalist model brought mixed results. Turkey became embedded in the Euro-Atlantic institutional system, but – despite the association and the customs union – the European integration has failed to accept Turkey as a member. For a long time, the main counterargument has been the underdeveloped status of Turkey's economy, yet nowadays this position is getting difficult to hold.

This book offers a detailed analysis of the reasons why Turkey has become the fastest growing economy of Europe. Investigating whether it is possible for the economic development of the last decade to continue and whether Turkey will be able to turn into a hub of growth of the region, it concludes that, in spite of the positive signs, the “miracle”, as of now, is not firm enough. It also gives an account of how the moderately Islamist AKP Party, led by Recep Tayyip Erdoğan, came to power in 2002 and, with a relatively strong support from the society, how it has managed to remain the governing party since then. Then it discusses the extent to which Turkey's foreign policy and external economy was transformed under the new leadership, and the way its ideological orientation and economic interests affected its foreign relations.

Part 2 is an analysis of Turkey's foreign relations, and sheds light on how much today's Turkey is interested in promoting European integration or what alternatives it has with regard to the neighbouring regions it formerly neglected. The issue of the ambivalent Turkey–EU relations and their possible future is discussed in detail. Officially, Turkey's objective is full EU membership. It remains, however, an open question which depends on the EU's future, yet the EU's future also depends on the way Turkey's potential accession takes place. In any case, relations with the EU are of paramount importance for Turkey (and vice versa); therefore, this book lays special emphasis on dealing with their key factors (e.g. the customs union). For the Balkan countries, an economically successful Turkey has become a valuable partner. Turkey tries to tap into this opportunity, especially in those countries in the region where the majority of the population is Muslim. In Middle East, the Arab Spring and the crisis in Syria reshaped the former flourishing relations, and drastically changed the previously good Turkey–Russia relations. The changes in the political and economic influence of distant great powers (the United States, China) are also analysed, along with the changes that have occurred in the relations with other Asian, African or Latin American countries.

The summary is intended to answer the question whether Turkey will remain a country attached to the Western civilisation and continue its attempts to accede the EU, or will “open towards the East” and find an alternative way, turning away from Europe and the West.

This volume relies heavily on the works published by the author in the past ten years.

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PART 1

Political and Economic Turn after the Millennium

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Chapter 1

Turkey in the 20th Century

1.1. The first decades of the Kemalist Turkey (1923–1945)

In 1923, after ten years of war, the newly created Turkish state faced an exceedingly difficult situation. It was an impoverished country ravaged by war, with a major loss of population and with many rootless refugees. Anatolia lost almost 20% of its population¹ due to the war, deportations, famines and epidemics. In the framework of a population exchange scheme, nearly one million Greeks left Turkey and 400,000 Muslims were re-settled from Greece to Turkey (the rate of Muslims in Anatolia grew from 80% to 98%).²

The performance of Turkey's economy did not reach its pre-war level until around 1930. The war did not cause significant damage to industrial facilities, which, however, was mainly due to the fact that there were hardly any of them. By contrast, transport infrastructure suffered extensive damage. As the Greeks and the Armenians left, most entrepreneurs and traders disappeared, which was a significant loss in terms of expertise and external relations.

The republic was proclaimed on 23 October 1923. Mustafa Kemal, hero of the War of Independence became the first President of the Republic, while his comrade-in-arms and friend, İsmet (İnönü)³ the Prime Minister. The capital was moved from Istanbul to Ankara. The Sultanate and, afterwards, the Caliphate was abolished, which was of a symbolic significance not

¹ Out of whom 2.5 million were Muslims, 600,000–800,000 Armenian and 300,000 Greek. ZÜRCHER 2004, 163.

² ZÜRCHER 2004, 164.

³ The use of family names was introduced in 1934; Mustafa Kemal became “Atatürk” (Father of the Turks), and İsmet took the name “İnönü”.

only for Turkey's political system but also for the global Muslim religious community.⁴

1.1.1. Modernisation by Atatürk

After its establishment in 1923, modern Turkey was cut off for decades from the regions it had once controlled. Kemal Atatürk was convinced that for Turkey, a path of modernisation was the full adoption of European civilisation. As Abdullah Cevdet, a Turkish intellectual who influenced Atatürk's way of thinking put it: "There is no second civilization; civilization means European civilization, and it must be imported with both its roses and thorns."⁵

The new Turkish leaders held Islam responsible for backwardness, and regarded the Arabs as traitors who, in collusion with the English, fought for the dissolution of the Ottoman Empire. The establishment of Turkey was a radical break with the Ottoman traditions and, to some extent, with Muslim traditions. Clearly, the new state sought to implement a Western-type modernisation. It broke with its predecessors in many respects, yet its reforms actually were a continuation of the reforms introduced in the Ottoman era.

The Arabic writing was substituted with the Latin alphabet, the Islamic calendar with the Gregorian calendar, and the wearing of European clothes was introduced (e.g. the traditional turban and fez was banned, and the use of headscarf was restricted). In an attempt to strengthen Turkish national identity, Arabic and Persian loanwords were removed from the Turkish language. In the legal system, the Italian Criminal Code and the Swiss Civil Code were adopted without any modification.⁶ Although certain elements of the Western legal system were introduced as early as in the 19th century, Kemal's reforms were unprecedentedly radical, as they completely ignored

⁴ The Caliph is a successor of the Prophet Muhammad, elected by the Muslim community, and a leader of the religious community. Murad I (1362–1389) was the first to use the title, when Selim I defeated the Mamluk Sultanate of Cairo in 1517, Mecca and Medina came under his rule or protection, and the Caliphate of the Ottoman Sultan became more widely recognised.

⁵ LEWIS 1965, 231.

⁶ SEN 2014; for details see ÖRÜNCÜ 2013.

the Islamic legal system and traditions.⁷ In 1934, voting rights and the right to be elected were extended to women; in that respect, Turkey was ahead of numerous European countries.

The Kemalist ideology also followed the pattern of Western modernisation and was especially influenced by its French version. The key principles of Kemalism are summarised by the “six arrows” (altı ok, which in 1937 were included in the Constitution): *republicanism*, which replaced absolute monarchy, and ensured the rule of law and the nation’s sovereignty; *laicism* (or secularisation) that reduced the role of religion in public life; *statism*, which emphasised the central role of the state in social and economic processes; *nationalism*, which replaced the multi-national empire and was based on the Turkish sense of national identity; *populism*, which prioritised the interest of the community over that of smaller groups; and *revolutionism* or reformism, which sought to change society. The six arrows were disseminated and professed almost as religious principles, yet they were not coherent or particularly attractive. Rather, they were accepted out of respect for Mustafa Kemal.

To strengthen political power, Kemal Atatürk took decisive steps. In 1926, in the aftermath of a plot to assassinate him, he settled scores with his major political opponents, having many of them executed. To ensure his monopoly of power, he restructured the political system; in 1931, he officially established a one-party regime. Functions in the state and the party closely intertwined, as heads of the provinces were also local leaders of the Party. The opposition was weak; most of its representatives were forced to emigrate. Insubordination to the power manifested, above all, in the resistance of the Kurds; the power used the military to take action against minor revolts in the mountains.

Similarly to the systems of Franco in Spain, Salazar in Portugal or Metaxas in Greece, the Turkish regime was authoritarian, albeit in a revolutionary way rather than in a religious or conservative manner. In this respect, the Mussolini regime in Italy, with its nationalism and totalitarianism, was closer to the Greek system, and, indeed, was regarded by Greek political leaders as an example to follow. Yet Mussolini’s system and the Greek regime also showed major differences, e.g. the latter lacked the militarist

⁷ OGUZ 2005, 381.

and expansionist (irredentist) character of the former, and was implementing a cautious, defensive foreign policy.⁸

1.1.2. Economy

After the dissolution of the Ottoman Empire, the new Turkish nation state faced serious problems. Turkey had lost its most prosperous regions, and its economy had to rely primarily on agriculture. The new government redistributed land; plots were given to the poorest farmers.

The primary objective was to establish Turkey's economic independence as a key prerequisite of political independence. Yet Kemalist leaders were divided over the strategy to follow. Some would have opted for a liberal capitalist model, others for a Soviet-type national economic programme based on state intervention. Initially (from 1923 to 1929), state intervention started to lose its significance; the objective was to establish a modern economy based on private enterprises, while the state attempted only to support the better functioning of the economy with infrastructural investments. In that period, 800 km of new railway lines was constructed. In 1929, another 800 km was under construction, and foreign-owned railway lines were purchased.⁹ Tobacco monopoly, another significant foreign-owned asset, also came to the possession of the state and, later, to Turkish private companies.

The period from 1930 to 1946 was marked by a strong state intervention in the economy, as Kemalism saw the state as a driving force of modernisation. Statism differed from socialism, as it regarded private property as fundamental, yet it was the state's role to create and operate those economic sectors which, due to lack of capital, the private sector could not create or operate.

During the Great Depression, the Soviet model of planned economy apparently managed the crisis successfully, and thus seemed highly appealing. In 1932, a Soviet delegation visited Turkey, and recommended the development of the textile, steel and iron, paper, cement, glass and chemical

⁸ ZÜRCHER 2004, 186.

⁹ By 1930, 3,000 had been purchased; 2,400 km was still foreign-owned (ZÜRCHER 2004, 195).

industries.¹⁰ In 1934, Turkey introduced planned economy, primarily relying on Soviet advice.¹¹

Economic strategy centred on the development of heavy industry. The programme successfully laid down the foundations of Turkey's heavy industry, but the one-sided concentration of the resources inflicted extensive damage on other sectors. Instead of coordinating the market, the state controlled investments. Turkey was poor in capital; the state encouraged the development of capital-intensive sectors, yet trained workforce was not available, while low-skilled workers hardly found employment.¹² The newly established public corporations employed masses of engineers and skilled industrial workers who could later capitalise on their expertise in the private sector.

Thus, at the beginning of the 20th century the Muslim-Turkish bourgeois class evolved with active state participation and control. As a result, strong ties were established between the state and the Turkish bourgeoisie, the latter being in a dependent position. The private sector continued to exist along the big public corporations, but private companies were also highly dependent on the benevolence of the state.¹³ The Turkish state regarded private companies as important partners and a basis for modernisation, yet prohibited employees from setting up trade unions.

1.2. Western alliance and import substitution industrialisation (1946–1980)

World War II changed Turkey's status in terms of politics, economy, foreign affairs and external economy considerably. Turkey turned from a neutral state into a prominent member of the Western system of alliances, and the US alliance called for a political and economic opening-up.

After World War II, Turkey's strategic situation gained relevance; in the framework of the Marshall Plan and the Truman Doctrine, Turkey received considerable support from the United States. Turkey became a part of the global capitalist system and the evolving Euro-Atlantic institutional system,

¹⁰ ZÜRCHER 2004, 197.

¹¹ FINDLEY 2010, 274.

¹² AHMAD 1998.

¹³ FINDLEY 2010, 274.

i.e. it abandoned its former cautious, neutral foreign policy. In 1950, it applied to become a member of NATO, and in 1952 – in the face of opposition from Denmark and Norway – acceded. Given the Cold War circumstances, this act was of significance in terms of Turkey's safety, and, at the same time, fulfilled an old dream: the Western world accepted Turkey as an equal partner.

After its accession to the NATO, Turkey supported the aspirations of the United States and other Western powers with great enthusiasm. Unlike developing countries and neighbouring Arab states where anti-imperialist ideology was popular, Turkey vigorously defended Western values and interests.¹⁴

The United States attempted to strengthen Turkey with regional coalitions as well. Due to the diplomatic recognition of Israel, the Arab countries were not keen to ally with Turkey; so in 1954 Turkey signed the Baghdad Pact with Pakistan, Iran and Iraq. Most Arab countries saw the Pact as a way of being controlled by American imperialism. The Pact proved short-lived due to the nationalist coup in Iraq in 1958. To replace the Pact, a military alliance was formed with the United States (CENTO, Central Treaty Organisation).

A similarly dysfunctional pact was concluded in 1953 with Greece and Yugoslavia (the "Balkan Pact"). The Greek–Turkish relations were almost friendly until the Cyprus conflict (1954). The actions taken by pro-Greek unity nationalists in Cyprus against British occupation gave rise to conflicts between them. Though in 1960 independent Cyprus was established with Greece, Turkey and UK as guarantor powers, the issue of sharing the power between the Turkish and Greek Cypriot communities created constant tension.

1.2.1. Changes in economy

Changes in the economy were also mixed. Like many developing countries, Turkey based its economic development policy primarily on import substitution industrialisation. As evidenced by macroeconomic indicators, the growth was spectacular: the GNP grew on average by 7% a year, while from 1963 to 1976 industrial production grew even faster, on average by 10% a year.¹⁵

¹⁴ KARATAŞLI 2015, 394.

¹⁵ AYDIN 2005, 38; PAMUK 2007.

The state played a dominant role in the industrial sectors, and 40% of the industrial output came from big public corporations. As a rule, such corporations operated with poor efficiency; their decisions were often determined by political interests. Even in the private sector, aids and development resources depended on the National Planning Authority, which added to dependence on the state and promoted clientelism. In many cases, industrialisation took place via joint ventures, where the foreign company provided the technology, the know-how and, quite often, the components, while the Turkish party ensured labour force and, partially, capital. Dependence continued to be excessive.

Oligopoly market structures evolved in the Turkish market, with a low number of big actors and a low level of competition. The army was gradually gaining significance, above all, due to the investments of its pension funds. By contrast, the agricultural sector was hardly affected by the plans and rarely had access to development funds.

Industrial development focussed on the domestic market. Manufacturing export hardly existed at all: exports made up 4% of the GDP, two-thirds of which were accounted for by agricultural products. The current account deficit resulted in recurrent funding problems. Remittances from migrant workers, aids from America and – to a lesser extent – capital flowing from the European markets played a major role in upkeeping the external balance, but, at the same time, made the economy vulnerable. In 1973–1974, the oil price shock triggered yet another major increase of import, while export opportunities diminished. For a short period of time, the central bank reserves and remittances provided for the funding of the deficits; but then those resources decreased, too. The government measures taken to address rising raw material prices and internal economic problems accelerated inflation, which had reached an annual rate of 90% by 1979.

In the 1960s, Turkey's economic development started to exhibit a dual nature. On the one hand, there were processes pointing towards free trade and international cooperation with the EC; on the other hand, industrial development and economic policy were shaped on the basis of a model that assumed an inward-oriented, closed economy. The policy based on import substitution – a major engine of economic development between 1963 and 1968 – gradually turned into a negative force in the 1970s. According to the World Bank, from 1963 to 1968 import substitution contributed to the growth of Turkish GDP (+8.3%), while from 1968 to 1973 the effects were

negative (–1.4%).¹⁶ The reason was that in the production processes in emerging sectors there was a growing demand for the import of semi-finished products, which further increased the need for imports.

To reduce the current account deficit, protectionist measures were introduced; the competitiveness of the Turkish production remained weak, which, however, did not pose a problem for a long time. Turkey's industry focussed on the properly-sized internal market, and exports played a minor role. The overvaluation of the lira also discouraged companies from exports. Yet by the late 1970s, increasingly severe economic problems have emerged. By 1978, external debt had grown to 14 billion dollars (out of which 7.5 billion was short-term debt). The annual debt burden had reached 41% of exports, as opposed to the situation in 1973, when the debt was 3.3 billion (10% of exports). Besides the import substitution strategy, a reason for the degradation of Turkey's position was the oil shock of 1973, which caused deteriorating terms of trade. Some studies highlight other factors of the disturbance of the balance. Dervis and Robinson¹⁷ point to the fact that rising oil prices contributed to the deterioration of the current account only to a degree of 12%, while the fundamental reason was the overvaluation of the lira (32%). Other important factors included the decrease of remittances¹⁸ (21%), an increase of investments and a drop in external demand.

In 1978–1979, Turkey needed aid from the IMF to avoid bankruptcy. The conditions for the IMF aid were a major restructuring and measures of deregulation and liberalisation as per the Washington consensus.¹⁹ Most export and import restrictions had to be eliminated, and government expenditures had to be cut. When Demirel became head of government in 1979 again, he attached special importance to the implementation of the programme. Turgut Özal, undersecretary for economy, assumed a central role in the process. In January 1980, the government launched an extensive programme of stabilisation and economic reforms. The lira was devalued by almost 50%. But the effects of the measures emerged among new circumstances, as the military assumed power with a coup in September.

¹⁶ CELASUN 1983, 112.

¹⁷ Cited by AKAGÜL 1987, 9.

¹⁸ The drop in remittances was due to the restrictions of immigration in the EC and the deterioration of the economic situation in Turkey, as foreign workers did not transfer their wages to their families immediately (see Table 1).

¹⁹ ÖNİŞ 2010, 50.

1.3. Economic opening and European integration (1980–2001)

1.3.1. *Özal's reforms*

On 12 September 1980, the military assumed power, claiming that public bodies were no longer capable of ensuring Turkey's normal operation.

The Programme of Economic Stabilisation, announced before the military coup (in January 1980), introduced radical changes in Turkey's economic strategy which, until then, had primarily been based on state intervention and isolation. Özal participated in the elaboration of the IMF-inspired approach, and continued to represent it as Prime Minister. The objectives included the reduction of public intervention in production, focussing on market conditions, and replacing import substitution with an export-focussed strategy and effective incentives of foreign investments. The government – in parallel with a drastic devaluation of the lira – firmly supported production for export: it assumed 30% of export costs of companies and offered them advantages in terms of energy and transport costs.

The development process that started in 1980 was more promising than the results of the previous two decades. Due to the economic opening, private enterprises started to prosper; tourism and foreign investment gained momentum. The state monopoly was eliminated in several sectors. Private airlines and television channels appeared; almost all major holdings launched a television channel.

Income disparities were on the rise. Formerly, there had hardly been any instances of conspicuous luxury consumption; now, it was prestigious to show off wealth. At the same time, the unemployment rate was high; many left the agricultural sector due to the growing difficulties of earning a living, but did not necessarily find employment. As trade union activity intensified, many businesses opted for subcontractors where the labour force was not organised and, thus, workers earned less.

The “Anatolian Tigers” – relatively small Anatolian enterprises that were competitive in the external markets and could prosper among liberal economic conditions without state aid – were instrumental in boosting production and export. As Prime Minister Özal put it: “We are lucky that we don't have oil, we have to work hard to make money.”²⁰

²⁰ AKYOL 2006, 5.

A major consequence of the economic liberalisation process was a focus on exports. From 1980 to 1983, when total global trade decreased by 10%, Turkish exports almost doubled; then, by 1988 they had reached 11.7 billion dollars (as opposed to USD 3 billion in 1980). In the same period, the current account deficit decreased from 4.9% of the GNP to 3.2%, and the inflation rate dropped from 110% to 30%.²¹ The structure of exports changed, too. Formerly, 60% of exports had been accounted for by agricultural products, while in 1988 their rate was 20%. In the early 1980s, after the second oil shock, the share of Middle East countries was higher than that of the EC. However, the drop of oil prices, along with the transformation of Turkey's production and economic structure, proved to be favourable for the European markets again.

Main export products were vehicles, textiles, products of other manufacturing sectors and steel products. New industrial areas evolved in relatively underdeveloped regions where economy had previously relied on agricultural products and traditional crafts.²² Due to industrial traditions, labour force was available; the lack of trade unions allowed for low wages. Most enterprises were launched as family businesses, without state support and, in most cases, without foreign capital.²³

However – due to a fast growth of internal demand and faults of economic governance – the signs of imbalance became more visible in the late 1980s. Due to the hotchpotch implementation of structural reforms, the funding of loss-making public companies involved enormous costs, which resulted in a steady increase of the budget deficit (3.5% in 1986 and 8% in 1990). Inflation remained persistently above 50%, while economic growth slowed down dramatically.²⁴

1.3.2. The background of economic processes

Regardless the economic restructuration, attempts to set Turkey on a stable growth path failed for a long time. From 1970 to 2001, the per capita income grew by an average annual rate of 2%, which lagged far behind the rate

²¹ KRUEGER 1995.

²² Gaziantep, Denizli, Kayseri, Malatya, Konya etc.

²³ Resources included the capital transferred by Turkish workers employed in Europe.

²⁴ KRUEGER 1995.

in East Asia (4.3%). The divergence from the average values is even more revealing: compared to the value of 1 percentage point in East Asia, Turkey's rate was 2.2 percentage points, which evidences a marked fluctuation of growth.²⁵ As a rule, a few years of dynamic development were followed by downturns. Such volatility was especially characteristic of the 1990s, when three major crises – involving GDP contractions of 5–10% – occurred within a decade (in 1994, 1999 and 2001). Besides external circumstances,²⁶ factors leading to crises included the deficiencies of the financial institutional system and problems deriving from the malfunctioning of the banking system.²⁷

The vulnerability of Turkey's economy increased in the late 1980s, with the launch of an extensive liberalisation process which allowed a freer inflow of foreign capital. This contributed to funding the deficit, yet short-term capital ("hot capital") made Turkey vulnerable at a time of external crises.²⁸

The first crisis (1994) caused considerable damage to Turkey's economy, yet its magnitude was not sufficient to cause major changes in economic policy, and, in any event, the weak coalitions would not have been capable of implementing changes consistently. The imbalance had deteriorated, and in December 1999 Turkey had to resort to a stand-by arrangement with the IMF, the conditions of which included mid-term structural reforms and an adjustment of the central budget. Albeit the immediate crisis situation was not exceedingly severe, the framework offered by the arrangement could not prevent an actual crisis. The amount of the loan was low, and the coalition government was not firmly committed to the implementation of the privatisation process and the regulation of the banking system. This resulted in a "twin crisis" of November 2000 and February 2001. Due to the decline of confidence, the lira started to fall, and inflation accelerated. The weak banking sector was unable to address the situation, and was in need of state assistance.²⁹

²⁵ ÜNGÖR 2014, 705.

²⁶ Financial crises arose in Mexico in 1994 and in Southeast Asia in 1997–1998, and had a powerful impact on the financial environment of other emerging countries, including Turkey.

²⁷ CİZRE–YELDAN 2005.

²⁸ ÖNİŞ–ŞENSES 2009.

²⁹ The publicly owned banks (e.g. Ziraat and Halk) had a significant amount of bad loans. During the crisis of 2000–2001, the state implemented a bank rescue scheme (amounting to approximately 30% of Turkey's GDP), which resulted in an unfinanceable public debt. (ŞİMŞEK–ŞİMŞEK 2011, 171–172.)

1.3.3. Foreign relations

The 1980s and 1990s saw a radical transformation in international politics, which affected Turkey's foreign relations. The end of the Cold War, the breakup of the Soviet Union and the recurring challenges in the Middle East put Turkey's foreign policy to a serious test.

Özal, as a pro-American politician, sought to establish good relations with the United States, and, after the invasion of Kuwait by Iraq, he and his government enthusiastically backed the UN-supported action of the United States. Turkey, having lost its former strategic position at the end of the Cold War, was quick to seize the new opportunity. The public opinion, however, was not keen on the unilateral pro-American approach. Concerns were raised that the fact that American bombers used a Turkish airbase might provoke an Iraqi counter-strike. At the end of the war, the Turks were concerned about the Kurdish uprising in northern Iraq (inspired, among others, by the United States). The uprising was suppressed by Saddam Hussein. To avoid a massive influx of Kurdish refugees, Turkey planned to set up a safety zone in northern Iraq; however, the United States did not support the concept.

Turkey's relations with European countries were even more changeable. It was not until 1983 that political relations – which had deteriorated due to the coup – started to improve, although Greece, having joined the European Communities in 1981, made attempts on every platform to prevent such improvement. In 1987, Turkey applied for EC membership. The EC did not reject it, yet did not consider it timely either and, instead, recommended accession to the customs union (CU). The Cyprus problem persisted, which influenced the relations with Greece as well. The Aegean Border Dispute also deteriorated the relations. In the 1990s, political relations were clouded by actions against the Kurds. The rest of the 1990s saw discussions on the launch of accession negotiations, which frequently resulted in recurrent lows in relations.³⁰

In the 1980s, relations with the Soviet Union started to improve, and, by the beginning of the 1990s, Russia had already become a major export partner of Turkey. The Trans-Balkan pipeline allowed Russian gas import. With the breakup of the Soviet Union, republics of the Caucasus and Central Asia became independent. In the beginning, Turkey envisioned a new Turk unity, and America supported the concept, keen to prevent Iran from taking

³⁰ For details see Chapter 6.

advantage of the new political vacuum. Albeit Turkey was active, the Russian market offered a more attractive and advantageous opportunity; moreover, Central Asia was connected with Russia with many ties (e.g. infrastructure).

In the 1980s, the Iranian revolution and the Iran–Iraq War determined regional relations. The military government (1980–1983) viewed Khomeini’s takeover as a suspicious matter, and was afraid of its effect on Turkey’s domestic policy, more specifically, the strengthening of the Islamists. Turkey, however, remained neutral in the Iran–Iraq War. Economically, Turkey benefited from its position. For Iran, embargoed by America, Turkey became a major source for supply, while it helped Iraq to forward oil via pipelines to the Mediterranean region, bypassing the Strait of Hormuz, which, at that time, was under Iranian control.

In the late 1980s, Turkey’s relations with Iraq and Syria deteriorated, primarily because Turkey built the Atatürk Dam on the Euphrates River without consulting Iraq or Syria. Syria reacted with an increased support of the PKK, in an unsuccessful attempt to blackmail Turkey or make it open to negotiations. The Caucasian republics which became independent with the dissolution of the Soviet Union offered new opportunities, but also brought about new conflicts. Turkey’s good relations with the Azeris resulted in unfavourable changes in its historically problematic relations with Armenia.

With regard to Bulgaria, the situation of the Turkish minority was a source of conflict. In 1989, 300,000 Bulgarian nationals who were ethnically Turkish fled to Turkey to escape forced assimilation, which affected bilateral relations negatively for a long time. The dissolution of Yugoslavia created additional challenges for Turkey. The Balkan issue arose again, yet it entailed not only challenges but also opportunities.

When coming to power, Erbakan introduced new aspects: as opposed to the traditional orientation towards the West, the objectives of the Islamist Fazilet (Virtue) Party entailed a change of foreign political orientation whose significance had been emphasised for decades. Although Tansu Çiller, the Minister of Foreign Affairs of the coalition government continued to maintain close contacts with her foreign counterparts, Erbakan – in the hope of closer future cooperation – convened the heads of the major Muslim states (Turkey, Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria and Pakistan) under the name of D-8. Yet due to time constraints and a hostile internal environment, the attempt proved to be short-lived.

In May 2000, Neçdet Sezer, President of the Constitutional Court was elected as President of the Republic. Sezer, as a consistently secular

politician, refused to sign any act or decree that he deemed to be against the rule of law. By February 2001, the dispute between Sezer and Ecevit had turned into a domestic political crisis, which shook investors' trust and brought about yet another, more severe crisis.

In June 2001, the FP (Refah's successor) was banned, and a debate took place within the party as to how to continue. Followers of the traditional Islamic movement established the Felicity (Saadet) Party, while modernists, led by Abdullah Gül and Tayyip Erdoğan, set up the Justice and Development Party (Adelet ve Kalkınma Partisi, AKP), which won support greater than expected (34%) in the general elections of November 2002, gaining an absolute majority in the Parliament. An Islamist party's coming to power at the beginning of the 21st century marked the beginning of a new era in Turkey's history.

Chapter 2

Islam in Turkey's Policy

2.1. The political representation of Islam

The modern Turkish state deliberately removed Islam from public life, so religion existed only as an aspect of private life. It was not an atheist state that was created, but a secularised state system, which, however, clearly contradicts the approach of Islam, which seeks to regulate life as a whole, including the political, economic and legal aspects of social life.

In Turkey, there are two approaches to secularism.¹ Assertive secularism claims that religion is a part of a person's private sphere, and bans or limits its visibility in public life (or even in public spaces). It separates religion from "worldly matters", and claims that religious regulations should not appear in social life, mode of dress, behaviour or – if possible – in any other aspect. Passive secularism (which is more accepted in Western Europe) promotes the neutrality of the state towards religions, but does not limit their visibility in public life. Kemalist secularism is markedly assertive, and, in general, was embraced by the Kemalist CHP and the army. As a rule, Turkey's Constitutional Court also preferred it, while centre-right parties (DP, AP, ANAP, DYP) tended to opt for passive secularism.

Atatürk's reforms entailed more than the abolition of the Caliphate. They also abolished religious courts, religious schools and dervish monasteries (a major institution of religious life in Asia Minor). The traditional fez was banned, and women were prohibited from wearing headscarf in public institutions. In 1928, the declaration that the "religion of Turkey is Islam" was removed from the Constitution. In 1935, Sunday was declared the weekly day of rest instead of Friday.

Kemalism was intended to substitute religion; in official communication, religiosity came to be a synonym for backwardness. In 1924, the Presidency

¹ HALE-ÖZBUDUN 2010, 22.

of Religious Affairs (Diyanet İşleri Başkanlığı) was set up to control religious life, more specifically, to monitor the activity of imams; it also issued central guidelines to “direct” imams towards the official interpretation.

Religious schools (Imam Hatip) started to operate again in 1951: by 1970, 72 had been established; by 1996, their number had risen to 464.² Their curricula contained religious knowledge (reading the Quran; the history of Islam) and subjects as per general requirements. Imam Hatip schools operated as vocational schools, but the qualification they offered were not recognised everywhere (e.g. by the army).

In the increasingly democratic atmosphere of the post-World War II years parties making reference to Islam reappeared, yet most of them were short-lived.³ Religious communities played a more important role than parties did; still, their immediate political effect was insignificant. An important change was the gradual evolution of a layer of society – composed of land-owners and religious conservative retailers – in Anatolia which shunned the clientelism of the state and later became the basis of the Islam-based National Order Party (Milli Nizam Partisi), established in 1970 and led by Necmettin Erbakan. In 1971, the Constitutional Court banned the National Order Party, which was re-established in 1972 as the National Salvation Party (Milli Selamet Partisi, MSP). In the elections of 1973, the MSP won 12% of the votes (48 seats), which made it a kingmaker besides the two parties (the CHP and the AP) rivals to each other. First, the CHP and the MSP entered into a coalition, and Erbakan became Deputy Prime Minister under Ecevit. Then, in 1974, Erbakan opted for a coalition with right-wing parties. In the elections of 1971, support for the MSP dropped to 8.6% (24 seats). The loss of popularity was attributable to a conflict between Erbakan and the Nurcu movement that accounted for a significant part of the party's supporters.

The concept of Turkish–Islamic Synthesis (Türk İslam Sentezi) became popular in the 1970s. It centres around the concept that the 2500-year-old Turkish culture and the 1000-year-old culture of Islam bear similarities and are built on each other, and that the Turks are the chosen people in Islam. The approach proved to be attractive even for the secular army.

By contrast to its previous approach, the military, acting as the main guardian of the secular state, was not strongly against the political rise of the Islamist forces. That was due to the fact that in the 1970s, left-wing

² KİCSİ 2008, 33.

³ AZAK 2010, 192.

forces gained momentum in Turkey's political life, relying mainly on marginalised urban groups of the society. Those in power regarded Islam as a tool to weaken left-wing forces; this is why the Turkish–Islamic sense of identity was propagated as a mixture of Turkish nationalism and a sense of belonging to the Islamic Ummah (the community of Muslims).

The military intervention of 1980 abolished the parties; therefore, in the 1980s, new parties were set up. In 1983, the Islamist forces established a party of their own (Welfare Party or Refah Partisi, RP) under the leadership of Ahmet Tekdal. Erbakan and the other leaders of the MSP were banned from political activity for years.

Albeit Islamist parties were banned from political life, the military regime attributed a new role to Islam when, to counterbalance left-wing propaganda, they turned the concept of Turkish–Islamic Synthesis into a theory hammered into public consciousness by the central power. The leader of the coup, Kenan Evren himself regarded Islam as an enlightened religion that is open to science and technology.⁴

The first free elections after the coup were won by the ANAP, which was not an Islamist Party, but embraced the values of Islam along with economic liberalism and nationalism, and included an Islamic platform. The majority of the voters of the MSP (banned in the 1980s) supported the ANAP.⁵

Turgut Özal, leader of the ANAP, was a pro-West politician and a religious Muslim. He had lived in the United States long, and was convinced that – besides an American-type entrepreneurial spirit and technological innovation – it was religion that could enable Turkey to compete with Western countries. The groups that called for economic liberalisation and pro-Islam forces entered into a Holy League (Kutsal Ittifak) to achieve their common goals, which promoted a gradual acceptance of Islam within the state structure.⁶ However, in the 1990s, after Özal's retirement, the party ideology laid less emphasis on that connection.

As Anatolian enterprises strengthened, the political forces they supported also gained momentum. After the 1970s, Necmettin Erbakan could enter the government again. At the time, Erbakan and the Refah were allowed to participate in the elections, and they were elected members of

⁴ SUNIER–LANDMAN 2015, 31.

⁵ YEŞİLADA 2002, 102.

⁶ ATASOY 2001.

the Parliament.⁷ They also won 19.1% of the votes in the local elections of 1994, and their two members became the mayors of the two biggest cities, Istanbul and Ankara.⁸ In 1995, the Refah – much to the dismay of secular powers – gained the most votes in the elections. In June 1996, Erbakan became the Prime Minister of the coalition government.

Albeit the coalition did not leave ample scope for Erbakan to implement the ideas he had claimed to have before, in 1997 the Army, pressed by the traditional elite, forced him to resign on the grounds that the growing influence of Islam threatened the secular state system. After that, the Refah was banned, its property was confiscated, and the party leaders were banned from political life for years.

In 2001, the new Islamist party, the Fazilet (Virtue), established by Erbakan, was banned, which meant that religious forces had to reorganise themselves before the elections. As a result of the growing differences, two Islamist movements emerged. Erbakan (who, at that time, was banned from public life again) and his conservative followers established the Saadet (Felicity) Party under the leadership of Recai Kutan, while modernist/reformist powers, under the leadership of Erdoğan (also banned from high-level political activity) and Abdullah Gül, set up the Justice and Development Party (AKP). In the elections of November 2002, Saadet got 2.5% of the votes, and AKP, with its 34.2%, won the elections.

2.1.1. The ideology of the Islamist parties

Turkey's Islamist parties have always identified themselves as national parties (milli görüş, National Outlook), as the Constitution did not allow political parties to employ religious symbols or concepts. Here, the term “national” (millet) refers to a religious community. In Erbakan's opinion, there were three major systems of view in Turkish society: the liberal approach represented by the AP, the left-wing approach of the CHP and the national approach of the MSP (milli görüş).⁹

⁷ In 1991, it became the 4th biggest parliamentary force (62 seats).

⁸ From 1994 to 1998, Erdoğan from Refah acted as the Mayor of Istanbul; he established his future popularity then.

⁹ SUNIER–LANDMAN 2015, 29.

According to Erbakan, a reason for the fall of the Ottoman Empire was that along with modern Western technology it adopted Western ethics, and, consequently, the Turks got alienated from their own culture and roots.¹⁰ Erbakan felt that there were fundamental differences between Western civilisation and Islam, and, with its materialistic, oppressive and colonising ideology, the former posed a threat to Turkey. In his opinion, the fall of the Ottoman Empire began with the adoption of Western ideas, and other parties were but imitators of Western (either capitalist or socialist) ideas.

The leaders of the Refah (above all, Erbakan) did not support economic liberalisation; rather, they opted for the idea of industrialisation to ensure production for the domestic market and strengthening the protection of the markets. This was one of the reasons why they were not committed to rapprochement to the EU and were against the customs union treaty. Islamic forces adopted a negative attitude to Europe and, in general, the West, due to economic interests and, primarily, ideological reasons. They regarded the EU as a Christian club; as Erbakan put it, accession would be a betrayal of Turkey's history, civilisation, culture and sovereignty. Even Abdullah Gül (the future President of the Republic who belonged to the reformist wing of the Islamic powers) said in 1995 that the EU was a club of the rich and, should Turkey accede, foreign capital would invade into Turkey and Turkish industry.

This view permeated their approach to foreign policy: they were critical of the EU customs union, the EU accession and the NATO membership. As Erbakan said, scaring his audience, the EU either would not let Turkey accede or, if yes, then it would approve of Israel's accession, too, making Turkey and Israel one country.¹¹ For him, EU accession was a Zionist scheme to tear Turkey away from its own Muslim roots. The vision was an Islamic world that would be established under Turkish leadership and would be governed by Muslim institutions, such as the Muslim Common Market with Islamic dinar as its common currency.¹² It was quite clear that Turkish nationalism had Pan-Islamism underlying: it was the Turks who were bound to play the role of the natural leader.

In the early 1990s, the Refah experimented with the third-way concept of "Just Order" (*adil düzen*), which was based on private companies yet

¹⁰ He emphasised the role of Turks as soldiers of Islam.

¹¹ HALE-ÖZBUDUN 2010, 6.

¹² TOPRAK 2006, 40.

was characterised by strong state control. Many condemned “Just Order” as a concept that – albeit did not use Marxist terminology – worked with a clearly Marxist approach. The Islamic concept of interest-free economy was propagated, and the international system was shunned as an IMF-controlled system of slavery.¹³ Then the 1990s saw a shift towards the centre, as less radical slogans came into the foreground.

The ideology of the Refah and its predecessors was incoherent and eclectic: it made references to the Islam, but also incorporated elements of pragmatic liberalism, social conservatism, welfare and classical capitalism.¹⁴ Its primary objective was to integrate the concepts of Islam into political life.

Basically, there are three Islamist approaches to the democratic system: 1. Radicals reject it, and seek the immediate establishment of a sharia-based state. 2. Reformist fundamentalists also aim at a sharia-based state in the long run, but they intend to establish it without violence, gradually, relying on the support of voters. 3. Liberals accept a pluralist system where Muslim values are represented (as Christian values are represented in a Christian democracy).¹⁵

Turkey's Islamist parties embraced different approaches to democracy. Radicals, who rejected the democratic framework itself were in the minority. The leaders of traditional Islamist parties (and Erbakan himself) belonged to the second category. They found the democratic institutional system acceptable, but only as a tool to ensure their coming to power and not as a goal or as an institution to be maintained at all costs. That is, they opted for majority democracy rather than for pluralist democracy.

In the Fazilet Party, established as a successor of the Refah, the focus shifted to the third approach. The Fazilet emphasised the ethical values of Islam, and attached less importance to the Islamisation of the political and economic system.¹⁶ Even Recai Kutan, the head of the party who preferred the traditional approach, thought that the concepts of national outlook and just order are liable to be misunderstood.¹⁷ In foreign politics, the Fazilet became more willing to view the West and the EU favourably; the democratic requirements of the EU standards, such as the Copenhagen criteria were

¹³ TOPRAK 2006, 42.

¹⁴ HALE-ÖZBUDUN 2010, 9.

¹⁵ HALE-ÖZBUDUN 2010, 9.

¹⁶ TOPRAK 2006, 41.

¹⁷ DAI 2005, 25.

regarded as objectives to be achieved. A reason for that was the ban on the Refah, as the restructuring of the legal system required by the EU would have made such actions by the military and the secular forces more difficult. Then, in 2001, the Fazilet was banned too; consequently, the ideology of the new party had to be reconsidered.

By 2000, among supporters of Islamic political forces, those emphasising the advantages of EU integration had become more powerful. The economic circles in the background of the Islamist parties were interested in the economic reforms. The opening of the European markets broadened their export opportunities, while the EU requirements on democratisation constituted a political advantage for them. The limitation of the military's opportunities for intervention, along with the respect for freedom of expression and for human rights allowed the Islamists to play a stronger role in public life.¹⁸ As the number of Muslim entrepreneurs grew, the protectionist, pro-state approach (propagated formerly by Erbakan) gradually lost its popularity, and a market- and business-friendly approach came to the foreground.

Among Islamist forces, reorganised in 2001, there was an intensifying dispute between traditionalists and modernists, initially about organisational issues and campaign technique. During the campaign, those opting for a more modern approach (including Erdoğan) visited public spaces which the traditionalists did not regard as compatible with religion (e.g. nightclubs). Gradually, differences began to emerge in basic ideological and thematic issues, which was one of the reasons why Saadet and the AKP were established as separate parties.

The AKP was successful, because it could recruit supporters from the winners and the losers of neoliberal globalisation alike. Mostly, it resembled a third-way modern social democratic party that emphasises the advantages of the market, calls for restructuring the state from a developing-intervening state into a regulating one, and, at the same time, is concerned about social justice.

With AKP's coming to power in 2002 a party which expressly declared itself to be Islam-based started to govern Turkey, which increased the

¹⁸ Scepticism regarding Europe and globalisation was growing in the traditional secular elite, understandably, as the 19th-century nationalism and statism of Kemalism was not EU-compliant. Kemalists returned to Atatürk's policy, governed by the concept of gaining economic independence of other countries, according to which Turkey had to withstand emerging globalisation, as globalisation is a form of colonisation where colonisers gain the power with the tools of economy instead of weapons.

value attributed to religion. The chapters below analyse the role of Islam in Turkey's society and economy.

2.1.2. Islam and modernisation

From the 1980s onwards (and more markedly in the 1990s), the modernisation process of the previous years has been challenged in various areas. It emerged partly as a legitimisation crisis of the "strong state". In Turkey, the state had been the standard-bearer of modernisation since the establishment of the republic, and it was performing its activities almost completely independent of the society. In the 1990s, the new actors introduced a new way of expression of modernisation in Turkey's political life. The traditional state was less and less capable of meeting modern social and economic demands; its legitimacy was decreasing.

Opportunities for alternative ways of modernisation emerged, backed by theory and actual social processes alike, as evidenced by the return of Islam to public life. Such alternative approaches heavily criticised the secular-rational perspective of Kemalism, which, however, did not necessarily mean that they rejected capitalism.

As a sign of alternative modernisation, Islam gained strength in Turkey, but not in its radical fundamentalist form which rejects Western modernisation. The majority of Turks (unlike Iranians or Egyptians) do not view Islam as the reason for the glorious past. Among others, that is the reason why, while in Iran and Egypt Islam was and is present as a counterpoint of Western modernisation, an alternative and also a shield, the Turks view both Islam and Western modernisation as elements that enrich their sense of national identity.¹⁹

2.2. The AKP's policy – Internal and external factors

The AKP's convincing electoral victory was partly attributable to the growing conservative population, the majority of which lived in the outer, relatively poor urban districts. The number of AKP voters also grew in the

¹⁹ ROTHMAN 2007, 79.

conservative middle class. Yet another factor was the initial support from the Kurds, who saw a chance for change in the AKP.²⁰

In retrospect, governance by the AKP can be divided into three phases.²¹ In many respects, the first phase (2002–2007) is the most successful, marked by rapid economic growth, democratisation, commencing negotiations with the EU, improving relations with neighbouring countries, i.e. positive factors that catalysed each other. The second period (2007–2011) was less of a success story. The global economic crisis hit Turkey hard: the global economic environment was deteriorating, democratisation and internal reforms slowed down, the accession negotiations stalled, while foreign policy became more confrontational. After 2011, economic performance declined, and risks increased. In politics, the strengthening of an authoritarian approach, the recurring conflicts with the Kurds and, externally, the Arab Spring, the Syrian civil war and the refugees added to the complexity of the situation.

2.2.1. The AKP's policy in 2002–2007

The elections of 2002 were determined by the crisis of 2001 and the subsequent setback. Called as a result of the fall of Bülent Ecevit's coalition, the elections were determined by the votes against the former governing forces: among the parties that had not held seats in the Parliament in the previous term, only two met the parliamentary threshold. The AKP, founded in 2001, won 34.3% of the votes (363 seats in a Parliament of 550 seats), surpassing a two-thirds majority. The Kemalist CHP won 19.4% (178 seats),²² while former governing parties and opposition parties did not reach the 10% threshold.

In the first six months, Abdullah Gül was the head of government, as Erdoğan could not stand for election due to a ban imposed on him, and therefore could not become Prime Minister. He came to hold the post in March 2003, having taken over a seat which had fallen vacant.

The AKP identified itself as a conservative democratic party, i.e. it abandoned the approach of former Islamist parties. Ideologically, its programme hardly differed from those of other centre-right parties. Its programmes – the

²⁰ SUNIER–LANDMAN 2015, 35.

²¹ ÖNİŞ 2015.

²² Nine independent MPs were also elected.

Development and Democracy Programme, the election programme of 2002, "Everything is for Turkey" (Herşey Türkiye İçin) and the programme of 2007 "To Many Bright Years" (Nice Ak Yıllara) – affirmed its commitment to democracy, human rights, the rule of law, pluralism and respect for diversity. The republic was regarded as a key achievement of the nation and Atatürk's reforms as positive measures that contributed to social development.²³

The AKP regarded the will of the people as the single determinant power, but (as opposed to the Refah) embraced the pluralist approach to democracy rather than the majority approach. It also affirmed its commitment to the freedom of expression and the free practice of religion, which differed markedly from the approach of the former Islamist parties.

The AKP's approach was distinct from the religious concept with regard to secularism as well. It regarded Islam as a fundamental institution of social life, yet deemed that the free practice of religion – manifested in secularism – is a basic element of democracy. It came up with a new interpretation of secularism when, instead of the assertive interpretation of Kemalism, it opted for a passive interpretation according to which the state should not interfere with religion and the role of the Presidency of Religious Affairs (Diyanet) should be reconsidered. But supporters of traditional secularism were concerned that the AKP differed from traditional Islamist parties only in its rhetoric, while its long-term (and, for the time being, concealed) goal was to introduce an Islam-based state and the sharia.

Initially, the AKP gave priority to the objectives of democratisation and the promotion of the EU accession, which were interrelated, given that the EU required democratic reforms, and external obligations made implementation easier for the AKP.

Democratisation entailed constitutional amendments. In 2002, a minor amendment was implemented with the cooperation of the CHP.²⁴ In 2004, a major amendment was adopted: death penalty was abolished, the internal legal status of international agreements was strengthened, the State Security Courts (criticised by the European Court of Human Rights) were abolished, the Court of Auditors became entitled to supervise the military, and the

²³ HALE-ÖZBUDUN 2010, 21.

²⁴ The Constitution stipulates that persons convicted of ideological and anarchistic activities shall not be elected representatives. This provision excluded Erdoğan as he had been convicted because of reciting a poem, which qualified as such an activity. An amendment ensured that this provision pertains to terrorism, which allowed for Erdoğan's political rehabilitation (HALE-ÖZBUDUN 2010, 55).

representatives of the army lost their right to control higher education. Though the equality of women had already been enshrined in the Constitution, the new amendment called on the state to implement it in practice.

To ensure compliance with the Copenhagen criteria, more packages of legal harmonisation were adopted between 2001 and 2004.²⁵ The packages entailed the approximation of laws to the amended Constitution, and the implementation of many other reforms that were significant in themselves. Restrictions of the freedom of expression were eased, albeit in some cases this entailed only minor amendments (e.g. in case of a prison sentence for degrading the state or public institutions, a reduction of penalties). In case of incitation to hatred, the scope of the factual background was narrowed down: criticism, provided that it was not an insult, ceased to constitute a criminal offence.

Turkey's anti-terror law has also been widely criticised in Europe for allowing severe penalties for acts interpreted very broadly. In that case, the reduction of penalties was accompanied by attempts to give a more exact definition of "terrorist activity". As for measures restricting freedom of the press, the scope of judicial approval was extended, and the opportunity for keeping sources of information secret was introduced. The law on the establishment and operation of organisations was replaced with a much more liberal act. The opportunities to restrict freedom of assembly were reduced, too. Non-Muslim religious communities became entitled to acquire property and construct buildings for religious purposes (both subject to prior authorisation). Turkey was often criticised for torture and inhumane treatment; in that area, an opportunity was created to sanction public officers who commit such acts. Another, yet more fundamental change was the authorisation of the use of minority languages in radio and television programmes, which affected, above all, the use of the Kurdish language. Teaching of the Kurdish language was authorised, albeit outside public education.

Another key area was the army's role. The scope and influence of the National Security Council, a body dominated by the military, was significantly reduced. It became possible to appoint a civilian officer (not only a senior military officer) as Secretary General, and, from 2004 onwards, civilians have also been entitled to hold the post.

²⁵ Some of the decisions were made by the coalition government, before the AKP's coming to power.

The new legislature, dominated by the AKP, compiled a new Civil Code and Criminal Code. The Civil Code provided for the equal rights of female spouses in marriage. The criminal acts of genocide, crime against humanity, trafficking in human beings and environmental crimes were included in the Criminal Code. The penalties for certain criminal acts (e.g. blood feud) were increased, while the penalty for insulting the president of the republic was reduced.²⁶

The period from 2002 to 2005 was characterised by euphoria²⁷ as the basic political changes were unfolding. The new government focussed on the economic problems, and, to ensure the success of the reforms, tried to counterbalance political polarisation. In 2005, accession negotiations started with the EU. The economy had recovered, and entered into a phase of dynamic growth. The Islamist takeover, which raised serious concerns in many, seemed to be a success story; Erdoğan won the trust of the majority of the secular citizens as well. However, by the end of 2005, the AKP had lost its momentum in the field of reforms and democratisation. There are several possible reasons for that. The accession negotiations started in 2005, which meant that there was no need for further urgent measures. Also, negotiations were faltering because of the Cyprus debate, while the ambivalent attitude of several European heads of states (Merkel, Sarkozy) towards Turkey's accession also added to the emerging anti-EU sentiment in Turkey.

Besides the reforms called for by the EU, the AKP made attempts to implement its own plans as well. The measures related to the situation of Islam reflect, on the one hand, a re-interpretation of the Islam's role in the society and, on the other hand, the AKP's pragmatism. In 2004, the AKP tried to improve the situation of the citizens who graduated from Imam Hatip schools. Ahmet Sezer, President of the Republic,²⁸ and the Chief of Staff of the Army made decisive moves against the initiative, and, eventually, the AKP decided to drop the initiative. The issue of the prosecution of adultery also generated a heated debate. Again, it was strong European pressure that made the decision-makers refrain from including adultery – an act included in the old Criminal Code – in the new Criminal Code. The

²⁶ HALE-ÖZBUDUN 2010, 62.

²⁷ SUNIER-LANDMAN 2015, 34.

²⁸ Formerly, Ahmet Sezer was the President of the Constitutional Court, and was determined to preserve the Kemalist secular model. As President of the Republic, he prevented the implementation of several AKP initiatives.

headscarf controversy was another highly politicised issue. It had been on the agenda since the 1980s; yet the ANAP's attempts at liberalisation (allowing women to wear headscarves at universities) were rejected by the secular forces. In their interpretation, secularisation equalled the ban of wearing religious symbols in public. During its first term, the AKP did not initiate the abolition of the ban. As Erdoğan put it, there was a social consensus about the abolition, yet institutional consensus was lacking. As evidenced by surveys, more than 70% of the respondents supported the abolition of the ban, while the CHP, the army and the Constitutional Court were against it.²⁹

As far as the Kurdish issue was concerned, the AKP adopted a more open and positive attitude towards the Kurds. However, due to institutional resistance (above all, on the part of the army) and the fear of losing the support of Turkish voters with a stronger sense of national identity, no radical changes took place. Yet even minor, symbolic gestures increased tensions between the government and the army.

The army is not a monolithic institution; the relations between the government and the army were highly dependent on the Chief of Staff. From 2002 to 2006, General Hilmi Özkök took a moderate approach, and avoided conflicts with the government.³⁰ Even so, delicate situations occurred. For instance, with regard to the Cyprus issue, the military was concerned about the potential dangers of the AKP's more cooperative policy. Again, the army backed down.³¹ In 2006, General Yaşar Büyükanıt was appointed Chief of Staff. He represented the army's traditional approach more markedly: he openly criticised the government's policy, above all, regarding the Kurdish issue. The debate on the presidential elections also exacerbated the conflict.

The debate focussed on the presidential elections and on the reforms of the political regime started in Spring 2007. The AKP proposed that the President of the Republic be elected directly, by the people (and thus, the position of the President be strengthened). The establishment of a presidential republic based on the American model was not Erdoğan's idea; it was supported formerly by Turgut Özal and Süleyman Demirel. It was not only the method of presidential elections that generated debates, but the person of the president as well

²⁹ HALE-ÖZBUDUN 2010, 72.

³⁰ HALE-ÖZBUDUN 2010, 83.

³¹ In fact, as it became evident later, military officers planned a coup to prevent the implementation of the Annan Plan. The coup, however, was rendered unnecessary when Greek Cypriots rejected the plan (HALE-ÖZBUDUN 2010, 89).

(the AKP nominated Abdullah Gül). The army strongly opposed the idea, and indicated that, if necessary, it was willing to intervene to ensure a secular state. The threat backfired: it provoked the disapproval of not only the public opinion and parties in Turkey, but of the EU as well. After the elections of July 2007, the AKP grew stronger. In August, Abdullah Gül was elected President of the Republic. The representatives of the army, in protest, did not participate in the inaugural ceremony, yet afterwards they voiced their opinion in political matters less frequently. Erdoğan's visit to Washington in November 2007 improved the relations. He succeeded in ensuring that Turkish troops may take action against the PKK in northern Iraq, which had long been an aspiration of military leaders.³²

The polarisation between the parties intensified; the headscarf debate and the debates over the person of the President of the Republic deepened divisions.

2.2.2. The AKP re-elected (2007–2011)

The elections of 2007 were pulled forward from November to July due to the crisis that evolved around the nomination of the President of the Republic. The AKP won 46.6% of the votes (341 seats), which meant another two-thirds majority in the legislature of 550 members. The CHP became the biggest opposition party (20.9%, 112 seats), while the right-wing MHP won 14.3% (71 seats). Moreover, 22 independent representatives were elected, the majority of whom were Kurdish and left-wing politicians. The AKP – despite losing some of its mandates – won a remarkable victory. Regardless of the political attacks, 46% of the population voted for the AKP, which demonstrated a support that was much higher than in 2002 (34%), and, therefore, was more convincing. In many respects, the AKP could feel secure, as it had managed to consolidate its position. Still, secular forces (above all, the army) viewed the AKP with suspicion, and a military intervention – similar to those that had taken place in the previous decades – could not be ruled out. Yet the probability of an intervention was lower given that it would have been an attempt to remove from power a stable governing force with

³² HALE-ÖZBUDUN 2010, 92. In 2008, İlker Başbuğ was appointed Chief of Staff. He intended to re-establish the prestige of the army; to this end, he also avoided open conflicts with the government.

wide legitimization rather than a political leadership plunging into chaos. Consequently, the AKP intended to reduce the army's influence and put their own people in high positions.

To counteract military intervention, the AKP made attempts from the beginning of the parliamentary term to compromise the army. During the Ergenekon (the mythical Turkish place of origin) and Balyoz (Sledgehammer) cases, senior military officers (some retired, some active) were accused of attempting to stir up chaos to destabilise the political situation and seize power. The conspiracy theory "deep state" (*derin devlet*) had become popular in the society as early as in the 1980s. It holds that certain forces are embedded in the public administration and the economy and, to ensure that their goals are achieved, attempt to destabilise the political system.³³ Hundreds of persons – mainly military officers – were detained with such accusations, which evidenced that the military was no longer "untouchable".

In the meantime, the secular forces were not standing idly by. In spring 2008, they initiated a procedure against the AKP on charges of unconstitutional activity in the context of the headscarf debate. The allegation had a number of shortcomings, as the AKP would have been banned for a measure it took in the Parliament, with a majority required for constitutional amendments, and in agreement with other parliamentary parties. Eventually, only 6 of the 11 judges of the Constitutional Court supported the ban of the AKP. The adoption of the ban would have required a qualified majority of 60% (at least 7 judges); so the AKP avoided the ban, but its state subsidies were temporarily withdrawn, and some of its assets frozen.³⁴

In the meantime, the AKP continued its constitutional reforms. The opposition party CHP regarded some reform measures as contradicting the principles of the republic, and appealed to the Constitutional Court. The Court, however, found that a substantial part of the measures were acceptable. No two-thirds majority was achieved in the Parliament (only 60%); a referendum was called, where the amendment of the Constitution was adopted with a majority of 58%.

Pursuant to the amendment, the article providing for the immunity of the leaders of the previous coup was removed from the Constitution of 1980; therefore, the cases of military officers who performed or arranged the coup could be brought before a civilian court. As for trade union rights and

³³ EGERESI 2013.

³⁴ HALE-ÖZBUDUN 2010, 75.

the right to strike, several restrictions were abolished. Amendments were made concerning personal rights (e.g. the institution of the ombudsman was introduced, and the constitutional guarantee of equality before the law was strengthened). The Constitutional Court was restructured, the system of the judges' election was modified, and the Court's operation was made more democratic. To ensure the independence of the judiciary, other forums of the judicial system were also reformed: there remained less opportunity for the government to influence the judges' work. Moreover, the constitutional amendment served the AKP's direct interests, making the ban of parties more difficult (a constant threat for Islamist parties) and reforming the powers of the Supreme Court (yet another threat).³⁵

However, the impact of the 2009 ruling of the Constitutional Court was still tangible, as the AKP continued to see it as a threat of a possible strike from the traditional Kemalist elite. By the end of the 2010, the AKP had succeeded in "pacifying" the two biggest threats (the military and the judiciary³⁶), making further steps to monopolise power.

2.2.3. *The AKP in a hybrid democracy (2011–)*

In the elections of 2011, the AKP boosted the support it received. It won 49.8% of the votes; however, the 327 seats were not enough to secure a two-thirds majority or even 60%, a majority required for certain decisions. The bigger opposition party (CHP) increased the number of its voters: it won 26% of the votes (135 seats); the nationalist MHP party won 13% of the votes (53 seats). Thirty-five mandates were obtained by independent representatives (mainly Kurdish members of the BDP). The growing support for the AKP was very much attributable to the economic recovery that followed the crisis of 2008.

By that time, it had become evident that the former democracy-oriented changes would not continue and that the AKP and its leader, Erdoğan had shifted towards a "hybrid democracy", "illiberal democracy" or "competitive authoritarianism".³⁷ This was reflected by several elements in the Turkish political system. The AKP gradually monopolised power, offering but

³⁵ WALDMAN–CALISKAN 2017, 102.

³⁶ ESEN–GUMUSCU 2016, 1585.

³⁷ ÖNIS 2015, 25; ESEN–GUMUSCU 2016, 1582.

few opportunities for the opposition to represent contrasting viewpoints, curbed the freedom of the media, put the judiciary system under pressure, and channelled public resources unilaterally to pro-government business groups. Although the electoral system was free, the government, again, modified the rules according to its own interests. It did not manipulate the results directly, yet during the election campaigns, the effects of unequal access to campaign funds and to media were becoming more distinct.³⁸

The Gezi Park protests of 2013 constituted a new and surprising development. In a few days, the environmentally motivated action against construction works in the park transformed into a demonstration against the government with one million participants. A major cause of the escalation was that the government, over-reacting the situation, resorted to violent police action. Thus the protests developed into a demonstration against Erdoğan's growing power and authoritarian style, marking a turning point in Turkey's recent political history.³⁹ On the one hand, it revealed a growing antipathy of the major part of the society to the activity of the government, which not only pertained to the evolving authoritarian methods, but also represented the discontent of pro-West young people with the AKP's conservative programme. On the other hand, the protest was organised spontaneously, almost completely independent of official politics, and relied on the tools of social media. It was much later that the opposition parties attempted to join and draw political capital from the protest.⁴⁰

December 2013 brought a new turn. Suspicions of corruption rose in connection with Erdoğan and some of his main allies, and evidence was found. Erdoğan attributed the attack to Fethullah Gülen and his adherents, and called for action against the "parallel state" and the Gulenists who, according to him, were embedded in public administration and served foreign interests.

The elections of 2015 were disappointing for the governing forces in many respects. The AKP – which by then had been in power for 13 years – won the elections of 7 June 2015 for the fourth time. Yet its victory was rather narrow. The result of 41% was significantly lower than four years before (50%), and brought only 268 seats in the Parliament of 550 members. This

³⁸ ESEN–GUMUSCU 2016, 1587.

³⁹ ÖNİŞ 2015, 24.

⁴⁰ In that regard, it resembled the Arab Spring, yet the environment – in spite of some similarities – was fundamentally different.

meant that – as opposed to the previous elections – the AKP could not achieve even an absolute majority. For the first time in the history of the Turkish Republic, the left-wing HDP Party (representing the Kurds) could send representatives to the Parliament (13.1% of the votes, 80 seats). The two main opposition forces, the centre-left CHP and the national MHP won 25% of the votes (132 seats), and 16.3% (80 seats), respectively. Apart from the ailing economy, the AKP's results were attributable to corruption scandals and the conflict with the Gulenist movement (initially a supporter of the AKP).

On the basis of the election results, the AKP would have needed to form a coalition. However, Turkey had rather unsettling experiences about coalitions, as the coalition governments of the 1990s had not been able to make efficient decisions, while Turkey had been lurching from crisis to crisis. Consequently, the AKP did not intend to share the power at all costs. It is no coincidence that the coalition negotiations proved to be unsuccessful in the end, and President Erdoğan⁴¹ called new elections for 1 November.

In the following months the AKP made attempts to get more support and gain absolute majority. Primarily, it wanted to achieve this goal through discrediting the HDP, when, after two years of calm, it made every effort to deteriorate the relations with the Kurds. Undoubtedly, equating the Kurds with terrorists was intended to sow uncertainty among the non-Kurd voters of the HDP and, thus, reduce the number of the seats of the HDP under the 10% threshold. This was meant to increase the number of seats of the AKP and to attract some voters of the nationalist MHP. This policy, however, was rather risky as it re-opened one more front in a region already beset with many existing conflicts and contrasts.

Yet the elections repeated in November 2015 proved the success of the AKP's policy. The AKP obtained 49.5% of the votes, which fell close to the record of 2011, yet the 317 seats won brought only a simple majority. The CHP, with its result of 25.4% (134 seats), maintained its position. The two other parties experienced a major drop: the MHP won 11.9% of the votes (40 seats), and the HDP 10.7% (59 seats).

The landmark event of 2016 was the unsuccessful coup attempt of 15 July, followed by political cleansing. Some background factors of the coup are well-known; however, there are still some elements to be clarified.

⁴¹ Erdoğan, in spite of being the President of the Republic, actively campaigned for the AKP.

It is widely known that Turkey has a long-standing tradition of political intervention by the military: in the second half of the 20th century, there was a coup in almost every decade. The army, occasionally resorting to violence, undoubtedly played a stabilising role in the history of the modern Turkish statehood. But the coup attempt of 2016 was made in a relatively stable domestic situation, in the year after the elections where the governing AKP gained a convincing, stable majority. A military intervention may be due to instability or the endangered position of the secularised state – the latter happened in 1997, and many assumed the same in the initial phase of the current coup. Nevertheless, the official explanation clearly attributed the responsibility to the Gulenist movement which played a key role in public administration. According to the explanation, the Gulenist movement, in a reaction to the political actions made in the previous years to remove it from the political life, resorted, in a desperate attempt, to military takeover. Seemingly, scores were settled with the Gulenists in a planned manner, yet with unprecedented speed and thoroughness, making use of the unexpected option of an unsuccessful coup.

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Chapter 3

Turkey's Economy and the AKP's Economic Policy

A success story of the last 15 years of the AKP, and a key to its long-lasting popularity was outstanding economic performance. The section below gives an insight into the background of the “Turkish miracle”, economic restructuring and the AKP's economic policy.

3.1. Crisis management and the economic “miracle”

In retrospect, the severity of the economic crisis of 2000–2001 proved to be an advantage as it gave the necessary impetus towards basic reforms. As a rule, previous crises had also been followed by plans for extensive reforms, but the implementation had been inefficient and the government had soon backed down.

The consequences of the crises of 2001 were addressed under Kemal Derviş, Minister for the Economy, after his visit to the World Bank, in the framework of the “Strong Economy Programme”.¹ The Programme was intended to make Turkey's economic governance transparent and rational. The AKP government continued to implement the plan elaborated in cooperation with the IMF; consequently, from a political perspective, the results pertained to them. And, in the first phase, the results were convincing.

The period from 2002 to 2007 was marked by an economic growth of more than 6% and dynamically expanding exports. The inflation rates, after a long time, had been normalised, the privatisation process was launched

¹ *Strengthening the Turkish Economy. Turkey's Transition Program* (2001). Available: www.tcmb.gov.tr/wps/wcm/connect/c1e0d048-983a-4a2a-a2b5-a0c24089be91/strengtheningecon.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE-c1e0d048-983a-4a2a-a2b5-a0c24089be91-m4ucbm9 (Accessed: 19 March 2020)

and the FDI inflow was more than 10 billion dollars per year. All these developments indicated that at the beginning of the new millennium Turkey may finally be put on a stable growth path.

The success and the spectacular improvement of competitiveness are attributable to several reasons. The political environment had changed favourably: although the political institutional system had been strongly centralised in the previous years, the political divisions and the weak coalitions had undermined the consistent implementation of any economic programme. The new one-party government, set up in 2002 and backed by a two-thirds majority in the Parliament, could govern much more efficiently.

The strict fiscal and monetary policy, along with the flexible exchange rate regime boosted confidence in Turkey, which was reflected in the decreasing risk premium of government bonds. After the crisis of 1999, the stabilisation programme provided for a fixed exchange rate regime, which, however, lost its credibility in 2001, and was replaced with a floating exchange rate regime.² This helped the Central Bank focus on price stability, which, again, produced positive results. After long decades of failed attempts, inflation was reduced to single-digit figures.

The implemented structural reforms (primarily, in the financial and the public sector) contributed much to the improvement of the operating conditions of the economy. An excessively costly bank resolution was performed; the public financial institutions were merged and streamlined, and, in part, privatised (e.g. Demirbank); increased reserve requirements were introduced for the banking sector, and other regulatory changes were implemented to urge the banks to merge and perform profile cleaning. Growth was generated by the private sector, while, due to a strict budgetary policy, consumption and investment decreased in the public sector.

Productivity increased significantly. Although the appreciation of the lira later eliminated the positive effects of the large-scale devaluation of 2001 on the export prices, the growth of productivity still ensured a favourable competitive position. Technology-intensive products of high added value (motor vehicles, electric and electronic products) became increasingly important in exports.

² A gradual shift toward a more flexible exchange rate regime was planned, with the introduction of a progressively widening band, yet the financial crisis called for an immediate change. See GÖRMEZ-YILMAZ 2007, 25.

After years of low levels of FDI inflow, 2005 brought about remarkably high rates. That year alone, an FDI of 19 billion dollars flowed to Turkey, primarily in the framework of the privatisation process;³ 5 billion dollars of foreign capital was invested in Turkish private companies, in the banking sector or in the form of green-field investments. The relatively high level (approximately an annual 10 billion USD) of the capital flow persisted in the following years.⁴

The reforms were backed by an IMF Extended Credit Facility, and the growing political support from the EU was another key factor. In 2002, Turkey received assurance that its candidate status would be assessed within two years, which strengthened the EU's position of influence and Turkey's commitment to implement the reforms. The perspective of EU accession added to the strength of the reformist powers in Turkey, which was an achievement the IMF could never have secured, given that its requirements for reforms received less support and their effects were less permanent.

3.1.1. Economic restructuring

In recent decades, Turkey's economic structure has undergone fundamental changes. The economic opening and the export-focussed strategy that replaced import substitution industrialisation in the 1980s were based on the privately-owned manufacturing sector. By 2000, economic restructuring had mostly taken place. In the manufacturing sector, the rate of public added value decreased from 40% (in 1980) to 20% (in 2000). The share of the sector of large domestic corporations (mostly owned by cronies) decreased from 70% to 50%, while the share of SMEs and foreign-owned businesses was gradually increasing.

Nevertheless, no major growth took place in the 1990s. After a short period of acceleration, the rate of output and exports regularly slowed down and, due to the crises, decreased significantly.

³ It is to be noted that 72% of the FDI inflow was related to the privatisation process. 55% of Türk Telekom was acquired for 6.6 billion dollars; the privatisation of TUPRAS (the public oil company) and Ereğli Demir Çelik (steel company) also generated exceedingly high revenues.

⁴ İZMEN-YILMAZ 2009, 173.

The post-2002 economic recovery was attributable to the improvement of the macroeconomic environment and, substantially, to the dynamic expansion of industrial production. Employment rates and real wages hardly increased, which led to growing productivity and improving competitiveness. Real depreciation and declining domestic demand (consequences of the crisis) also gave impetus to the dynamic expansion of exports. From 2002 to 2007, the export to GDP ratio increased from 23.6% to 27.1%. The rate of exports was on the rise especially in the manufacturing sector; in 2007, it was higher than 90% of the overall exports. The focus of exports shifted from low-technology products to medium/high-technology goods.

Traditionally, Turkish economy exported agricultural and textile products. The export rate in those sectors saw an impressive growth, especially after liberalisation in the 1980s. Turks residing in European countries played a key role in that regard, inasmuch as they took an active part in the establishment of trade relations and, quite frequently, with their capital taken back to Turkey, in the construction of manufacturing plants.

Though those traditional sectors remained a major factor in terms of exports, the most dynamic development of the previous years had occurred in the manufacturing of electronic devices and motor vehicles. Several multinational car manufacturers (Ford, Renault, Fiat, Hyundai, Toyota, Honda, Opel, Mercedes, MAN) relocated a part of their production capacity to Turkey, as the customs union agreement allowed them export their products to the European internal market freely. The production and export of buses were further determining factors; in that sector, domestic brands (Otokar, BMC, Tamsa) were dominant. The annual growth rate of the automotive industry was 43% between 2002 and 2004 (four times higher than the average rate in the manufacturing industry), while its share in exports rose from 9% to 14% in the same period. The automotive industry had become one of the main drivers of Turkey's economy. In 2007, the number of workers employed directly in the sector was over 80,000. The industry was completely integrated into the production chains of the European automotive industry, which, again, was attributable to the customs union. The Turkish automotive sector could boast not only of its export performance, but also of the fact that its suppliers' networks were getting closely linked to Turkey. It was one of the reasons for rapid increase in production after 2001.⁵

⁵ TAYMAZ-VOYVODA 2009, 165.

In consumer electronics manufacturing, dynamic development took place especially in the home appliance sector, where domestic brands (Vestel, Beko) represented Turkish production. In the same period, a growth of 35% was measured in the sector of consumer electronic goods, while the share of exports rose to 5%. In that sector, big manufacturers tended to rely less on Turkish suppliers. In the 1990s, Turkey started producing colour television sets; in 2005, 65% of the television sets sold in Europe were manufactured in Turkey.⁶ That rate, however, is gradually decreasing as a result of the spread of LCDs and the deteriorating conditions in the sector. Due to dependence on imports, technological shift entails more difficulties.

3.1.2. The crisis of 2008–2009

Due to the reforms implemented in the previous years, Turkey's economy was in a relatively good condition when the crisis hit. The growth rate had been high for years, the primary balance of the budget was positive and the public debt was low. Coupled with a moderate inflation rate, all these factors reflected a healthy economy. The first shock waves of the sub-prime crisis left the banking system unaffected.

At the end of 2008, the Turkish head of government informed the public that Turkey was strong enough, and a global crisis would, at most, have minor effects.⁷ Reality, however, did not fall in line with that. From October 2008 to March 2009, the lira depreciated by 25%, and the interest rate of government bonds increased to around 25%. By early 2009, the stock market had fallen to a level of 55% of its level in July 2007.⁸ Compared to the fast growth of the previous years, Turkey's economic performance had slowed down as early as in 2007, but it did not turn negative until Q4 of 2008 (–6.8%). A major decline, however, set in in Q1 of 2009, when the rate of shrinkage reached –14.3% compared to Q1 of 2008. In Q2, contraction

⁶ It was easier to launch the manufacturing of products of tried and tested technology than of LCD- or plasma-screens, which represented a new technology. The anti-dumping measures taken by the EU against producers in the Far East also reinforced Turkey's position.

⁷ It was not until March 2009 that the GDP growth projection for 2009 (4%) was modified to –3.4%. See UYGUR 2010, 48.

⁸ The rates were more or less similar on other emerging markets (e.g. Brazil, South Korea, Poland, Hungary).

started to slow down, but the annual GDP contraction rate of 4.7% remained above the average contraction rate of developing countries with a similar level of development (2.4%).⁹ Recession set in with a decline in external demand.¹⁰ Later, internal demand started to decrease, too; consumption in the private sector and investments fell,¹¹ and the increase of public spending was not sufficient to counterbalance the effects.

Unlike before, the banking system was hardly affected by the 2008 crisis, which was attributable to the consolidation of 2001–2002 and the introduction of strict regulations. The capital adequacy ratio of the Turkish banking system was 19%.¹² The banks' holdings of government bonds decreased, while the focus shifted to domestic corporate lending. Though the rate of outstanding loans increased slightly during the crisis,¹³ confidence in the banking system persisted, and the share prices of the Turkish banks, after a temporary fall, continued to rise even in the crisis years.

The government delayed in addressing the crisis. In fact, that type of crisis was unknown to the Turkish Government, which had previously experienced crises provoked by internal imbalances. By contrast, during the crisis of 2008–2009, the central problem was posed by the decline of external demand and diminished external funding opportunities.

The government, having taken some minor measures, launched two major economic recovery packages in June 2009. The budgetary implications of the intervention amounted to 2.1% and 1.6% of the GDP in 2009 and in 2010, respectively. The aim was to stimulate demand, but interventions were made on the supply side as well. On the demand side, measures were intended, above all, to boost consumption. Consumption taxes were reduced. Between March and September 2009, attempts were made to increase domestic demand through a reduction of consumption taxes on consumer durables; however, 70% of the purchased goods were imported products.¹⁴ Due to its budgetary implications, the measure was not sustainable in the long run.

⁹ ERZAN 2010.

¹⁰ Exports fell by 34% in Q4 of 2008, then by another 20% in Q1 and Q2 of 2009, and then by 36%.

¹¹ In Q1 of 2009, consumption and investments fell by 10% and 35%, respectively. See YALCIN 2012.

¹² The ratio remained well above the Basel III level (12%).

¹³ Between 2007 and 2009, from 3.5% to 5.3%, which, however, is almost negligible if compared to the value in 2002 (21.2%).

¹⁴ UYGUR 2010, 49.

To generate demand, the government offered SMEs a credit support of 3–5% and two-year loan guarantees for 65% of the loan amount, thus contributing to the expansion of production and export opportunities. In addition, the corporate income tax was reduced,¹⁵ and, in certain sectors (chemical industry, automotive industry, the energy sector, transport, agriculture), special incentives were introduced. Public expenditure was increased in the energy, transport and healthcare sectors. To encourage investment, public buildings were offered free of charge, and financial and regulatory tools were applied. It was also decided that the pace of privatisation should be accelerated in the banking, telecommunications and energy sectors. To counteract the loss of financial resources, tax amnesty was granted for assets located abroad, along with tax exemption for foreign income.

In parallel with fiscal expansion, monetary policy also became expansive in nature. From November 2008 to September 2009, the Central Bank base rate was reduced from 16.75% to 7.25%. The dividend payment opportunities of the banks were reduced, which strengthened the capital structure of the banks.

To address the problems arising from the global economic crisis of 2008–2009, the idea of applying for IMF financial assistance was considered, like in case of other emerging markets (such as Hungary) that faced problems. The Turkish Government, however, attempted to avoid seeking IMF assistance for various reasons. By 2008, Turkey had been in constant contact with the IMF for 10 years, and the last agreement of 10 billion dollars expired in May 2008. According to contemporary official Turkish comments, Turkey had grown up, and no longer needed help with sustaining the economic balance, because it had learned its lessons.¹⁶ The fact that Turkey coped without IMF assistance affected the perception of Turkey's economy negatively in the short run, but its overall influence proved to be positive. Obviously, this required a strict fiscal policy that entailed austerity measures which were similar to those of the IMF package, although, in many cases, laid emphasis on other areas.

In terms of the impacts of the global economic crisis, countries can be divided into various categories, Turkey belonging to the group of countries that underwent a major decline, and bounced back to return to a fast pace of growth. The question arises as to whether Turkey, located on the fringes

¹⁵ By 2–10%; the rates differed per region.

¹⁶ TURHAN 2010.

of Europe, has indeed “grown up” and is capable of a fast economic growth in a manner that sets it apart from crisis-hit Europe and resembles to the growth of countries of the Far East, or it will return to a path of development which is dependent on the European centre and reflects the changes of Europe’s economy with major oscillations.

3.1.3. Perspectives

Despite its rapid growth in the 2000s, Turkey’s international competitiveness still falls short of expectations. With the integration of China and India into the global economy, Turkey could no longer rely on cheap labour force as a basis of its strategy to improve competitiveness. The improvement of competitiveness requires the introduction of efficient market mechanisms, an attractive investment climate and institutional structures.¹⁷

Although the growth prospective is still favourable (around 3%) if compared to the performance of the EU member states, some see in Turkey’s economy the signs of the “middle-income trap” of emerging countries. To escape the trap, Turkey will need to implement further major structural reforms and focus more on research development or on increasing the rate of export products of higher added value.

Turkey is very much aware of the danger. As Mehmet Şimşek, Turkey’s Minister of Economy pointed out in his article published in Wall Street Journal,¹⁸ Turkey, despite its rapid progress, still faces many challenges, and has a lot to do if it wishes to emerge from the group of middle-income countries. Success requires adequate economic policies, additional structural reforms and a supportive global economic environment. The top priority of the reforms is enhancing the quality of the workforce via improving the quality of education, increasing labour-market flexibility and boosting productivity through technological advancement.

The AKP’s popularity is closely tied to the economic successes of the 2000s; therefore, upkeeping a high growth rate is a priority of Turkey’s economic policy. In the last decade, Turkish economy has made a spectacular progress if compared either to its own former performance or the

¹⁷ Turkish Industrial 2010.

¹⁸ ŞİMŞEK 2014.

performance of other countries in the region.¹⁹ While from 2002 to 2007 the average GDP growth was 6.8%, it slowed down to 3.2% between 2008 and 2014 due to the crisis and the post-2012 deceleration of growth.²⁰ However, changes in the methodology of GDP calculation (introduced at the end of 2016) changed data retroactively, defining, as a rule, much higher values for the post-2012 period. Consequently, the average annual economic growth between 2012 and 2015 grew from 3.3% to 6.1%, which made Turkey one of the most dynamically developing countries of the world.

Yet even when calculated with the new method, the GDP growth rate of 2016 fell to 2.1%. The official unemployment rate was 11.3%, which shows an increase. The current account deficit was 6–8%, which reflects Turkey's excessive demand for external funds and, consequently, its vulnerability. In 2016, the lira was depreciated against the dollar by 20%. To generate growth, before the elections Erdoğan attempted to exert political pressure on Turkey's Central Bank to reduce the interest rate and thus boost economy. Though Erdem Başçı, President of the Central Bank resisted the pressures to impose measures of monetary easing, investors did not particularly welcome the attempts to exert political influence.

In 2016, Turkey, with its GDP of 860 billion dollars, was the 17th biggest economy (or the 15th, if measured in purchasing power parities). Its exports amounted to 150 billion dollars, putting it to the 28th place in global ranking. As per development plans, by 2023 (the 100th anniversary of the establishment of the Republic), Turkey would generate a GDP of 2,000 billion dollars and rank as the 10th biggest economy of the world, and its exports would reach 500 billion dollars. By now, it is evident that these goals are not realistic.

The long-term vision of the Turkish Industrial Strategy Document is becoming the production base of Eurasia in high-tech products, a country which produces and exports vehicles, airplanes, ships and satellites at the national level. Furthermore, the strategy sets out the general objective of “increasing the competitiveness and efficiency of Turkish industry and expediting the transformation to an industry structure which has more share in world exports, where mainly high-tech products with high added value are produced, which has qualified labor and which at the same time is sensitive

¹⁹ ÖNIŞ–KUTLAY 2013, 1415.

²⁰ For more details on the reasons, see YILMAZ et al. 2017. The underlying reason for the changes was that Turkey applied the UN and EU recommendations on calculation more consistently, and introduced more exact data collection methods.

to the environment and the society.”²¹ Strategic goals include increasing the weight of enterprises and high-tech sectors and transition to high added value products in low-tech sectors.

The strategy defined eight industrial policy areas: investment and business environment; international trade; human resources development; extending the financial opportunities of SMEs; the technological development of companies; infrastructure sectors (telecommunications, energy or transport); environmental protection; and regional development. Priority sectors include the automotive industry, machine manufacturing, household appliances, the electronics sector, the textiles and clothing sector, food industry, and iron and steel industry.

The development of relations with the EU may play a key role in that regard. In the early 2000s, the EU was the engine of Turkey's economic reforms. Turkey, “opening to the West”, has recently intensified its commercial and economic contacts with countries in the region (e.g. Russia, Iraq, Syria), but the developments of recent years have had an unfavourable effect on the relations, which means that Turkey may again attach a high value on the EU.

In the meantime, Turkey's geopolitical weight and role was also growing. It is a hub in the energy sector (especially with regard to the gas supply of Europe) and “the epitome of the Muslim state”, whose economic success and democratic structures may serve as a positive example for other countries in the region. The big question is how the outcomes of the recent elections will transform Turkey's political life in the next few years and whether the weakened governing force will be able to respond to the challenges efficiently.

Severe problems may arise with regard to capital flows. Turkey's rapid economic growth of the last 15 years has mostly been attributable to the inflow of foreign capital. The deficit of the current account was persistently above 5%. FDI used to play a key role in funding the deficit, as in the early 2000s – partly due to the start of the EU accession negotiations – Turkey became an attractive location for investment for multinational corporations. By contrast, in recent years, due to the crises of the European economies and the deteriorating political and economic conditions in Turkey, FDI has gradually been replaced by “hot capital” type of portfolio investments, which was made possible by the fact that Turkey kept the interest rates high. This form of funding, however, is rather insecure and volatile; the fall of the currency rate and negative credit rating may affect the cost of funding unfavourably.

²¹ TISD 2010, 49.

3.2. The AKP's economic concept

To what extent did the AKP's economic policy fall in line with the Islam and what are the considerations that determine the economic approach of Turkey's governing forces?

It is difficult to give a concise summary of the economic theory of Islam. Firstly, because Islam is a very complex phenomenon and secondly, because its experts of theory often fail to come to agreement even in terms of basic principles. In the modern era, only a few attempts were made to put theory into practice. Pakistan and some Arab states of the Persian Gulf made such attempts, and Iran tried to set its economy completely on the foundation of Islam.

From the very beginning, Islam has not acted as a mere religion, but intended to be an extensive organising principle of society and regulate the operating principles of the economy as well. Fundamentalist movements, which promote the rebirth of Islam, the restoration of its original, pure state and cleansing it from external additions, derive the principles of right economy from the theory of Islam. Yet as works on the subject are mainly written by experts of Islamic law and religion, they normally discuss the legal and ethical system, but do not offer a coherent economic model.

Islamic fundamentalism itself is a possible response to the challenge posed by European civilisation. In the 19th-century Islamic world, two main reform movements evolved: modernism and fundamentalism. Modernism adopted Western models (democracy, capitalism, socialism) in an attempt to make the region – which had been “stagnating” for centuries – prosper again.

As for Islamic fundamentalism, it is not a conservative movement inasmuch as it proposes urgent social and economic changes. Undoubtedly, it is a tradition-focussed reform movement that sees reforms as measures to be implemented through returning to the original principles.

Islamic theory of economy defines itself as a third way besides capitalism and Marxism. As fundamentalist authors often point out,²² capitalism and Marxism push “the human factor” into the background. When criticising capitalism, such authors rely on Marxist criticism, claiming that property rights are unrestricted, and the individual's interests overrule the community's interests, etc., yet they also reject the overemphasised materialism of

²² A key work is *Ma'rakat al-Islam wa'l-Ra's Maliyya* (The Battle between Islam and Capitalism), written in 1951 by Sayyid Qutb, the most influential ideologist of Islamic fundamentalism.

Marxism. Their key counterargument is that neither capitalism nor Marxism could be implemented in the Islamic world, as neither of them fall in line with the development of Islam.

The economic theory of Islam is a set of social and economic principles required for the establishment of a just society; many of them have been formulated as a reaction against modern Western economic policies. They include, but are not limited to the followings.

Property rights are recognised as justified²³ and are strongly protected. But there is more to property rights than that, as property must be used in a manner that ensures benefit not only for the owner but for the whole community as well. Property must not be destroyed or abused.

Production is determined by consumption. There are three main categories of consumption: basic consumption, consumption to improve living conditions and luxury consumption. The latter is shunned: "He does not love the wasteful."²⁴

Redistribution and the state play an important role in ensuring social equality and justice.

As evident from the above, the principles resemble to the Keynesian concepts: the state has an active role to play in the economy, and it can (and, in certain cases, must) intervene to ensure public good. Economy is basically determined by demand, and efforts are made to achieve full employment.

Yet, as far as the active role of the state is concerned, opinions differ. Tradition holds that when the Prophet Muhammad was asked to set prices for overpriced products, he refused, as "only Allah governs the market".²⁵ However, in the 1960s and 1970s, most developing countries attributed significance to active state intervention, and the ideology of socialism was popular in Muslim countries as well. As social justice indeed plays a prominent role in the Quran, many modernist Muslim intellectuals identify it with the promises of socialism. In fact, the Quran does not corroborate the idea of Islamic socialism: it accepts the differences between the rich and the poor, and supports the right to property and inheritance of property. Rather, it emphasises the requirement to support those in need, which, at the institutional level, does not necessarily take the form of redistribution by the state, but rather of *zakat*, or giving to charity a certain part of one's property.

²³ With the exception of natural resources, e.g. forests, rivers or mineral reserves.

²⁴ Quran 6, 141.

²⁵ AKYOL 2006.

Still, there is strong resistance against the free market and capitalism in the Islamic world. Anti-capitalist rhetoric, which is popular in radical Muslim circles, criticises, above all, sexual libertinage, prostitution, drug abuse, crime and, in general, the selfishness of Western societies. Doing so, however, it does not attack the foundations of capitalism, but a “cultural mechanism” that is a growing feature of developed capitalist states. In this sense, Muslims regard capitalism and materialism as synonyms.

Islam in Turkey assumes distinct characteristics. More specifically, the AKP – as opposed to the attitude of former Turkish Islamist parties towards economy – put increased emphasis on strengthening the private sector (and, within that, businesses) and claimed that state intervention should seek, above all, the establishment of conditions and environments that are conducive to competitiveness.

Another new factor was that the AKP did not envisage a protectionist policy that protects domestic entrepreneurs from external competition at all costs, but regarded economic integration as a key to the future.

In contrast with many radical Islamist movements, the AKP does not reject a Western-type path of modernisation and retains several elements of the Kemalist heritage (e.g. Turkish nationalism) as decisive factors of its ideology. Given that a big majority of AKP voters are beneficiaries of globalisation, the AKP regards globalisation as an opportunity rather than a process that threatens its identity. This was reflected in the economic policy of the Islamist forces as well.

The AKP's programme prioritised economic growth and restructuration entailing, among others, the enhancement of investment environment, so it may be concluded that the new Turkish policy focussed on competitiveness.

Ünay examines the previous era of Turkish development from the perspective of the competition state,²⁶ which entails shifts from inflationary expansionism to neoliberal monetarism, from macroeconomic to microeconomic governance, from extensive interventionism to strategic targeting, from the maximisation of welfare to innovation and profitability, and from geostrategy and national security to economic diplomacy and market share.

After the 2000s, the post-Washington competition factors became stronger. The reforms of the 1980s failed as a result of a premature financial liberalisation and the lack of fiscal discipline. The reforms of the Özal era were often based on direct governmental intervention to bypass the legislature,

²⁶ ÜNAY 2012.

which exerted a negative influence on financial discipline. To ensure growth, even monetary easing was regarded as acceptable, but high inflation rates dramatically deteriorated growth potential in the long run. From the second half of the 1990s onwards, the double external pressure exerted by the EU and the IMF forced the implementation of several institutional reforms in Turkey, under which the Central Bank became independent, and the control of banks and competition was strengthened.

Microeconomic interventions were most spectacular in the fields of regulation, industrial policy and employment policy. Initially, there was a lack of a clear industrial policy vision. Besides external influence (EU, IMF, WTO), this was another reason why economic aid was mainly based on a sectorally neutral, horizontal policy. As Ünay puts it, the targeting of the industrial development strategy is still in an initial phase, albeit recent years have seen a shift in that regard.²⁷ According to Yilmaz, an industrial policy is successful only if it is selective and supports specific sectors.²⁸ That is the basis of the economic success of Japan, South Korea and Brazil; moreover, that was the former strategy of developed countries, and is gaining popularity again. Yilmaz finds nonselective or neutral industrial policies (propagated by the neoliberal economic policy) inefficient. Economic fundamentals (macroeconomic stability, well-functioning markets) do not necessarily ensure economic restructuring; a prerequisite of industrial development is an adequate and supportive industrial policy. Rodrick confirms this argument,²⁹ although he focuses on the state involvement to actively promote the process of industrialisation rather than on a classical selective industrial policy based on direct state support.

Instead of the populist policy and programme of the maximisation of the national welfare (full employment, broad access to public services), entrepreneurship and innovation are promoted. Regardless of former state involvement, the establishment of a European-type welfare state did not take place. Rather, an indirect and minimalist welfare regime was in operation, depending mainly on the contributions collected from employers and employees, with a minimal state contribution.³⁰ The growing deficit of the social security system (and especially of the pension schemes) posed

²⁷ ÜNAY 2012.

²⁸ YILMAZ 2011.

²⁹ RODRIK 2007, 23.

³⁰ ÖZDEMİR–YÜCESAN–ÖZDEMİR 2008, 470.

increasingly severe problems, and the crises of the 1990s regularly called for systemic reforms. The AKP's social security reform reflected the party's neoliberal/conservative approach and the requirements of external actors (EU, IMF), and were based on the promotion of self-support and the introduction of market-based systems (e.g. the fully-funded pension pillar) rather than on state involvement. Having come to power, the AKP followed the post-Washington consensus, which attempts to meet the demands of the business sector and the needs of larger groups of society. However, Öniş highlights that, in general, Turkey prioritises business considerations over welfare considerations.³¹ Evidently, the AKP – in line with its Islam-based ideology – promotes a social policy that relies on the traditional social model (with a focus on the family and on the breadwinner role of the husband); and, along with direct state intervention, more value is attached to the role of state-supported religious charities.³²

If compared to the previous era, challenges posed by globalisation and by preparing for the EU accession brought about changes. The changes in Turkey's post-Cold War position also contributed to the new developments. Formerly, Turkey had been a country on the fringes of the Western alliance; in its new geopolitical situation it gained regional power in its relations with the Balkans, the Caucasus, the Middle East and Central Asia. The focus was shifting very visibly to economic and trade considerations about setting priorities; in parallel, the re-evaluation of Turkey's geopolitical position came to the foreground. For the AKP, globalisation and nationalism are not contradicting concepts; rather, they denote the promotion of national interests at the level of global relations.³³

The business association MÜSIAD³⁴ clearly demonstrates the compatibility of Islamic values with modern Western economic rationality and the harmonious coexistence of free trade capitalism and Islamic identity. Its objectives are not exclusively economic in nature, but also have a broad social and moral aspect. MÜSIAD claims that economic and technological

³¹ ÖNiş 2011.

³² GRÜTJEN 2008, 112.

³³ ÖNiş 2012.

³⁴ MÜSIAD is the abbreviation of "Müstakil İş Adanleri Derneği" (Independent Industrialists' and Businessmen's Association), but many think that it stands for "Müslüman" (Muslim) rather than for Müstakil ("independent"). The Association relies strongly on Islamic values, and there is a strong trust between its member companies which form a network within Turkey's economy.

progress should be coupled with progress of the human spirit, as Western-type capitalism and Kemalist modernisation both ignored that aspect of development. It builds on the values of Islam, e.g. trust, solidarity and the priority of the community's interests over individual interests.

Erol Yazar, President of MÜSIAD, opines that the success of the economic models of the Far East relied very much on local traditions and community values, and did not try to copy the individualist approach of the West.³⁵ As Yazar points out, it is no coincidence that at the threshold of the 21st century the centre of the global economy is shifting to the Far East. He deems that this is due to the interaction of three factors: the growing significance of SMEs; the importance of family values; and religion. It was strong cultural identity that gave those countries the confidence and strength that was necessary for success and for transcending the Western civilisation strongly criticised by Yazar. He is convinced that the Western world, based on Cartesian rationalist philosophy, plunged personal and social life into chaos by rejecting the values that it finds insignificant, and overwrote religious values with a secular morality, which leads necessarily to unjust capitalism. Fight against unjust capitalism requires strong morality and economic strength.

MÜSIAD supports Turkey's accession to the EU, mainly with a view to economic rationality. It also attaches value to the positive impacts of globalisation (e.g. economic openness and better opportunities in external trade), because those serve as a basis for the development of Islamic economy as well. Business companies with Islamic basis are highly active in the Balkans and Central Asia alike.

Turkey is changing. The Kemalist model, based on secular fundamentals and seeking to adopt the Western pattern, is being augmented or replaced by an emerging Islam-based ideology of modernisation that – as opposed to Islamist fundamentalist ideas – does not basically reject the Western model. Among Turkish entrepreneurs (especially the “Anatolian Tigers”) a kind of Muslim Calvinism is on the rise which emphasises worldly economic successes and the importance of taking advantage of the benefits of globalisation, yet remains in the framework of Islam, observing the ethical rules of Islam, which is a vivid illustration of the compatibility of Islam and modern capitalism.

³⁵ BUĞRA 1998, 531.

Chapter 4

Foreign Policy and External Economic Relations

4.1. The AKP's foreign policy

Traditionally, Turkish foreign policy was influenced by five factors:¹ Turkey's historical experience; its specific geopolitical and geostrategic position; its vulnerability; Kemalism; and external relations. Yet the developments of the 1990s necessitated a reconsideration of these factors. Historical experience and Turkey's geostrategic role were re-evaluated as the new situation called for an active approach instead of the former defensive, status quo-focussed attitude. Initially, the previous security-oriented approach persisted, but, gradually, southern and eastern neighbouring countries (Iraq, Iran, Syria) came to be viewed as a primary threat rather than the Soviet Union. By the 2000s, security had gradually ceased to be a top priority. The Kemalist elite's loss of power was one of the factors that gave rise to the gradual change of the foreign policy attitude of the previous decades.

A traditional element of the former foreign policy was a pro-West attitude; Kemalism claims that, for Turkey, the way to civilisation was to join the Western world. The Cold War contributed to the achievement of that objective as it promoted NATO membership and the connections to the European institutions. Still, distrust of the West was a part of historical experience in the form of the traumatic memories of capitulations and being subjected to economic influence during the era of the Ottoman Empire, the partition of the Ottoman Empire and the injustice of the Treaty of Sèvres. The security-oriented foreign policy was therefore based on the sense of being exposed to external threats; the conflicts with the neighbouring countries – rooted in history and then exacerbated by the Cold War – also contributed to a realist approach to external relations.

¹ TÜR-HAN 2011, 7.

The changes of the 1990s gradually transformed Turkey's attitude to foreign policy. The environment of Turkey changed, too. New conflicts emerged in the Caucasus (between Azeris and Armenians) and in the Balkans (the dissolution of Yugoslavia), while the Middle East peace process failed soon after it was launched. Exposure to external threat contributed to the persistence of the security-based approach. The National Security Policy Document of 1992 referred to Kurdish separatism as the primary threat and to Iraq, Iran and Syria (as external supporters of the PKK) as further national security threats.² Conflicts persisted with Greece, another NATO member. For these reasons, in the 1990s Turkey held on to its realist, security-focussed approach in a post-Cold War international political environment determined by democratisation, political liberalisation and, in general, idealism. During the 1990s, Turkey's foreign policy turned from defensive into increasingly offensive, although continued to refrain from expansionist or aggressive approaches. It was not the government's privilege to shape foreign policy; the National Security Council (and, thus, the military) had a considerable say.

A new development was that in security policy Turkey increasingly confronted the United States, its former main ally. It regarded the measures introduced in Iraq after 1991 to protect the Kurds as measures to support attempts at Kurdish autonomy and as a threat to its own territorial sovereignty. Turkey deemed that its NATO membership alone would not suffice to guarantee security, and that it must take active steps to promote security. In the 1990s, the EU's attitude towards Turkey's accession strengthened the feeling of "being left to its own devices". While the EU welcomed the states of the Eastern bloc with open arms, Turkey was rejected repeatedly.

It was the neighbouring regions (mostly former Ottoman areas or states with Turkish population) that offered an opportunity for strengthening the new "regional identity". Turgut Özal also talked about "the Turkish century" and Turkey having an area of influence stretching from "the Adriatic Sea to the Great Wall of China".³ Turkey was among the first countries to establish diplomatic relations with the countries of the region, and made highly publicised attempts to deepen its diplomatic, economic and cultural relations. A kind of a Eurasian identity started to evolve.

² TÜR-HAN 2011, 11.

³ ZÜRCHER 2004, 328.

The United States found the new identity attractive, trying to set Turkey, a secularised country with a Muslim majority, as a good example for the Islamic states in the region. The Turkish example was important as it represented an alternative to Iran; in the countries of Central Asia, the vacuum created by the dissolution of the Soviet Union was dangerous.

In the early 1990s, Turkey, attracted to Pan-Turkism, endeavoured to be more active in the countries of Central Asia, assuming the role of the “elder brother”; however, it was not welcomed with particular warmth. Turkey did not have enough strength to ensure a permanent and active political or economic presence. The external reactions to Turkey’s active foreign policy were ambiguous elsewhere as well. With regard to Turgut Özal’s tour in the Balkans in 1993, Greece and the then Yugoslavia perceived this intensifying activity as a manifestation of neo-Ottomanism.⁴ In the Arab–Islamic world, Turkish foreign policy was traditionally viewed unfavourably, primarily because of its close relations with the West (NATO membership, good relations with Israel).

Foreign policy activity was also influenced by internal political disputes, economic crises and problems. Lobby interests shaped foreign policy, too, as representatives of ethnic groups (Balkan, Chechens) and economic interest groups sought to influence foreign policy. As a consequence of the economic liberalisation and the export-oriented economic policy, economic relations had become increasingly determinant factors of foreign policy.

Turkey’s traditional foreign policy started to undergo fundamental transformation during İsmail Cem’s term of ministerial office (1997–2002). The process was greatly contributed by the capture of Kurdish leader Öcalan and the military successes against the PKK, which was partly attributable to the agreement with Syria.⁵ There was an improvement in the relations not only with Syria, but with the two other regional rivals, Greece and Iran as well. The September 11 attacks in the United States created a new situation in the region. Balance in the Middle East was transformed; the regional importance of non-Arab countries (Iran, Israel, Turkey) increased.⁶ A higher value was attached to the position of Muslim Turkey; again, attention turned to the Turkish model.

⁴ TÜR–HAN 2011, 15.

⁵ TÜR–HAN 2011, 15.

⁶ TÜR–HAN 2011, 19.

When the AKP came to power, the direction of foreign policy underwent further changes. The first distinct signs appeared during the American intervention in Iraq in 2003, when Turkey refused to allow the United States to use Turkish airspace and bases for military action. Thus, it indicated clearly that it was no longer willing to embrace American and Western strategy in the region at any cost. "Resistance" was facilitated by the fact that the NATO states themselves were divided over the issue and that Turkish military leaders did not show a clear support for active involvement. After the intervention in Iraq, the aspirations of the Kurds to achieve autonomy gained momentum, which added to the relevance of the traditional security-based approach.

The AKP's foreign policy endeavoured to get closer to Europe, which was understandable given that the invasion of Iraq provoked tensions between the United States and Turkey, and the different approaches to the solution of the conflict brought Turkey closer to European countries. The policy that supported drawing closer to the EU was popular in the early 2000s. In 2002, Turkey deemed that it had a good chance to start accession negotiations, so the AKP quickly embraced the approach.

Meanwhile, the concept of looking for an independent regional role gradually came to the foreground. Ahmet Davutoğlu, who had become the main foreign policy ideologist of the AKP, set forth his ideas about Turkey's future in his work *Strategic Depth*.⁷ He criticises Fukuyama's theory that foresees the final victory of liberal democracy and the hypothesis of Samuel Huntington about the clash of civilisations, as both regard Islam as a threat to the Western world.⁸ The Muslim world, Davutoğlu opines, is not capable of acting as a counterforce at the global level. The history of civilisations, he adds, goes beyond their clashes; therefore, both theories are oversimplifications. He claims that Turkey should take a more active part in shaping the regional processes rather than following a defensive, status quo-focussed foreign policy approach. Its role as a bridge between the East and the West will not suffice; rather, it must turn into a central country that fosters global and regional peace. Turkey's history and geographical position has a "strategic depth", and Turkey can assume a central role pursuing an active foreign policy in the region.

⁷ See DAVUTOĞLU 2001. Chief advisor to the Prime Minister, then Minister of Foreign Affairs (2009–2014) and Prime Minister (2014–2016).

⁸ HALE-ÖZBUDUN 2010, 119.

The concepts of *Strategic Depth* had their precedents. In the 1970s, Bülent Ecevit and then in the 1980s Turgut Özal preferred active political initiatives (that showed many similarities with those of *Strategic Depth*) over a defensive foreign policy. However, the international environment was not favourable at that time. Another difference is that in the 1970s and 1980s the concept of opening was based on strengthening the links that attached Turkey to the West and on economic rationality, and it was dominated by the significance of Turkey's role as a bridge. By contrast, the foreign policy derived from *Strategic Depth* stressed Turkey's central role. This means that Turkey does not need to be a bridge but a factor that is significant in itself and establishes relations with neighbouring and remote regions accordingly. However, the most distinct characteristic of the new foreign policy was not a break with former Western allies, but the attempts to normalise and intensify relations with the neighbouring countries.

It was not until the end of the elections of 2007 that Turkey's foreign policy changed significantly. The political turn became even more evident after Davutoğlu was elected Minister of Foreign Affairs in 2009. The objective was to improve bilateral relations with neighbouring countries; in 2008–2009, positive steps were taken towards Armenia, the most hostile country in the region. In the debate about the Iranian nuclear programme, Turkey took a position opposed to that of the great powers; in 2010, in the UN Security Council it voted against the imposition of sanctions. In the Arab–Israeli issue, Turkey took the side of the Palestinian party more decisively; this process culminated in the Gaza incident, which made Turkey – and Erdoğan personally – a hero of the Arab world. Turkey started to pursue a more active policy in the Western Balkans, again, with the aim to reduce hostility.

The concept of “zero problems” was introduced as a basic principle: Ankara sought to normalise its relations with even those countries it had tended to confront previously (e.g. Armenia, Greece).⁹ As Davutoğlu put it, Turkey is a regional power that has been forgetting its neighbours for too long.¹⁰ The new policy attempted to assume a proactive character. Turkey's activity manifested not only in the neighbouring regions, but in global issues as well, such as intensified peacekeeping activity (e.g. in Afghanistan), membership in the UN Security Council, or participation in G20 summits. Falling in line with its new policy, Turkey took an active part in the mediation

⁹ DAVUTOĞLU 2012.

¹⁰ DAVUTOĞLU 2010.

of international conflicts, e.g. with regard to the agreement between Serbia, Croatia and Bosnia (signed in Istanbul) or in the conflict between Syria and Israel. It also mediated between Afghanistan and Pakistan.

The new foreign policy, however, was not always undiluted. The issue of national security was frequently raised and was influenced by the power relations within the AKP and by the external situation. Many deemed that the activity of Turkey in foreign politics was a sign of “neo-Ottomanism”.¹¹ Although Turkey officially rejected this claim, perceiving a negative overtone to it,¹² it is indeed a fact that Turkey is performing most of its activity in regions that were once parts of the Ottoman Empire: the Balkans, the Caucasus and the Middle East. As a sign of growing confidence, Turkey is willing to confront even its former allies, as it did with the United States with regard to the American military action against Iraq, and with Israel with regard to the Gaza War.

A key aspect of the changes in the 2000s was a growing emphasis on “soft power” and the rise of multidimensional diplomacy. “Soft power”, a concept introduced in foreign policy theory by Nye in 1980s, refers to an alternative form of asserting interests.¹³ In Nye’s interpretation, soft power, as opposed to threat (military power) and buy-out (economic power), is in operation when a party makes other parties regard what it wants them to do as an attractive option. In other words, “soft power” rests on those factors which make a country able to exert influence over others via making itself attractive. The main elements of “soft power” are culture, education, art (primarily films or literature), but they also include tourism and NGOs; in general, a successful social and political system may strengthen “soft power” materially.

In the 2000s, several factors added to Turkey’s soft power. One of them was the democratic system which had been operating more or less successfully since the 1950s and compared to the systems of most neighbouring countries, fell much closer to the Western ideal of democracy; due to constitutional amendments of the 2000s, it continued to develop in that direction. Another factor was economy, which, relying on the changes

¹¹ Neo-Ottomanism is widely discussed in technical literature; many recognised its signs in foreign policy as early as in the Özal era. For its growing popularity see e.g. ÇOLAK 2006.

¹² See ÇAMLIBEL 2011.

¹³ NYE 2004.

which started in the 1980s, integrated successfully into the global economy. Yet another factor was the social vibration based on a young and dynamic Turkish society and on a relatively strong and active civil society. Another aspect to be mentioned was the vibrant cultural life as evidenced, among others, by the unprecedented popularity of Turkish films.

All these factors defined a new narrative for Turkey, making it an attractive model for other countries. Turkey's foreign policy and diplomacy could tap into this, partly through emphasising the positive elements of the Ottoman–Turkish historical and cultural tradition, and partly through building on the success of its modern socio-economic development.¹⁴ Implementation – and the propagation of a favourable image – was promoted greatly by the institutional system that, on the one hand, had been existing for a long time and was being reinvigorated, and, on the other hand, was being set up. The Turkish Cooperation and Coordination Agency or TİKA (established in 1992) operates 50 offices in 46 countries to coordinate Turkish development programmes. The Yunus Emre network of cultural institutions was operating 44 institutes in 36 countries 10 years after it had been set up in 2007. The Turkish Red Crescent (Türk Kızılayı) organises humanitarian actions in Turkey and abroad.¹⁵

By contrast, Kirişçi opines that the concept of “trading state” is the key underlying factor of changes in foreign policy.¹⁶ He argues that the economic factor behind the attitude change of Turkish foreign policy should not be underestimated. The liberalisation process, launched in 1980, added to the significance of exports, which, in turn, necessitated harmonious external relations, but until the end of the 1990s, political considerations overwrote economic interests. In the early 2000s, the correlations between politics and economy became even clearer as political developments (e.g. with the declarations of political and military leaders) had an immediate effect on the stock market. Nowadays, in global politics more importance is placed on economic interdependence than on military capabilities.

The concept of the trading state was introduced by Rosencrance in the mid-1980s.¹⁷ He argued that, after the Cold War, economic factors would

¹⁴ KALIN 2011, 11.

¹⁵ The data were collected from the organisations' webpages, and reflect the status as of April 2017.

¹⁶ KIRIŞÇI 2009.

¹⁷ ROSENCRANCE 1986.

affect the developments in foreign policy, the gradually intensifying economic interconnection would force the states to cooperate, and the states would be interested in resolving conflicts as soon as possible instead of prolonging or triggering them. As he pointed out, just as war offers an opportunity to increase a nation's influence, so does peace. Obviously, he added, the protection of territorial integrity would remain a priority, but the influence of economic interests would increase.

Kirişci calls attention to yet another important factor: Putnam's model of two-level diplomatic games.¹⁸ The model claims that in a democracy foreign policy entails not only negotiations between states but also the "selling" of foreign policy to the domestic public. That is, society (and, within that, interest groups) needs to be convinced of the usefulness of a given decision in foreign policy. This means that foreign policy is a game to be played in two directions (not just outside, but also inside), and foreign policy decisions are no longer made exclusively in the highest political circles, as social interest groups exert an increasing influence over them. Consequently, businessmen and representatives of the civil society play an active role in shaping foreign policy.

Therefore, Kirişci claims that the AKP's zero-problem policy is attributable to the growing emphasis on economic interests.¹⁹ He notes that in *Strategic Depth* Davutoğlu hardly deals with the economic factor at all, and does not link it directly to his five principles of foreign policy. However, when discussing the foreign policy options of other countries, even Davutoğlu remarks that a prerequisite of a successful export-oriented model of external economy is that the representation of economic interests be a part of foreign policy.

In the 1980s and 1990s, Özal himself made attempts to advocate Turkey's economic interests in foreign policy decision-making more strongly, yet at that time the prevailing doctrine of security (and its main representative, the military) did not allow that, and pressure from the business sector was less powerful then. Yet many of Özal's initiatives – e.g. the attempt to improve relations with Greece and with Arab countries, the Black Sea Economic Cooperation (BSEC) or opening towards the former socialist bloc to ensure new business opportunities – were attempts in that direction.

¹⁸ KIRIŞCI 2009, 41.

¹⁹ KIRIŞCI 2009, 42.

As for the foreign policy of the AKP era, Kirişçi underlines the importance of “social learning”: economic operators perceive the positive trends related to improving opportunities in external economy and, hence, exert growing pressure to sustain them. By the 2000s, due to the rise of the “Anatolian Tigers” or domestic export-oriented businesses, business interests had started to shape the representation of economic interests more decisively. The process heightened after the AKP came to power, as many AKP voters belonged to the social group on which AKP relied on for social and economic support. The interest of businesses is represented by many trade associations, the major ones being MÜSİAD, TÜSİAD, TOBB and ISO (Istanbul Chamber of Commerce). These associations took an active role, among others, in the transformation of Turkey’s foreign policy on Cyprus in 2004. In the intervention in northern Iraq in 2008, they pressed the government to take into consideration Turkish economic interests in Iraqi Kurdistan. They were also interested in the attempts to improve relations with Armenia and in the mediation efforts made to enhance Arab–Israeli relations.²⁰

The period from 2007 to 2010 was the “golden age” of the new Turkish foreign policy; afterwards, some aspects started to reveal the weaknesses of this well-functioning policy.²¹ The controversial decisions taken about the Arab Spring and the Syrian civil war (e.g. with regard to Libya, supported by the increasingly radicalised Islamist organisations) considerably reduced the “attractiveness” of Turkey and, personally, of Erdoğan.²² As the situation in the Middle East grew more complex, Turkish foreign policy found it difficult to identify a policy that fell in line with its principles in the highest possible degree. Economic factors were overshadowed as the traditional security consideration came to the foreground; in parallel, the Kurdish issue came into focus again. Turkey confronted the United States (about the support of the Kurdish forces in Syria) and Russia and Iran (about supporting Assad). Allegations about supporting ISIS were also very detrimental to Turkey’s image.

The conflict between President Erdoğan and Prime Minister Davutoğlu culminated in the latter’s resignation in May 2016. Thus, the main theorist

²⁰ KIRIŞÇI 2009, 47.

²¹ COŞKUN 2016.

²² In 2012, 84% of the Egyptians found Turkey appealing; by 2013, their rate had fallen to 38%. In Syria, this rate is only 22%. See OxGAPS 2015, 12.

of the new foreign policy quit power. The question is whether the foreign policy approach represented by him will persist in the years to come.²³

It is quite evident that the challenges posed by recent years call for a new approach. While Turkey's former foreign policy adopted a proactive attitude, but, above all, was built on soft power and was imbued with the ideology of the diversity of civilisations, today's foreign policy – albeit retains its proactivity – relies strongly on “hard-power” military force. To some extent, circumstances called for that, as with regard to the Syrian civil war, Turkey came to play a strategic role in stopping ISIS, and many see similar tasks with regard to stopping Iran's expansion. Tasks assumed by Turkey in the context of the humanitarian catastrophe in Syria must not be ignored either. This is why Fuat Keyman calls the new foreign policy “moral realism”, a mixture of a hard-power-type military approach and elements of a humanitarian approach.²⁴

4.2. Changes in the structure of external economy

4.2.1. *Trade in goods*

The EU member states are traditionally the key trading partners of Turkey. After the conclusion of the Customs Union Treaty in 1996, Turkey removed the tariffs on industrial products made in the EU, which substantially increased the quantity of European products flowing in Turkey. Tariff dismantlement also exerted a major influence on Turkey's capability to attract capital, while Turkey's enhanced competitiveness had a favourable effect on exports. From 2001 to 2006, exports rose from 31 billion dollars to 85 billion dollars, and then in 2012, to 152 billion. However, it has been stagnating since then.

Turkish exports underwent massive changes in terms of structure and relations. In parallel with the economic restructuring, the rate of textile products (which used to dominate exports) fell, while the share of mechanical and electronic products and vehicles grew. The export rate of agricultural and food products remained significant, but their ratio did not grow. Overall, the rate of high-tech products in the exports remained low (less than 5%).

²³ Coşkun 2016.

²⁴ Keyman 2017, 63.

Table 1.
Target regions of Turkish exports

	2007		2012		2016	
	million USD	%	million USD	%	million USD	%
Total	107,271	100	152,560	100	142,557	100
EU	60,754	56.6	59,240	39.0	68,357	48.0
Other regions in Europe	10,487	9.8	14,167	9.3	9,378	6.8
Middle East	15,081	14.1	42,476	27.8	31,311	22.0
Other regions in Asia	5,227	4.9	10,581	6.9	9,685	6.8
North Africa	4,030	3.8	9,443	6.2	7,756	5.4
Sub-Saharan Africa	1,947	1.8	3,913	2.6	3,652	2.6
North America	4,541	4.2	6,673	4.3	7,405	5.2
Latin America	1,062	1.0	2,961	1.9	1,941	1.4

Source: TurkStat

The EU was the primary market of Turkish exports; its share had exceeded 50% for a long time. After 2007, the quantity of exports to the EU member states continued to increase, yet its dynamics fell far behind those of other regions, mainly as a consequence of the protracted crisis. The EU's share in Turkish exports declined to below 50% and, in 2012, below 40%. Parallely, the share of the Middle East increased by the same degree in the same period: from 14% to 27.8%. Overall, the growing demand of emerging markets that were performing well even during the crisis provided a good alternative for Turkey, and so did those regions (e.g. the Balkans) where the activity of European countries (Italy, Austria, Greece) declined. After 2012, the trend reversed, partly due to the fact that the European crisis was abating, and partly due to the escalation of the situation in the Middle East. In 2016, the EU's share grew to 48% again, while that of the Middle East fell to 22%.

Table 2.
Turkey's imports by region

	2007		2012		2016	
	million USD	%	million USD	%	million USD	%
Total	170,062	100	236,545	100	198,610	100
EU	68,472	40.3	87,657	37.1	77,496	39
Other regions in Europe	34,176	20.1	37,206	15.7	21,905	11
Middle East	10,148	6	21,410	8.5	13,760	6.9
Other regions in Asia	33,658	19.8	49,602	21	54,226	27.3
North Africa	2,285	1.3	3,308	1.4	3,201	1.6
Sub-Saharan Africa	2,821	1.7	2,613	1.1	2,154	1.1
North America	9,033	5.3	15,084	6.4	11,930	6
Latin America	3,121	1.9	5,149	2.2	5,159	2.6

Source: TurkStat

In the customs union, Turkey applied the EU's community customs policy, which, for Turkey, entailed a significant tariff reduction and a major increase of imports. From 1996 to 2014, Turkey's imports grew by 242% if compared to the EU15, and by 470% if compared to other countries. The EU's share in imports decreased from above 50% in the late 1990s to 40% in 2007; since then it has basically been stagnating. The rise of natural gas and oil prices resulted in the growth of the share of supplier countries (e.g. Russia, Iraq) in imports. After 2008, the share of other Asian imports (from China, South Korea, India) grew.

Table 3.
Turkey's major export partners (million USD)

	2001	2006	2012	2016
1. Germany	5,367	9,686	13,132	14,001
2. UK	2,175	6,814	8,700	11,687
3. Iraq	n/a	2,589	10,830	7,639
4. Italy	2,342	6,752	6,375	7,582
5. USA	3,126	5,061	5,614	6,623
6. France	1,895	4,604	6,805	6,023

	2001	2006	2012	2016
7. UAE	380	1,986	8,177	5,407
8. Spain	950	3,720	3,721	4,991
9. Iran	361	1,067	9,922	4,967
10. Netherlands	892	2,539	3,244	3,590

Source: TurkStat

An analysis of the changes of export and import values in the last decade, broken down by country, also illustrates recent changes vividly. While in 2001, the EU's bigger member states and the United States were the main targets for Turkish exports, in 2012 Iraq and Iran followed Germany on the ranking list, while the United Arab Emirates ranked 5th. However, 2016 brought an increase for traditional European partners again, while countries of the Middle East and Russia faced a considerable downturn.

Table 4.

Turkey's major import partners (million USD)

	2001	2006	2012	2016
1. China	925	9,669	21,295	25,440
2. Germany	5,335	14,768	21,399	21,474
3. Russia	3,453	17,806	26,619	15,161
4. USA	3,261	6,260	14,131	10,868
5. Italy	3,484	8,650	13,344	10,219
6. France	2,284	7,240	8,589	7,365
7. South Korea	759	3,556	5,660	6,384
8. India	355	1,579	5,843	5,757
9. Spain	1,066	3,834	6,022	5,679
10. UK	1,914	5,138	5,629	5,320

Source: TurkStat

With regard to imports, there is a rapid rise in Russia and China. Russia took the lead from Germany partly due to the increasing Turkish demand for energy and the high oil prices. After the fall of the oil prices, China became the major importer for Turkey. In case of most partners, Turkey's balance of trade shows deficit; in case of countries of the Middle East, there is a Turkish surplus. Iraq gives an outstanding example, where there is practically nothing to offset Turkish exports.

In the services sector, representatives of the telecommunications and the financial/banking sectors started to operate in neighbouring countries. Other sectors, e.g. healthcare, education, culture (Turkish soap operas) and tourism, are also important elements of the exports of services.

4.2.2. Contracting in the construction sector

Turkish construction companies are outstandingly active in foreign countries. In the 1970s, they started to expand in Libya and other countries of the Middle East; currently, they are globally significant actors in the construction sector. From 1972 to 2017, Turkish contractors undertook 9,000 projects in 115 countries, with a total value of 350 billion dollars.²⁵ While in the 1990s, Russia was the main scene of operation (35%), followed by Libya (14%) and Kazakhstan (8%), in the first decade of the 2000s Russia's share was declining (15%), and Libya (12%) and Turkmenistan (11%) rose as major partners. From 2010 to 2016 Turkmenistan (18%) overtook Russia (17%), while Iraq (9%) ranked third. From 1972 to 2015, Russia was the key partner (19.6%; 1,929 projects implemented by Turkish companies for 67 billion USD), followed by Turkmenistan (13.8%) and Libya (8.4%). The regional overview shows that in the same period Eurasian countries took the lead (47.6%), followed by the Middle East (26.1%), Africa (17.5%), Europe (5.1%), other Asian countries (3.2%), and North and South American countries (0.5%).

In 2016, the impact of the political developments became tangible. The annual volume of international business undertaken by Turkish contractors amounted to 20–30 billion dollars a year from 2006 to 2015; in 2016, it fell to 12.5 billion dollars. Russia, which in 2015 was a 6 billion dollars market, became insignificant as a consequence of the sanctions. Due to the fall of the oil prices, several traditional partners (Algeria, Azerbaijan, Kuwait and Saudi Arabia) gave commissions of significantly lower values.

There are more than a hundred Turkish construction companies that are active in international projects, the most important ones being Öztürk Holding (revenues of 7 billion USD in 2014) and Rönesans (3 billion USD). In 2015, 40 Turkish construction companies ranked among the world's top

²⁵ TCA 2017, 1.

250 international contractors list. With this number, Turkey ranked second after China (65), overtaking the USA (38), Italy (15) and Japan (14).²⁶

4.2.3. Capital flow

With regard to FDI, the last decade has seen a significant growth of capital inflow. FDI grew from an annual 1–2 billion dollars to 10–20 billion, the majority of which was flowing into the export-focussed sectors of the manufacturing industry.²⁷ The amount of foreign capital flowing into Turkey was 140 billion dollars in 2016. Turkish capital in foreign countries exceeded 40 billion dollars.²⁸ 75% of the FDI flowing to Turkey came from EU states; the biggest investors are the Netherlands (15.8%), Austria (7%) and the UK (6.8%). A major non-EU investor is the USA (8%). Gulf states (the United Arab Emirates, Qatar and Saudi Arabia together accounting for 7%) or Russia (4%) – in spite of their growing investments – are still lagging behind European countries.

Table 5.
FDI in Turkey (2002–2016)

Country	Capital invested, billion USD	%
1. Netherlands	22,104	15.8
2. USA	11,214	8.0
3. Austria	9,809	7.0
4. UK	9,548	6.8
5. Luxembourg	9,005	6.4
6. Germany	8,901	6.4
7. Belgium	8,212	5.9
8. Spain	6,998	5.5
9. Greece	6,873	4.9
10. France	6,856	4.9
Other	40,408	28.9
Total	139,928	100

Source: Turkish Ministry of Economics

²⁶ TCA 2017, 1.

²⁷ TAYMAZ–VOYVODA 2009.

²⁸ UNCTAD database.

The distribution of the capital between the sectors is as follows: 25.6% flowed into the manufacturing industry, 23.4% into the financial and insurance sector, 9.1% into trade, 8.9% into transport and warehousing, and 4.9% into construction.

In recent years, Turkish capital investments in foreign countries have emerged and started to grow dynamically; their total amount was above 40 billion dollars in 2016, which is about one-fourth of the amount of foreign investments in Turkey. Recently, foreign investments of developing countries have been increasing significantly at the global level. In 2000, the total registered amount of capital invested in foreign countries by developing countries was 742 billion dollars; by 2014, it had increased to 4,833 billion dollars.²⁹ In the same period, Turkey's share grew from 0.5% (3.6 billion USD) to 0.8% (40 billion USD).³⁰ In 2012, the 29 biggest Turkish multinational companies employed 115,000 persons abroad,³¹ about a half of them in the EU. After Europe, the most popular country was Azerbaijan (4.5 billion USD). Important locations for investment included some other countries of the former Soviet Union (Kazakhstan, Russia, Georgia; 1.4 billion USD), the USA (1 billion USD), Latin America (800 million USD, mostly in the Caribbean tax havens), North Africa (460 million USD), the Western Balkans (400 million USD) and Iran (260 million USD). Obviously, the reasons for and the composition of capital investments were highly diverse. While capital export to the Caribbean mostly entailed the offshore transactions of some major operators, investments in Germany, the Balkans or Iran involved – besides some big banks or telecommunications firms – many SMEs.

The most popular form of investment was acquisition. From 2002 to 2014, out of the 115 transactions 56 took place in Western Europe, 32 in Eastern Europe (mainly in Russia), 20 in the Balkans; the Middle East, with its 4 transactions was lagging much behind Central Asia and the Far East (16 transactions).³² 56% of the Turkish acquisition transactions were made in the manufacturing industry, and 37% in the services sector. In the Balkans, acquisition activity was intense: businesses hit by the crisis and state-owned properties (steelworks, airports) were acquired.

²⁹ In 2000, this amounted to 10% of the total FDI; in 2014, to 19% (YILDIRIZ 2017, 281).

³⁰ The biggest foreign investors were China (730 billion), Russia (431 billion) and Brazil (316 billion). The foreign investments of South Korea, India, Malaysia or Mexico also exceeded those of Turkey considerably.

³¹ DEMİR-MOİZ 2017, 249.

³² YILDIRIZ 2017, 286.

The total amount of Turkey's FDI outflow, however, shows a less comfortable picture: the financial services sector has the biggest share (55%), followed by oil extraction (21%), while the amount flowing into manufacturing industries is less than one-fourth.

4.2.4. Development aid

Another key factor of the intensification of Turkey's activity in external economy is development aid. Recently, there has been a massive increase in the amount targeted to neighbouring countries, Central Asia and Africa. In 2003, the amount of development aid was only 76 million dollars; then it gradually increased and, by 2011, had exceeded 1.2 billion dollars. As a consequence of the crisis in Syria, the aid amount had been growing rapidly since 2012. Since 2013, it has exceeded 3 billion dollars every year.³³

In 2015, the total amount of development aid exceeded 5 billion dollars, out of which 4 billion came from public resources (ODA) and 1 billion from private resources (primarily, NGOs). A significant part of development aid (2.7 billion USD) was humanitarian emergency aid (mainly for Syrian refugees), and 1.3 billion was classified as development aid. Turkey, with its ODA of 4 billion dollars, ranked 10th among donor countries (overtaking even Italy). The amount of the assistance offered by Turkey is 0.5% of the Turkish GNI, which makes Turkey, again, rank 10th (overtaking Belgium and France). In terms of humanitarian aid alone, Turkey with a ratio of 0.37% of its national income reached the highest ratio in the world. The remaining part mostly covers the funding of development programmes (287 million USD), international educational programmes (266 million USD) and concessional loans (217 million USD). However, analysis shows that without the support given to Syrian refugees the rate of development aid is not particularly high (0.12%), and falls much below the OECD average. Yet if the development status of Turkey's economy is taken into consideration in the form of per capita income, even this amount is significant.

Evidently, development programmes focussed on education very much. Projects related to education (e.g. schools) received significant support; in international educational programmes, funding was given to promote the studies of researchers and students in Turkey. Besides education, projects

³³ Source of data on aid assistance (except where indicated otherwise): TIKA 2017.

which intended to enhance good governance and women's social empowerment also received support.³⁴

In terms of territorial distribution, in 2015 the top beneficiary was Syria (2.7 billion USD), overtaking (as in every year since 2012) Somalia (314 million), Kyrgyzstan (98 million) and Albania (85 million). Further major beneficiaries included Bosnia and Macedonia (36 million USD) in Europe; Sudan (22 million) in Africa; the West Bank and Gaza (30 million) in the Middle East, and Afghanistan (57 million) in Asia.

4.2.5. *Visa waiver*

Turkey's intensifying international activity is clearly reflected in the growing number of visa waiver agreements, which also contributed to the increase in the value of Turkey's regional and global position.³⁵ An explicit goal of Turkey's liberal visa policy was to enhance business relations and tourism to Turkey, and, as evidenced by the data of the recent years, it proved to be successful.³⁶ Currently, citizens of 78 countries enjoy visa-free travel to Turkey. So far, the EU has not granted visa-free entry for Turkish citizens, and Turkey also employs a policy of selective visa waiver with regard to the member states. German, French, Italian, Greek and Swiss citizens can enter Turkey without a passport (with their ID cards). Citizens of some EU member states (e.g. Hungary) enjoy a complete visa waiver, while others (e.g. citizens of Slovakia or Romania) can enter without a visa only if they are travelling as tourists. Citizens of Austria, the UK, Spain, the Netherlands and Poland need a visa, but the application procedure is simple: visas can be applied for on entry to Turkey and are granted immediately. Recently, exemption from the visa requirement has been granted to several countries with which Turkey endeavoured to enhance relations. These countries include all states in the Balkans and Central Asia (Georgia, Ukraine, Russia, Morocco, Tunisia, Iran, Azerbaijan) as well as South Korea, Japan and countries of South America. The visa waiver does not apply to citizens of the USA, Canada, Australia, China, Iraq and Saudi Arabia, among others. The citizens of most African countries are granted a Turkish visa with

³⁴ KIRIŞCI 2013b, 208.

³⁵ KIRIŞCI 2013b, 211.

³⁶ BALLI et al. 2013.

a simplified procedure only if they already have a Schengen visa or a US visa. Most visa applications were submitted in the UK (4.6 million), Iraq (2 million) and the Netherlands (1.8 million).

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PART 2

Dilemmas of Orientation in a 21st-century Turkey

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Chapter 5

The EU and Its Member States

With regard to Turkey's economic development, its relations with the EU and its capacity to tap into the benefits of integration are paramount. For the EU, Turkey's significance stands on a par with that of Russia in the neighbourhood, and only a step down from that of the USA and China on the global scene.¹

Since the very beginnings, the EU–Turkey relations have been contradictory: even today, they are characterised by a unique mixture of conflicts and cooperation. The relations can be interpreted against various backgrounds.² These narratives include: Westernisation or neo-Ottomanism at the national level; Europeanisation at the EU level; enlargement, partnership or economic cooperation at the relationship level; Turkey as geostrategic partner at the systemic level; and with regard to identity, Turkey as a bridge or as “the Other”. In the last 60 years of the EU–Turkey relations, cooperation has been the most intense when the key actors shared positive narratives. By contrast, when negative and competing narratives emerged, relations were beset with conflicts.³

The plan of Turkey's integration to Europe looks back upon a history of over 50 years, yet for Turkey there is still a long way to go. The Customs Union Agreement of 1995 created unprecedentedly close economic cooperative ties, but, by its very nature, brought about only a temporary change. The future is still uncertain; the decade-long accession negotiations stalled, and Turkey's accession remains an open question.

¹ TOCCI 2016, 3.

² HAUGE et al. 2016, 9.

³ HAUGE et al. 2016, 21.

5.1. Turkey's affinity with Europe and its economic integration until the end of the 20th century

As discussed above, the attraction to Western civilisation became increasingly stronger, making the Ottoman Empire take European-type steps of modernisation in several areas. Internal motivation was coupled with external motivating (or, rather, compelling) forces. In the Empire, influence of the great European powers strengthened. By the end of the 19th century, the indebted Empire had become vulnerable, which allowed for growing control over, and sometimes even direct intervention in, its domestic affairs. By the early 20th century, European ideals, nationalism, parliamentarism and secularism had taken root in the Ottoman Empire, the most important power of the Muslim world.

Established as a nation state after World War I on the ruins of the Ottoman Empire, Turkey continued to rely on these new values as an ideological basis. Under the leadership of Kemal Atatürk, the new state regarded Westernisation and radical reforms of social, political, economic and cultural life as the way forward. Civilisation, by definition, was Western civilisation, while Islam came to represent backwardness. Turkey adopted solutions from European states, primarily from France, Germany and Italy, and, in the 1920s and 1930s, even from the Soviet Union.

Yet – in spite of the fundamental social changes – only the educated elite was clearly pro-European; the masses encountered merely the superficial effects of European civilisation and culture.

In 1945, Turkey, having given up its officially neutral policy, established strong ties with the Western alliance and institutional system. In 1948, it became member of the OEEC, the organisation responsible for administering the Marshall Plan. In 1949, Turkey became a member of the Council of Europe and then, in 1952, of NATO. For Turkey's leaders, membership in Euro-Atlantic organisations was the fulfilment of the Kemalist dream and the culmination of belonging to Europe – or at least an important step in Turkey's progress towards Europe.

On 30 July 1959, Turkey applied for associate membership of the European Economic Community (EEC; established less than one and a half years before). The factors of the process included, for Turkey, drawing closer to the West and economic considerations, although Turkey at the time had

a low rate of exports, dominated by agricultural products. The economic boom of the 1950s in Europe promised favourable opportunities for external trade and Turkish labour force alike. Most probably, Turkey would have delayed its application for association had Greece not applied for accession in mid-July 1959. Turkey, fearing that Greece would tap into its closer relations with the EC to Turkey's detriment, submitted its application to the Six almost immediately. The EC accepted both applications, unwilling to discriminate between its two strategically important allies and trying to avoid further conflicts between them. As due to their level economic development neither Greece nor Turkey could become full members, the Community offered them the opportunity of an Association Agreement which establishes integration in certain areas, but not in all.

In 1963, the European Economic Community and Turkey signed an Association Agreement, known as the Ankara Agreement. The Ankara Agreement, similarly to the agreement concluded with Greece two years before, envisioned – after a gradual liberalisation process – customs union and the free movement of labour as final goals. Practically, this left open the possibility of accession to the EEC in the future. During the implementation, it soon transpired that Turkey signed the agreement for political reasons (to counterbalance the aspirations of Greece) rather than due to economic necessity, when Turkey, opting for a strategy of import substitution industrialisation, protected its own internal market with strong protectionist measures.

The preparatory phase, provided for the Ankara Agreement as the first phase of the process, commenced after ratification, on 1 January 1964 and lasted 6 years. On 1 December 1969, Turkey initiated negotiations about the measures to be taken during the preparatory phase; the negotiations began on 1 January 1970, and centred on three main subjects: the status of Turkish agricultural and industrial products on the EC markets; Turkish labour force in the EC; and financial assistance in the preparatory phase.

By the end of the 1960s, it became evident that the extensive and rapid liberalisation of trade in goods as envisioned by the Agreement was not possible. The Additional Protocol of 1970 set the goal of establishing the customs union later, by 31 December 1995. It also provided for the immediate tariff-free import of Turkish industrial products, with the exception of textile and oil products, i.e. those very products that Turkey could export at the time. The customs tariffs on the imports from the EC states were removed

asymmetrically, in two phases (creating two product categories).⁴ The parties agreed on a financial assistance process broken down to four-year periods.⁵ Turkey was committed to introduce the EC's Common External Tariffs (CET), while the EC allowed the free movement of the Turkish labour force. Pursuant to Article 36 of the Agreement, the EC would have established the free movement of labour (a key element of the Treaty of Rome) in two phases, from 1976 to 1986. The Agreement gave priority to Turkish labour force over the labour force of other non-EU states as early as in the first phase.

Yet the economic setback of the EC economies resulted in restrictions related to foreign labour force. In November 1973, West Germany introduced *Anwerbestop* to restrict the employment of workers from non-EC countries. In 1974, the EC implemented unified measures to decrease the massive inflow of labour force.⁶

With the accession of the UK, Ireland and Denmark on 1 January 1973, the Community was enlarged to nine members. Therefore, on 30 June 1973, the EC and Turkey signed a Harmonisation Protocol which extended the scope of the commitments of the previous agreements to the three new member states.⁷ Yet the enlargement had other effects on the Turkey–EU relations, too. For new Northern member states, the enhancement of the cooperation with Turkey had less prominence. Another negative outcome for Turkey was that – via the UK – Commonwealth states enjoyed preferential treatment, which devalued the benefits offered by the EC to Turkey. The free

⁴ The first list contained 55% of industrial products for which a tariff dismantlement period of 12 years was defined. The other list contained 45% of the products, and a period of 22 years applied to it. For agricultural products, the EC introduced zero tariff for 37% of Turkish export products and a preferential tariff for another 23%; in return, agricultural products from the EC were also granted tariff concessions.

⁵ As per the Ankara Agreement, the following loan amounts were added to the loan of 175 million units of account of the first period (1964–1969): 220 million units of account by the Second Protocol (1973–1976), 47 million units of account by the Additional Protocol, and 310 million units of account by the Third Protocol (1977–1981). The fourth financial protocol (planned to amount to 600 million units of account) was not signed due to the deteriorating relations.

⁶ Although demand decreased in the EC, the willingness of Turkish workers to be employed abroad persisted. As the data of Turkey's Employment Agency (IIBK) show, in 1977 more than 1 million citizens applied for employment abroad.

⁷ A similar Agreement of Harmonisation was concluded with Portugal and Spain in 1987, and with Greece in 1989 (!).

trade between the EC and EFTA, the Association Agreements concluded with Mediterranean countries (in North Africa and the Middle East) and the GSP system offered for developing countries also had an adverse effect on Turkey's preferential status.

In 1974, Turkey, invoking its right of intervention, invaded the north part of Cyprus populated by Turks. The act was condemned not only by Greece, but by the UK and the whole international community as well, which deteriorated Turkey's relations with the EC. In 1978, Turkey suspended the further reduction of tariffs, and initiated the revision of the agreement.⁸ In terms of the principles set out in the Association Agreement and the performance of the tasks specified later, both parties were lagging behind their commitments.

In that context, Turkey unexpectedly – in response to signing the Treaty of Accession with Greece in May 1979 – announced its intention to become a member, and scheduled its application for autumn 1980. The coup in September, however, prevented it. Turkey–EC relations froze. On 12 January 1982, the European Parliament officially suspended the Association Agreement until the improvement of the Turkish political and human rights situation.

The strained relations between the Community and Turkey started to improve in 1986, with the ambassador-level meeting of the Association Council. The new Turkish Government, led by Turgut Özal, a technocratic politician, urged the enhancement of relations with the EC and clearly set the aim of making Turkey a member of the EC, preferably by 1992. Turkey submitted its application for accession in Brussels on 14 April 1987.

The application was based on Article 237 of the Treaty of Rome instead of the Association Agreement. Article 237 stipulates that any democratic European state may apply to become a member; thus, Turkey circumvented the schedule which was defined in the Association Agreement and in later ancillary contracts, but whose implementation stalled in the meantime.

From the 1980s onwards, during Prime Minister Özal's term of office, a process of radical economic liberalisation was launched in Turkey. In economic policy, the emphasis was shifting from the import substitution strategy to competitive export sectors; access to European markets was prioritised. The accession of the three Mediterranean countries (Greece, Spain and Portugal) to the EC also had an adverse effect on Turkey's

⁸ YEŞİLADA 2013, 10.

position. Consequently, as political tension abated, priority was given to strengthening relations; that was one of the reasons why Turkey applied for membership in 1987.

In December 1989, the Commission rejected the application, albeit temporarily (as it did in the case of Morocco, which also submitted its application in 1987), on the grounds that it did not deem the situation suitable for accession. The reply stated that the key objective of the EC was to establish the single internal market and, consequently, would not enter accession negotiations until 1993. It also highlighted several aspects that, for the time being, made Turkey's accession impossible (democratic deficits, the issue of human rights, the persistent conflict with Greece, the unsolved Cyprus problem). With regard to the economic and social situation, it declared that Turkey would find it difficult to implement changes that would be required in the medium term in case of a potential accession.

During the decision-making, the cost implications on the EC were also taken into account. Analyses estimated that the direct additional costs of the accession would be 7–9 billion ECU, which amounted to one-fourth of the community budget, while payment by Turkey would have amounted only to one-tenth of it.⁹ An additional problem would have been posed by the fact that the Mediterranean member states of a similar product and exports structure would have lost some of their advantages and would have demanded compensation.¹⁰

The EC did not intend to reject the application permanently. A promise was made that the application would be reviewed at regular intervals (to be defined later), and referred the further developments of relations to the foundations laid down in the Association Agreement.

In June 1990, the Commission presented to the Council a document on cooperation in which the EC undertook to accelerate meeting its commitments set out in the Association Agreement. The EC approved of the customs union, but rejected the plan which would have involved Turkey in certain other areas of the *acquis communautaire* (e.g. political cooperation). Nevertheless, in 1992 Turkey could become a member of the Western European Union (WEU).

⁹ MUSTO 1989.

¹⁰ At the time of Spain's accession, the EC disbursed 6.6 billion ECU in the form of assistance (an integrated development programme in the Mediterranean).

A consensus was reached soon about the CU, yet conclusion and ratification of the agreement was uncertain for a long a time. Obviously, one of the obstacles was posed by Greece, which in the meantime had become an EC member, and opposed all forms of convergence of or cooperation between the Community and Turkey in almost every field. At the Association Council meeting of December 1994 it was pointed out that “most of the negotiating points on the customs union had been settled. Owing to the opposition of one Member State, however, the Association Council was unable to finalize the customs union.”¹¹ Finally, in March 1995 the Association Council, making a compromise with Greece, adopted the agenda of the establishment of the CU with Turkey. Greece ensured that the Union, contrary to its original intention, opened accession negotiations with a divided Cyprus. The issue of the CU remained open until December 1995, as the agreement needed to be ratified not only by all EU member states, but the European Parliament as well. The European Parliament, delaying the signature of the document, attempted to make Turkey introduce internal reforms, among others, to improve the human rights situation – and it did achieve some success.

The customs union between the EU and Turkey entered into force on 1 January 1996. It covered 90% of bilateral trade. With regard to some sectors (e.g. agriculture, coal and steel products) special bilateral agreements were concluded. In the framework of the CU, Turkey unilaterally adopted the EU’s Common External Tariffs (CET), and undertook to harmonise economic policy measures and to approximate the standards of competition policy, the protection of intellectual property rights and technical standards to the EU regulations.¹²

In trade, the elimination of the quota scheme in the textiles and clothing sector offered Turkish exporters a major advantage, given that the EU had already abolished tariffs on Turkish industrial products.¹³ Another advantage was that – on condition that competition law reforms are introduced in Turkey – the EU would not implement its anti-dumping measures, a tool it had used regularly against Turkey. Yet Turkey’s decision on the customs union was basically political in nature: a demonstration that it belongs to

¹¹ Bulletin der Europäischen Union, 1994/12, 131.

¹² TOGAN 2012.

¹³ This advantage eroded soon, as the textile trade agreement adopted in the framework of GATT removed restrictions towards other countries as well, which was very advantageous for China.

Europe and is ready for accession. As for economy, actual positive effects occurred only in the long run, as a consequence of economic modernisation and integration into global economy.

The customs union with Turkey is a special form of integration. Albeit the EU set the objective of customs union as the final goal to achieve with the Association Agreements signed with Greece, Malta and Cyprus, for these countries, the establishment of the customs union coincided with their accession as full members. As for other acceding countries, the EU concluded free trade agreements (FTA) with them before their accession; such agreements are frequently concluded as parts of the neighbourhood policy. As Krugman and Obstfeld put it, the difference between a free trade area and a customs union is that the implementation of the former is politically easy, but administratively difficult, while the opposite is true for the latter.¹⁴ A free trade agreement is much easier to conclude, but due to the required proofs of origin entails a considerable administrative burden, which may turn into an obstacle to trade. By contrast, the establishment of a customs union is much more difficult, as agreement needs to be reached about the tariffs on the products of third countries in case of each import tariff, but after the conclusion of the agreements, bilateral trade becomes much simpler.

In the customs union, the average Turkish tariff levels decreased. In the EU and EFTA states, the average tariff level for some industrial and processed agricultural products decreased from 9% in 1995 to zero. The average tariff level towards third states was reduced from 14.28% to 5.8%. Yet in case of several food products, the tariff level increased considerably.¹⁵ As the EU abolished tariffs for most Turkish industrial products as early as in the 1971, most of the costs of the new tariff reductions and the required legal harmonisation were covered by Turkey. Moreover, as per the Customs Union Agreement, Turkey had to adopt continuously to the changes in the EU's trade policy, for example, to the tax reductions for third countries or to free trade agreements, but did not have much control over such decisions.

The fact that Turkey, in spite of the costs and the asymmetry in decision-making, entered the customs union shows that it regarded European integration as an issue of identity rather than of economy. It had always made attempts to belong to Europe, even if the intention of the "European family" about its integration was ambiguous. Above all, it was the strategic

¹⁴ KRUGMAN–OBSTFELD 2003, 242.

¹⁵ World Bank 2014, 19.

interests of the USA that helped Turkey join the European/Euro-Atlantic institutional system.¹⁶ Europe's attitude towards Turkey was ambiguous, especially after Greece's accession to the EC. Turkey found the rejection of its application of 1987 understandable, as the EC had just embarked on a process of deepening. Turkey saw the customs union as a sacrifice to make for accession, so it was deeply disappointed when in 1997 it was not included in the group of candidate countries. Seemingly, its sacrifice had been useless.¹⁷

In parallel with the adoption of the Customs Union Agreement, political relations became increasingly strained. The Greek–Turkish relations were worsened by the Aegean Border Dispute, and Greece blocked the financial programme related to the customs union. In a declaration of 1997, Christian Democrat leaders saw Europe as a “Christian club” with no room for Turkey.¹⁸ As per Agenda 2000, a Commission document published in July 1997, the EU would not enter into negotiations with Turkey, but would continue to prioritise bilateral relations. The Luxembourg Decision of December 1997 of the European Council corroborated that approach. The European Conference, set up in an attempt to offer “compensation”, would have been a pre-accession institution accessible for Turkey. Turkey regarded it even more outrageous, and suspended all political dialogue with the EU.¹⁹

Later, the relations started to improve, and in 1999 Turkey was officially recognised as a candidate state at the Helsinki summit. Although the Turkish economic crises of 1999 and 2001 hindered the process, friendlier Greek–Turkish relations and the more supportive attitude of the new Social Democrat leaders of Germany improved the chances of the commencement of accession negotiations.

5.2. Accession negotiations and doubts

The AKP Government came to power in November 2002. The European Council was to pass a decision about the commencement of negotiations about Turkey's full membership on 13 December 2002, in Copenhagen. Erdoğan,

¹⁶ ERALP 2009, 151.

¹⁷ FAUCOMPRET–KONINGS 2008, 37.

¹⁸ LAGRO–JØRGENSEN 2007, 5.

¹⁹ SAATÇIOĞLU 2013, 8.

who, at the time being, could not become Prime Minister, embarked on a European tour to get support. He received support from the UK, Italy, Spain, Belgium and, what is more, from Greece, but Germany and France, the two most influential member states, decided to wait. Finally, the parties agreed on a transitional period of two years during which Turkey had to comply with the Copenhagen criteria.²⁰

The EU made it clear that it would not be bound to enter the negotiations, i.e. Turkey's compliance with all criteria in itself would not suffice, and accession as a full member would depend on the EU's absorption capacity as well. Indeed, Turkey is not an average candidate country. In 2016, its population was 80 million, which means that, in case of its accession, in a few years' time it would become the most popular member state overtaking Germany, where the current population is also 80 million, but is in decline. That is a decisive factor in many respects. In the current decision-making mechanism of the EU, decisions made by a qualified majority are weighted as per population, which would give Turkey a significant political influence. Recent years have seen a remarkable economic growth in Turkey; still, the per capita GDP rate is below 50% of the EU average, which is a relevant factor for the distribution of the EU's structural and cohesion funding (i.e. Turkey would be a net beneficiary). Moreover, Turkey has a significant agricultural sector, which, should Turkey accede, would make Turkey a beneficiary of agricultural funding, too.

Albeit Turkey complied with the political conditions of constitutional and legal amendments, the political forces which opposed its accession gained momentum in mid-2004 in the EU. Wolfgang Schäussel, Chancellor of Austria voiced this opinion expressly, while Angela Merkel, the then head of the opposition party CDU supported the concept of an alternative opportunity rather than full membership. The UMP, the then governing party in France opposed the negotiations, while Jacques Chirac, the head of state, found them acceptable. In October 2005 Turkey (and Croatia) entered the accession negotiations with the EU.

In 2013, Croatia became an EU member, while accession remains an open question for Turkey – and by now, probably, a receding option. Currently, the concept of enlargement is not particularly popular in Europe, especially when it comes to the accession of Turkey.

²⁰ HALE-ÖZBUDUN 2010, 121.

In the course of the accession negotiations, Turkey is obliged to adopt the *acquis*, the body of the EU's community law, broken down into 35 chapters. The negotiations, however, stalled in 2010. In 2006, the European Council stopped negotiations on 8 chapters, as Turkey failed to comply with its obligations of extending the customs union to Cyprus. Three other chapters were vetoed by France in 2007. In 2009, Cyprus blocked the opening of negotiations on 6 chapters. Finally, 14 negotiating chapters had been opened by 2010 (out of which only one was closed provisionally). As other chapters were mainly blocked, there were no new areas to negotiate about.

In an attempt to revitalise relations that had stalled in 2010, the European Commission launched a "positive agenda" approach, which, however, did not serve as a substitution of accession negotiations but was intended to start negotiations in those areas where mutually favourable agreements could be reached (trade, visas, migration, foreign policy dialogues, energy).²¹ It was partly a result of that process that in 2013 (after France waived its veto) the chapter on regional policy was opened. However, the brutality of the action taken by the Turkish Government in response to the Gezi Park events in the same year exerted a negative influence again.

Turkey has been complaining for long that accession negotiations are in fact unilateral processes whereby the state seeking to accede implements the EU law in its own legal system. This approach is acceptable in the case of smaller countries, given the weight of the negotiating parties; Turkey, however, deems that due to its economic and political significance it deserves to be treated differently. It aspires to be a full member, but increasingly expects to be treated with due respect.

The official reason for the faltering of the process is Turkey's policy towards Cyprus, yet, in fact, it was the opposition of some member states (primarily Germany) that hindered the acceleration of the accession. While in the 1960s, decisions about Turkey's European integration were motivated mainly by political reasons and were affected by the Cold War interests of the USA, in the 1990s European reservations came into the foreground, which was one of the reasons why Turkey was denied the candidate status. For a long time, the main reasons against accession were summarised as follows: Turkey "is too big, too poor, and too Muslim".²² The EU's attitude

²¹ SZIGETVÁRI 2014.

²² AKÇAPAR–CHAIBI 2006, 53.

was and is basically ambivalent. The sections below discuss the factors that hinder Turkey's accession or give rise to fear in the European party.

5.2.1. Cyprus settlement

The Cyprus debate has been a major obstacle in the accession negotiations for a long time. After its coming into power, the AKP followed a more relaxed policy regarding Cyprus, which, however, was opposed by the Turkish leaders in Cyprus (Rauf Denktaş) and the military alike. The Annan Plan, aiming at the establishment of a federal state of two parts, was acceptable for the AKP, yet was rejected by the Turkish leaders in Cyprus and the military.

At the Helsinki summit of 1999, the EU decided that Cyprus could become a member state even in the absence of an agreement. The basic assumption was that Greek Cypriots would accept the Plan, while pressure should be exerted on the Turks.

As per the Plan, a federal state based on the Swiss model would have been created of the two parts of the country, which means that the new state would have had acted in unified manner externally, but its two constituent states would have enjoyed broad autonomy internally. The internationally-aided establishment of a new state resembles the events that took place in the former Yugoslav republics, where external intervention failed. Yet, by contrast to Bosnia, in Cyprus the parties could rely on decades-long negotiations which, albeit did not lead to results, served as a basis for the Plan. The proposal of more than 200 pages discussed the aspects of the federal state and conflict settlement (e.g. territorial division, refugees, real estates that would remain in the territory of the other constituent state, the citizenship of non-Cypriots, i.e. Greek and Turkish citizens who had settled in Cyprus, power structure, etc.). The Annan Plan would have entailed compromises for both parties. Albeit it gave more guarantees of security for the Turks (who formed a minority), it proposed solutions that would have been realistically acceptable for both parties.

In January 2004, a new coalition (led by Mehmet Ali Talat) came to power in Turkish Cyprus. It supported the Annan Plan of settlement, because it would have secured EU membership. Erdoğan succeeded in convincing the military to accept the agreement proposal, elaborated under the auspices of the UN. However, the majority of Greek Cypriots – under the leadership of President Tassos Papadopoulos – opposed it, as Cyprus (or more

specifically, its part inhabited by Greek population) could become an EU member even in absence of an agreement. Consequently, in the referendum of 24 April 2004, the majority of the population voted down the proposal (75% of Greek Cypriots voted against it, while 65% of Turkish Cypriots voted for it). In addition, in the Security Council of the UN, Russia vetoed the lifting of the UN sanctions against Turkish Cyprus.²³

In the European Council, Papadopoulos made attempts to utilise the new membership to ensure that a settlement which favours Greek Cypriots be a pre-condition of the accession negotiations with Turkey. However, even the Greek Government decided not to support his proposal, so accession negotiations started in October 2005.

Turkey denied the recognition of Cyprus until a satisfactory settlement of the Cyprus debate is reached. The Additional Protocol – attached to the Customs Union Agreement between the EU and Turkey in 2004, at the time of the enlargement – extended the scope of the customs union to the ten new member states, including Cyprus.²⁴ To implement the agreement, Turkey would have been obliged to lift its decades-long ban that prohibits Cypriot ships and aeroplanes from using its ports and airports (currently in force as a consequence of the non-recognition of Cyprus by Turkey). Turkey, however, will not lift the ban until Cyprus lifts the sanctions on Northern Cyprus.

In December 2006, the EU, resorting to a “tougher policy”, blocked 8 negotiating chapters in an attempt to force Turkey to make a compromise. In 2009, Cyprus vetoed the opening of yet another 6 chapters. In 2014, negotiations started (for the umpteenth time) between the two parties in Geneva. The process reached a promising stage at the end of 2016, yet the parties have failed to arrive at a concrete agreement so far.

5.2.2. *Migration*

For a long time, an argument against Turkey’s integration has been the fear that accession would provoke a migration of Turkish citizens. Among the European states, Turkey had the highest population growth rate, while its per capita income was among the lowest. Turkish labour force started to flow massively to Europe in the early 1960s; there were years when

²³ HALE-ÖZBUDUN 2010, 124.

²⁴ TALMON 2006.

EEC countries received 80,000 Turkish foreign workers. The migration of Turkish labour force to Germany was allowed by the German–Turkish agreement of 1961. Initially, qualified technicians migrated, but later they were joined by a growing number of unqualified workers who settled in big cities. Afterwards, recruitment started in smaller towns, too. By 1970, 480,000 Turkish workers had migrated to Germany; by 1974, their number had grown to 800,000. Belgium, the Netherlands, France, Switzerland and the UK were popular destinations, too. Though Turkish foreign workers had originally intended to return to Turkey in a few years' time, the deterioration of the Turkish economic and political situation made them stay. Although official recruitment ended when in Europe stagnation set in and the migration of Turkish labour force slowed down, a growing number of family members (40–60,000 persons per year) settled in Western Europe, almost exclusively on the basis of family reunification. Currently, approximately 3 million Turks live in the EU (80% of them in Germany), representing 25% of non-EU foreign citizens residing in the EU.

In the 1980s and 1990s, several projections were made on the subject, and up to 2030 they forecast the migration of 0.5–4.4 million Turkish persons. Obviously, the estimated value was highly dependent not only on the demographic trends of Turkey and the EU, but also on the pace of economic convergence, job opportunities in Turkey and the developments of EU demands and labour market regulations. Though as a consequence of the dynamic growth of Turkey's economy, the migration trend turned in the 2000s (as illustrated vividly by the example of Spain and Portugal, both of which are more representative of Turkey's case than Central Eastern European countries are), a potential massive inflow of Turkish labour force gave rise to fears in many European countries. Currently, the free movement of labour is a long way off; for Turkish citizens, even a simple entry to the EU is rather difficult due to the visa requirement. Turkey strongly criticises the visa regime given that the EU has granted (Schengen) visa waiver to all candidate countries and, moreover, to several non-candidate Eastern European countries. Turkey regards this situation as highly unsatisfactory, pointing out that while Turkish products can enter the EU freely, the regime poses serious obstacles for businessmen and tourists. Negotiations on visa waiver were launched, but were progressing slowly due to the large number of the criteria to comply with.

Since 2012, Turkey has received more than 2 million refugees fleeing from the Syrian civil war. In 2015, during the refugee crisis which evolved

as the situation in Syria deteriorated, Syrian refugees headed to the EU in large numbers. The European asylum system found the situation increasingly difficult to handle. In addressing the refugee crisis that provoked political conflicts within the EU, Turkey came to play a key role, given that as a buffer state it was the only country that was in the position to stop the further influx of refugees. In March 2016, the EU and Turkey agreed that Turkey would prevent the massive influx of refugees into Europe and would take back those refugees who entered the EU. In return, in the following two years the EU would disburse 3 billion euros for the purpose of providing basic services for the refugees, would accept legal asylum seekers in an organised structure, and, as a further commitment, would accelerate accession negotiations and introduce visa waiver for Turkey.

5.2.3. *Democratic deficit*

Europe has been concerned about democracy in Turkey almost since the beginnings. Albeit after World War II, Turkey's political system was democratised and a multi-party system evolved, the operation of institutions frequently fell short of European norms. In particular, military intervention in political life was regarded as unacceptable, even if it was evident that it was intended to preserve stability and the secular, Western-type state structure. Still, it did not fall in line with the democratic rules of the game. Actions taken against terrorists and, sometimes, opposition forces, frequently entailed infringements of human rights and fundamental freedoms.

From the 1990s onwards, increasing emphasis has been laid on the EU's requirements of democratisation, and Turkey's intention to accede the EU offered a good opportunity to force compliance. The Copenhagen criteria (preconditions of the accession) entail democratic institutions, the rule of law and respect for minority rights. The AKP was interested in the implementation of the constitutional and legal amendments required for compliance with the Copenhagen criteria, as such amendments ensured that the military would lose its capacity to intervene in political processes or to overturn or ban the governing AKP party, claiming to protect the interests of the secular state. The successful reform of the political system was appreciated by the EU, which allowed for the commencement of accession negotiations.

After 2006, Erdoğan started to intensify his efforts to concentrate power. The rule of law and freedom of the press suffered setbacks. The referendum of April 2017 endorsed the reforms of the Turkish political system and conferred practically full powers on the President of the Republic. As a consequence of the political developments contradicting EU intentions, concerns have been raised about compliance with the Copenhagen criteria and, thus, about whether Turkey is entitled to accede.

5.2.4. The perception of Islam

Though the official positions of the EU do not make any reference to it, religion is a major concern about Turkey's accession. The EU is unwilling to integrate an entity that is culturally so different, and is not prepared mentally to be enlarged with Turkey, a country of 80 million citizens the majority of whom are Muslims.

The way Europeans perceive Islam is basically influenced by two factors. Firstly, the behaviour of Muslim communities living in Europe and the conflicts arising in the course of coexistence; secondly, by the generally negative image created primarily through the media, which has been further deteriorated by the terrorist activities in Europe that can be linked to radical Islamists.

The large number of Muslims residing in Europe (which often appears to be higher than it actually is because of the differences in culture and attitudes) provokes fear about the potential effects the expansion of Islam may have on Europe's social and political life. The question is raised whether Muslims are capable of integrating into the world of European society and culture, or whether Islam is to be regarded as an element that is "unrelated to the system" and will not be assimilated.

Islam attracts attention to several consensuses that had evolved in European societies over time, and raises the question of religion's role in the society. Many feel that the concept of secularism is compromised by the fact that Islam does not separate church and state strictly, and regards religion as a public matter. This is especially problematic in republican France, which lacks Christian Democratic traditions and, thus, its political and social public life is completely secularised. The French society almost demonises certain issues; if, for instance, Muslim schoolgirls wear headscarves at school, it is regarded as a serious break with the secular traditions.

Due to media influence, Islam is linked to terrorism and fanaticism. The image has been nurtured by numerous tragic events. In general, the movements and groups which have radicalised since the 1970s and came under the sway of the extremist forms of Islam had a negative effect on the way Islam is perceived. It did not help either that the other side of the coin was mostly ignored. Most probably, Muslim victims were portrayed only in the case of Bosnia. In other cases, even the attacks against Muslims may strengthen the notion of the extremism of Islam.

Turkey's image, however, is different. Over the last 80 years, Turkish political leaders have done everything (sometimes even resorting to overly harsh measures) to establish a secularised modern state and society. Moreover, in Turkey one of the most moderate and tolerant forms of Islam is prevalent; radical expressions of religion are very rare.

The situation is greatly complicated by the fact that the majority of Turkish immigrants who arrived in Europe in the 1960s and 1970s were uneducated people from rural regions (mostly, from Anatolia), who had to cope not only with the problems of moving abroad but also with the challenges of moving into a city, which hampered their social integration. Social exclusion brought them closer to each other, and nourished their strong attachment to their traditions. However, the second and, above all, the third generation was very willing to integrate, as evidenced by their better language skills, better educational achievement and higher social status, by the growing number of mixed marriages and by a declining emphasis on religion. Yet the perception of the majority society is different. The emphasis laid on the negative examples increases aversion towards foreigners, and, recently, specifically against Muslims.

5.3. The EU member states' relations with Turkey

Examining the political relations between the member states and Turkey, it is conspicuous that the member states have differing priorities which shape their respective policies. Some countries have traditionally rejected Turkey's accession, while others take an essentially positive stand. The opinion of the more important member states including Germany carries particular weight.

The past quarter century has seen a gradual erosion of the formerly relatively close German–Turkish relations. The memory of the German–Turkish “comradery in arms” dating from before World War I and prevalent in the

interwar years remained strong among the Turks. The myth of German-friendliness was not limited to politics; large masses of Turks appreciated the Germans as an industrious, disciplined and soldierly people. Conversely, Germans had a different perception of the Turks: Turkish migrant workers relegated to undertake the most menial jobs and, accordingly, were held in low esteem. Close political relations were driven by economic and foreign policy interests rather than relying on the emotional myth of friendship.

The 1997 Luxembourg decision led to a souring of German–Turkish relations, which returned to normal only after the change of government in Germany. While the Social Democrats and the Greens governing between 1998 and 2005 supported Turkey's accession, the Christian Democrats in opposition voiced their concerns. Although Chancellor Merkel's position on the issue was more positive compared to her predecessors, the German support to Turkish accession tangibly weakened (or rather disappeared) after 2005.

Because of the three million Turkish migrant workers living in Germany, Turkey policy and the accession of Turkey is a cardinal issue in German political and social discourse.²⁵ Debates are variously based on values or interests and are occasionally related to group identity. In recent years value-based components (such as human rights and democracy) have come into the foreground, although the need to solve the migration crisis put greater emphasis on interests. Political differences affect economic relations: German keenness and willingness to invest have noticeably ebbed.²⁶ The Turkish political showdown after the 2016 coup attempt and the campaign preceding the 2017 referendum on constitutional amendments shifting the country from parliamentary democracy to a presidential system made bilateral political relations particularly tense.

About 70–80% of public opinion in Austria are opposed to Turkish accession. Opponents include not only the right-wing Austrian People's Party or the ultra-right populist Freedom Party of Austria; even the Social Democratic Party is not particularly eager to support the accession process. As a net payer, Austria is wary of Turkish membership because of its high costs and possible labour market impacts. Moreover, the presence of over 250,000 Turks in Austria has strengthened fears of "cultural diversity"²⁷

²⁵ HAUGE 2017.

²⁶ HAUGE 2017.

²⁷ GAVENDA 2017, 2–3.

floated mainly in ultra-right rhetoric. While Austrian foreign policy is basically in favour of a dialogue in terms of democracy and human right issues, the authoritarian turn in recent years has bolstered hard liners' Turkey position within the EU. Turkey's response to all that was, *inter alia*, to obstruct cooperation between Austria and the NATO.

Motivated by domestic policy, France's opposition is relatively recent. Islamic advancement (for instance in public education) presents a serious challenge for a strongly secularised French public life, which has led to political emotions running high. In 2006, the Turkish accession issue was a factor in the negative outcome of the referendum on the ratification of the EU constitution despite President Chirac's promise, made in an effort to appease French public opinion, to have a referendum on Turkey's accession. After his election President Nicolas Sarkozy also actively tried to hinder the accession process. Conversely, François Hollande's socialist presidency was marked by a more positive stand, albeit the issue did not evoke massive support due to the resistance of French public opinion. At least accession negotiations of several pre-accession chapters, earlier vetoed by France, could be opened.

There is a sizeable Turkish minority in the Benelux countries and recently rising xenophobia has turned public opinion against Turkey's accession. The Dutch presidency in 2004 helped open negotiations but the Dutch 'no' to the European constitution in 2005 was an indicator of the Dutch public opinion's opposition. Politically, the intensifying autocratic trends in Turkey were regarded with repugnance, which culminated in the 2017 referendum campaign for the introduction of a presidential system, when the Dutch Government blocked Turkish ministers from campaigning in the Netherlands.²⁸

As a stalwart supporter of Atlantic policy and also an advocate for a looser EU structure, the United Kingdom traditionally advocated for Turkey's accession. Another reason for British support to enlargement is that it was seen as the Union's political success by propagating stability and European values, which also brought along strategic advantages. However, the British political atmosphere has changed in recent years, and in the pre-Brexit vote campaign Turkish accession emerged as a negative factor. Brexit supporters felt threatened by Turkish migration, and even those campaigning to stay

²⁸ WIERSMA 2017, 3.

put Turkey's accession into the distant future.²⁹ Still, UK's exit will reduce the number of member states in favour of Turkey's accession.

The Nordic countries' main concern regarding Turkey is human rights and infringing the rules of democracy. Sweden and Denmark had been at the vanguard to criticise the antidemocratic Turkish political system, and Turkey retaliated by excluding Swedish and Danish companies from arms import. In the early 2000s, Sweden began to support Turkey's integration efforts and welcomed the political reforms occurring in the country. However, in the past few years, Nordic criticism of the Turkish Government has become sharper, especially because of the measures following the defeated 2016 coup.³⁰

Turkey's relations are best with the Mediterranean member states. Spain is regarded as a friendly state sympathetic to Turkey's cause, and relations with Italy are equally good. Mediterranean solidarity has been manifest mainly since the second half of the 1990s, when the European enlargement comprised only two small Mediterranean states (Cyprus and Malta) besides the ten CEE countries. True enough, Turkey's accession would have obvious disadvantages for the current Mediterranean member states due to a similar product structure (primarily in agriculture), and their allocated share of EU funds would also be significantly less, yet similarities and the related common problems would often result in shared interests and a common stand. Close economic relations are the main reason for Italy's support, although the Lega Nord is against Turkey's accession on an identity basis.³¹ Spanish parties, on the other hand, show unfailing support irrespective of their differing ideologies, right-wing parties emphasising geostrategic and economic factors, and the Socialists pointing at the advantage of European integration as a vehicle of modernisation and democratic development.³² The Spanish public have tended not to reject Turkey's accession, but some doubts have been voiced in the wake of the autocratic changes in recent years.

The public in the new member states takes a less negative view of further enlargement, and this is also true for Turkey's accession. One reason for lesser rejection is the absence of Muslim minorities; nevertheless, the migrant crisis after 2015 unequivocally highlighted concerns in the Visegrád Group about Muslim immigrants, which could boost the opposition to accession.

²⁹ TOCCI 2016, 6.

³⁰ LINDH 2017, 2.

³¹ BENVENUTI 2017, 2.

³² SÖKMEN – SOLER I LECHA 2017, 3.

However, the official policy of many of the countries (including Hungary) is dominated by a value-based approach working towards developing economic cooperation and backing Turkey's accession efforts.³³

5.4. EU–Turkey economic relations

Since its inception (1961), Turkey has been a member of the OECD, the organisation assembling the most developed countries, albeit the Turkish economy was the least developed. In 1987, economic problems were stated to be the main reason for declaring Turkey not yet ready for accession. In the early 2000s, Turkey's GDP per capita was still only around 30% of the EU average.

The rapid growth achieved over the past two decades has changed the perception of the Turkish economy. GDP per capita rose above 50% of the EU average, ahead of Bulgaria and Romania. No longer a poor looked-down-upon neighbour, Turkey is also a member of the G20 encompassing the world's strongest economies, and has grown to become one of Europe's most dynamic economies with excellent prospects. This chapter is an overview of the EU–Turkey economic relations over the past period.

The 2008 crisis was a turning point in trade. Before the crisis, 50–60% of Turkish exports went to the EU; this rate plummeted below 40%, and in recent years climbed back to approximately 45%. From the EU's perspective, Turkey's 1% share of imports and 0.5% share of exports realised in the 1980s tripled by 1996. Today 5% of the EU's exports and over 3% of imports is realised with Turkey, which makes the country the EU's 4th largest export market and 5th largest provider of imports.

The main goods of Turkish exports to the EU, rising in the 1980s, were textile and apparel. This, however, has declined due to a changing European regulatory environment and mounting Chinese competition: the contribution of this category of products is still 20 billion dollars, but its share within Turkish exports to the EU dropped from approximately 50% to 25%. Conversely, the export of machinery and transport products has surged. The value of transport material exports was around 1 billion dollars in the early 2000s and soared above 15 billion dollars in 2014. Machine exports grew

³³ EGERESI–SZIGETVÁRI 2017, 2–3.

to 12–13 billion dollars. There has been a lesser rise in the amount of fruit and other foodstuffs exported, but their contribution has drastically declined.³⁴

Table 6.

Turkey's trade with the main EU trade partners (excluding Balkan states)

	Exports				Imports			
	2001	2006	2011	2016	2001	2006	2011	2016
Austria	341	710	1,053	1,046	418	1,077	1,736	1,521
Belgium	688	1381	2,451	2,548	985	2,277	3,959	3,201
Czech Republic	109	377	888	804	127	682	1,755	2,561
Denmark	272	827	881	947	196	446	733	910
France	1,895	4,604	6,805	6,023	2,283	7,240	9,230	7,365
Netherlands	892	2,539	3,244	3,590	1,041	2,160	4,005	3,000
Poland	241	1,066	1,758	2,651	168	1,437	3,496	3,244
Hungary	170	486	509	831	187	1,286	1,494	1,301
UK	2,175	6,814	8,151	11,687	1,914	5,158	5,840	5,321
Germany	5,367	9,686	13,951	14,001	5,335	14,768	22,986	21,474
Italy	2,342	6,752	7,851	7,582	3,484	8,650	13,450	10,219
Spain	950	3,720	3,918	4,991	1,066	3,834	6,196	5,679
Sweden	214	787	1,183	1,216	544	1,488	2,284	1,478

Source: TurkStat

Despite the customs union agreement, the EU's contribution to Turkish imports has dropped drastically, from over 50% to below 40%. It was not a quantitative drop though; rather slower dynamism, affected by rising energy prices as well as the swelling popularity of production locations in the Far East.

Germany is Turkey's main trade partner from among the EU member states with a total trade value of over 35 billion dollars, exceeding the combined trade value of second ranking Italy and third UK. Over the past few years, trade flows with several traditional partners have stagnated or declined (Germany, Italy, Austria, Belgium and Sweden); on the other hand, other countries have dynamically increased their share: exports to Poland, the UK and Spain have been rising fast. There has been a similar transformation in

³⁴ European Commission 2016, 31.

imports: the contribution of traditional partners have lagged or stagnated, while that of the Czech Republic, for instance, has greatly increased.

Turkey has a significant, though decreasing trade deficit with the European Union: in 2011 the deficit was approximately 30 billion dollars, dropping below 10 billion dollars by 2016. The deficit is significant (though shrinking) with Germany, Italy, France and Spain while there was a positive trade balance with the UK and the Netherlands.

Regarding trade in services, Turkish exports are 16 billion dollars against 12 billion dollars imports, somewhat offsetting the deficit of trading in goods. The main European partners have been Germany and the UK. More than half of the inbound tourists come from the EU: 15% from Germany, 7% from the UK, 5% from Bulgaria and 4% from the Netherlands.³⁵ However, after the terror attacks inbound tourism from the EU plunged 30% in 2016. Compared to 5.5 million German tourists customary in previous years, their number was only 3.9 million, and the number of British tourists also plummeted from 2.2 million to 1.7 million.

Tourism is the most important and most dynamically growing sector of Turkish exports of services, contributing with 85%. Some production related branches have also expanded in recent years (insurance and information technology).³⁶

As mentioned earlier, the EU's share in FDI in Turkey is 75%, the main investors being the Netherlands (15.8%), Austria (7%), the UK (6.8%), Luxemburg (6.4%), Germany (6.4%), Belgium (5.9%), Spain (5.5%), Greece (4.9%) and France (4.9%). The Dutch dominance is not really attributed to big multinational companies (such as Philips, Unilever, Shell, ING and Aegon). These big players have been present for a long time but have deployed no significant investment in the past few years. New FDI came from other Dutch firms, e.g. in 2007 the pharmaceutical company Zentiva acquired a 75% stake in Eczacibasi for 460 million euros. Other important investors include C&A and Hunkemoller in retail, and Corio, Redevco and Vastned in real estate investment. Added to them are investments of numerous big multinational companies (Vodafone, Carrefour, IKEA, Ericsson, BAT, GE, Alcatel, Bosch, Siemens) deployed through their establishments registered in the Netherlands, and even some large Turkish companies (Enka, Vestel, Uzel) invest in Turkey through their Dutch subsidiaries.

³⁵ Data from 2015. Source: TurkStat.

³⁶ World Bank 2014, 69.

Recently Turkish companies have also appeared in the EU as investors, although capital export is only about a quarter of the incoming FDI (in 2015 approximately USD 7 billion). Between 2002 and 2014, 65% of the total number of Turkish acquisitions (115) occurred in EU member states, the most in Germany (14), Italy (11), the Netherlands (7), Romania (6) and France (5).³⁷

5.4.1. Effects of the customs union on Turkey

Despite the disappointments accompanying its conclusion, the customs union had in fact a positive effect on the Turkish economy. Foreign trade skyrocketed from 57 billion dollars in 1995 to over 390 billion dollars in 2012 (followed by a slight decline). Turkish exports to the EU started to rise especially after the 2001 crisis, when the devaluation of the lira coupled with falling domestic demand turned producers towards foreign markets.³⁸ With the transformation of trade and competition policies, the customs union has become a catalyst of the European and global integration of Turkey's economy.³⁹

Yet the perception of the customs union is not univocally positive. Turkey's competitive position improved in textiles, iron and steel and automotive exports, and deteriorated in technologically more advanced manufacturing exports.⁴⁰ The growing importance of bilateral free trade agreements in the trade policy of the European Union makes the sustainability of the customs union even more questionable.⁴¹ Turkish Economy Minister Zafer Çağlayan said: "I would like to express that if the current situation continues, we may have to put the customs union with the EU on the table for reassessment, as it is now working against Turkey."⁴² He was even more categorical when he declared: "Let's dump the customs union in a trash bin and instead conclude a free trade agreement with the European Union."⁴³

³⁷ YILDIRIM 2017, 287.

³⁸ İZMEN-YILMAZ 2009, 177.

³⁹ TOĞAN 2012.

⁴⁰ AKKEMİK 2011.

⁴¹ WOOLCOCK 2007, 2.

⁴² Today's Zaman 2013.

⁴³ ÖZERKAN 2013.

In what follows, we examine the problems arising in conjunction with the customs union. The agreement is unique in that no other country entered into a customs union agreement with the EU prior to accession. With the customs union, Ankara has given up a large portion of its sovereignty to shape its own trade policy as it now has to adopt the EU's trade agreements with third countries without adequate participation in the decision-making process. While the European Economic Area (EEA) member countries (Norway, Iceland, Liechtenstein) also have a limited economic sovereignty in exchange for inclusion in the single market, prospective EU membership shows a major difference: the EEA countries' decision to stay outside the European Union was mainly their own political choice; but this is not the case with Turkey.

Since the introduction of the customs union, the EU has signed free trade agreements with a number of third countries. These countries now have open access to Turkish markets. Yet Turkish exports do not benefit, as the agreements only concern EU products. This asymmetry leaves Turkish exporters at a disadvantage and may result in trade deflection. Nevertheless, the introduction of origin controls to prevent trade deflection would jeopardise the advantages of the customs union.⁴⁴ Furthermore, the proliferation of FTAs with the EU undercuts the advantages Turkey has traditionally enjoyed in EU markets.

As long as the EU signed FTAs with smaller and weaker economies (e.g. the Southern Mediterranean and Western Balkan countries), the negative effect on Turkey was negligible; and Turkey could also sign FTAs with these countries, with similar conditions. But the EU started negotiating and concluding agreements with more developed countries in growing numbers: Mexico (2000), South Africa (2000), Chile (2003), South Korea (2011), Canada (2014). FTAs involving countries competing with Turkish exports in European and global markets (e.g. Mexico and South Korea) are particularly unfavourable for Turkey. Moreover, not all of these countries want to engage in free trade with Turkey; they are under no obligation to do so, and Turkey is not necessarily able to negotiate agreements with similar terms and conditions to those of the EU.⁴⁵

⁴⁴ World Bank 2014, 25.

⁴⁵ TOGAN 2012, 21.

The envisioned Transatlantic Trade and Investment Partnership (TTIP) agreement, i.e. the EU–USA free trade agreement whose negotiations started in 2013 is an even greater threat to Turkish interests. Estimates put Turkey to be the biggest loser, should a TTIP agreement be concluded.⁴⁶ According to the World Bank's calculations, a TTIP agreement not involving Turkey would cause the country a welfare loss of 120–160 million dollars. However, if Turkey were also able to conclude an FTA with the US alongside the TTIP agreement, then Turkey experiences a welfare gain of 130 million dollars.⁴⁷ Interestingly enough, neither the European Commission's impact assessment of the TTIP nor the CEPR's paper commissioned by the EC mention Turkey or the effects on the customs union.⁴⁸

How to improve the customs union? In the short term, the best solution would be a joint EU–Turkey representation at the free trade negotiations. This could guarantee the integrity of the common trade policy and could help eliminate eventual future trade distortions.⁴⁹ The second best solution for Turkey would be if the EU concluded FTAs also on behalf of Turkey – given its stronger trade positions, the EU could obviously negotiate more favourable terms.

Whether involving Turkey in the negotiations would be beneficial for bilateral EU–Turkey relations is only a distant promise.⁵⁰ All Ankara can currently do is to follow in the wake of the EU in negotiating and signing bilateral FTAs with the third countries concerned. At the end of 2016, Turkey had 17 FTAs running (involving the EFTA countries, the West Balkan countries, seven Southern Mediterranean states as well as Georgia, South Korea, Chile, Malaysia and Mauritius), and talks are underway with Japan, Mexico, Ukraine and several Latin American and African countries. Moreover, Turkey has initiated free trade negotiations to begin with other countries as well (including South Africa, Canada, the USA, India and Indonesia).⁵¹

Although the FTAs recently concluded by the EU include a “Turkish clause” whereby the third country indicates its intention to also start free trade negotiations with Turkey, in its current form the clause has no binding effect.⁵²

⁴⁶ FELBERMAYR et al., 2013.

⁴⁷ World Bank 2014, 27.

⁴⁸ European Commission 2013a; FRANÇOIS et al. 2013.

⁴⁹ World Bank 2014, 28.

⁵⁰ SZIGETVÁRI 2016.

⁵¹ European Commission 2016, 296.

⁵² World Bank 2014, 29.

A stricter clause, specifying a time frame for signing such an agreement, would work better for Turkey.

On the other hand, it is not only a drawback that Turkey's FTAs with third countries do not entirely have to coincide with those concluded by the EU – it gives Turkey an opportunity to reach agreements that are better suited to its own priorities.

Another disadvantage of the customs union is its relatively limited scope: it only concerns industrial and processed agricultural products. However, the EU's so-called Deep and Comprehensive FTAs, already signed in 2014 with three Eastern Partnership states (Ukraine, Moldova and Georgia) are considerably more comprehensive, comprising agriculture and services. Besides, a wider legislative alignment helps integrate these countries into the single market. But even "simple" FTAs (for instance those with the RSA and Chile) offer better access to the internal market of the EU than the customs union with Turkey.

The expansion of the customs union would thus be necessary, yet its implementation is cumbersome. An agreement had been signed regarding agricultural products as early as in 1998 and was expanded to include new member states in 2006, but it has remained limited mainly because of the Turkish import limitation imposed on some food products.⁵³ There were talks between 2001 and 2004 to include trade in services but they were unsuccessful because of the contention over the free movement of people, public procurement and recognition of qualifications.

At the end of 2016, the European Commission asked for a mandate to launch talks with Turkey to modernise the EU–Turkey customs union. The EC's analysis formulated two proposals: the current customs union could be supplemented by an FTA pertaining to trade in services and agricultural products; alternatively, the EU–Turkey customs union could be replaced by a DCFTA-type agreement.⁵⁴ It is not clear which of the two options would be more beneficial for Ankara. Abandoning the customs union and negotiating a new FTA is a costly option: according to World Bank estimates, exports to the EU would decline by 3–7%.⁵⁵ In addition, such a decision would be a negative projection in respect of Turkey's prospective EU accession. On the other hand, these downsides could be to some extent offset by the trade policy freedom regained.

⁵³ World Bank 2014, 57.

⁵⁴ European Commission 2016.

⁵⁵ World Bank 2014, 22.

5.5. The future of relations – possible scenarios

As Turkey is located in Southeast Europe, in the coming decades geopolitical, economic and security relations will continue to be of cardinal importance for both Turkey and the EU. One of the crucial questions for the future is how the EU will develop over the next decades: will it develop into a closer federative union or a looser alliance presenting a Europe of nations? Will it become a single-speed or a multi-speed integration, or will it disintegrate? This book cannot possibly endeavour to address this issue in great depth, even though it is paramount for the future of Turkey–EU relations, more so than the Turkish political or economic changes.

Basically, the EU–Turkey relations can follow one of three scenarios: the enlargement will continue and Turkey will become a full member; an alternative possibility of close relations but without full membership; or gradual distancing from the EU, which could lead to Turkey abandoning the customs union and seeking integration elsewhere.

5.5.1. *Full membership*

It is difficult to accurately forecast the future regarding Turkey's accession. It is a relatively lengthy process with many imponderables, and radical changes can occur along the road in both the EU and Turkey. Every scenario generally has an optimistic, a pessimistic, and somewhere between the two, a realistic future vision.⁵⁶

According to the optimistic version, the accession negotiations will continue, every chapter will be closed with some areas subject to temporary derogation, but Turkey can join the EU as a full member. This scenario also presupposes changes of the EU mechanisms to allow Turkey's integration: transformation and improving the efficiency of the decision-making structure, a fundamental budget reform, and the rationalisation of some of the policies. It also assumes a shift of emphasis from solidarity to efficiency and competitiveness. This would create the conditions for growth in Turkey, and with an annual economic growth rate exceeding 5% over the long term, the country would become a driving force of European development.

⁵⁶ TOCCI 2016, 5.

The events of recent years have made the above scenario less and less realistic. The enlargement policy has been one of the strongest foreign policy tools of the EU, allowing the Union to effectively influence economic and political processes in neighbouring countries. In the past years, however, the transformative strength of the EU has fallen away spectacularly.⁵⁷ Despite the EU's official commitment to enlargement, the member states are increasingly against it on a national level due, to some extent, to the EU's economic and political problems, the long-delayed reforms (with their institutional impacts and financial consequences, etc.), as well as to concerns related to the labour market and the European identity.⁵⁸ As a result, the EC officially accepted the fact that the EU has taken a break from enlargement, which for decades had been the European success story.⁵⁹

Notwithstanding these processes, in 2013 Croatia joined as the 28th member state and currently there are six official candidates for membership. Iceland's application process was halted by its own reservations regarding the common fisheries policy. The smooth accession of the West Balkans countries is hindered by the applicants' politics, legal system and insufficient economic preparation. However, accession is an unquestionable priority for these countries, and geopolitical realities also predestine them to become EU member states – if not in the near future, at least in the long run.

Turkey's case is less obvious as only 3% of its territory is situated in Europe. While accession would be the ultimate realisation of a dream of the past nine decades, full membership is not vital for Turkey. Nevertheless, Ankara has not given up their accession plans.

One of the most significant obstacles barring the progress of negotiations is the intractable Cyprus issue; it is the reason why the EU, or Cyprus, blocks the opening of most chapters. Still, even if the Cyprus peace negotiations renewed in 2014 were successful, continuing with the Turkish accession process would not be simple. It would require the key countries (Germany and France) to unequivocally line up in support of the Turkish accession. Based on the development of recent years, this seems hardly likely.

Conversely, it is also palpable that neither party is interested in discontinuing the accession process as each regard the other as a special partner. The idea of discontinuing the negotiations was raised after the crackdown

⁵⁷ ÖNIŞ–KUTLAY 2013, 1409.

⁵⁸ ARCHICK–MORELLI 2014.

⁵⁹ JUNCKER 2014.

following the failed coup attempt in 2016 and the 2017 constitutional amendment,⁶⁰ but the EU heads disagreed. As Sigmar Gabriel, the German Foreign Minister put it: “Breaking off the accession talks, it would be the completely wrong reaction [...]. In NATO, we did not even exclude Turkey even during the times of military dictatorship (there). Why should we now have an interest in pushing it in the direction of Russia?”⁶¹ Positive statements come regularly from the Turkish side too. Egemen Bağış, Turkey’s Minister for EU Affairs said: “The EU is the grandest peace project in the history of mankind [...] Turkey, being the most eastern part of the West, and the most western part of the East, can turn this continental project into a global peace project.”⁶² In spite of all this, the chance of freezing the accession process has increased: a move such as, for instance, the restoration of the death penalty – as indicated by President Erdoğan earlier – would expectably force the EU to take this step.

5.5.2. *Privileged partnership*

This is the realistic scenario. The basic institutional reforms of the European Union are only partially carried through, which means that Turkey should be joining an EU similar to its current form; alternatively, the EU may opt for a multi-speed integration. This brings back uncertainty into Turkish political life; economic and social reforms decelerate or come to a standstill. Accession negotiations have been closed but in some areas special conditions prevail. Turkey is therefore accorded partial integration instead of full member status.

The idea of “privileged partnership” offered to Turkey as an alternative of full membership has been around in German politics for a long time.⁶³ Other authors also contemplate the idea of “something more than the EEA but less than full membership”,⁶⁴ or of a virtual membership somewhere between strategic partnership and the bilateral Swiss agreements.⁶⁵

⁶⁰ Austria and also the European Parliament called for a freeze on membership talks.

⁶¹ IDİZ 2017. French Foreign Minister Jean-Marc Ayrault and High Representative of the EU for Foreign Affairs Federica Mogherini made similar statements.

⁶² Quoted by: ABBAS 2013.

⁶³ SAATÇIOĞLU 2013, 14.

⁶⁴ DUFF 2013.

⁶⁵ ÜLGEN 2012.

At present, Turkish politics rejects any alternative – understandably, as a second class membership would be humiliating for Turkey. So the question remains: What would be the best solution to keep Turkey without fully integrating it?

Much depends on how the future of the European integration develops: to what extent will the Union remain homogeneous, or to what extent will it mutate into a multi-speed Europe with member states at differing levels of integration. In this respect Brexit could have a significant impact not only because Turkey has lost one of its key supporters but also because the UK–EU relationship would definitely make a set of special terms tailored specifically for Turkey more palatable.

Although Ankara has been committed to the accession negotiations, the inequity of positions has always been considered a problem. Currently the accession negotiations practically mean the unilateral adoption of the *acquis communautaire*. Thus they are not negotiations in the real sense of the word as they are not about the contents but only about the method and itinerary of harmonisation. Aware of its growing economic and political strength, Turkey has been increasingly apprehensive of this procedure. Moreover, the EU's credibility and consistency has recently suffered a severe blow.⁶⁶ At the same time, notwithstanding the absence of official talks, Turkey goes on with harmonisation in many areas, since the adoption of European standards and legislation bring forward-looking changes in many areas of economic and social life.

In 2012 a new “positive agenda” was launched with the intention to bring fresh dynamics and a new momentum into the accession talks.⁶⁷ The main intent was to bring positions closer together in areas that are mutually important to the two parties. This approach was more to Turkey's liking, as at last they were handled as an equal partner.

One of the key areas was foreign policy, especially in the period following the Arab Spring. If the EU intends to become a global player or strives to exercise a greater influence on processes in its neighbourhood, due to its strategic position Turkey can be a key partner here. Irrespective of the accession talks, the idea of an expanded political cooperation with

⁶⁶ ZİHNİOĞLU 2014, 154.

⁶⁷ European Commission 2012.

enhanced Turkish involvement in the common foreign and security policy should be given more serious consideration.⁶⁸

Energy is another important area for both the EU and Turkey. The EU's dependence on imported energy is significant and is expected to increase in the near future despite dropping usage and growing amounts of energy generated domestically from renewable sources. Turkey has assumed a key position in this respect as an alternative route to pipe Russian natural gas to Europe (TurkStream), and also as a transit route for gas acquired from alternative sources (via the Nabucco, then later the TANAP pipeline), but Turkey would also be a transit route for gas for the European markets coming from the recently explored Mediterranean gas fields. Turkey has been consciously building its standing in energy diplomacy, securing a special position in terms of EU interests whatever the future holds for the accession process.⁶⁹

The future of trade relations is equally crucial. Without full membership or involvement into the EU decision-making institutional system, maintaining the customs union is becoming increasingly expensive for Turkey. Turkish interests, therefore, require the revamping of the customs union. Talks have been started but there is still a long way to go until their conclusion.

5.5.3. *Outside the EU*

According to a pessimistic scenario, the basic institutional reforms of the European Union are not only partially carried through but only a fraction of them is implemented, which means that Turkey should be joining an EU very similar to its current form. The internal reform of the member states is equally slow, and the EU's global position is gradually slipping. In Turkey reforms are halted. The country becomes uncertain ground for investors, the economic output is declining, and domestic tensions are rising. Ankara is unable and unwilling to comply with the EU's conditions; the accession talks reach a dead end and are definitively terminated.

As the negative scenario unfolds, EU–Turkey relations are characterised by growing alienation and conflicts in the coming years. This scenario is underscored by numerous events that occurred over the past few years. Internal EU phenomena (crisis of the European integration project,

⁶⁸ FAGERSTEN et al. 2013.

⁶⁹ OKUMUS 2012.

the rise of populism, xenophobia and Euroscepticism, etc.), as well as changes within Turkey (authoritarian tendencies, search for internal enemies) foreshadow increasing conflicts. As can be seen, the member states' support of the Turkish accession is on the wane. The floundering accession talks and critical, often hostile, manifestations on the EU side are met with mounting impatience. President Erdoğan said in 2013 that the EU will lose Turkey if the country has not joined by 2023 (the centenary of the Republic of Turkey).⁷⁰ Some say the real surprise is that Turkey is still interested in the "European project" at all.⁷¹ It has also been raised in the context of the FTA negotiations between the EU and the United States (TTIP) that unless involved, Turkey is at a crossroads of choosing whether to remain anchored in the West, or fundamentally shift its axis eastward toward Eurasia.⁷²

Ankara has several options to seek integration outside the EU. One is the Black Sea Economic Cooperation (BSEC) signed by 11 states in Istanbul in 1992 and transformed into an Organisation in 1999. Its members are Turkey, Russia, Ukraine, and several Balkan and South Caucasus states.⁷³ The primary goal of the cooperation is to improve unreasonably scarce trade and economic relations between the Black Sea countries. In many respects the BSEC has not fulfilled expectations, partly due to a lack of interest by some members, and also because of the conflicts arising between them. Russia has been particularly active within the organisation, therefore Turkey tried to raise the EU's interest through Greece in order to create a possibility of involving EU funds, and in general, to shift EU interest towards the region. However, the BSEC was unable to act as an effective vehicle to promote multilateral synergy: conflicts between Russia and Georgia, and those involving Romania caused the unanimous votes required for decisions to run aground.⁷⁴

The Shanghai Cooperation Organisation was created in 2001 by Russia, China and four Central Asian republics.⁷⁵ Focusing initially on security issues (common action against terrorism, separatism, extremist movements, drug trafficking and crime), the organisation's scope has been expanded to

⁷⁰ Euractiv 2013.

⁷¹ ABBAS 2013.

⁷² LIN 2014.

⁷³ In addition to countries with a Black Sea coastline, members include Albania, Armenia, Azerbaijan, Greece and Serbia. The accession of Cyprus and Macedonia was vetoed by Turkey and Greece respectively.

⁷⁴ TANRISEVER 2012, 14–15.

⁷⁵ The Shanghai Five was established in 1996. Uzbekistan joined in 2001.

include common infrastructure projects in the field of energy, transport and telecommunications, and coordination is also regular in economic and cultural issues. In 2010 the possibility of enlarging the organisation was accepted, although no new members have joined to date. Several countries (including India, Pakistan, Iran and Mongolia) have observer status, and Turkey has been a so-called “dialogue partner” since 2012. Mr. Erdoğan, then Prime Minister, declared: “If we get into the SCO, we will say good-bye to the European Union. The Shanghai Five is better – much more powerful.”⁷⁶ But there is little chance for affiliation: although Russia and some of the Central Asian states would be in favour, China is not committed to the idea.⁷⁷ What is more, if Turkey were to join, this would undermine its relationship not only with the EU but also with NATO. Admittedly, the SCO’s goals are positive regarding the region’s security and prosperity, the organisation is blatantly anti-NATO and, more generally, intends to curb the spreading of western and universal democratic values over its “territory.”

The Eurasian Economic Union is also a possible framework for cooperation. The Eurasian Customs Union formed in 2010 by Russia, Belarus and Kazakhstan and the Eurasian Economic Space created in 2013 (with Ukraine among its members) was transformed into an Economic Union as of 1 January 2015. Most of the former Soviet republics were offered membership. Armenia and Kirgizstan joined, while Georgia, Moldova and Ukraine have signed FTAs with the EU.

President Nazarbayev of Kazakhstan proposed the admission of Turkey, India and Syria in the EAEU. Ankara is potentially interested but affiliation would only be possible if Turkey terminated the customs union with the EU. The economic rationale does not support the idea of swapping the EU for the EAEU as Turkish export to the EU is almost four times bigger than to Eurasia.⁷⁸ In addition, there would be “insider” opponents to Turkey’s EAEU affiliation, for instance Armenia aspiring at membership, whose main trading partner is Russia but its borders with Turkey are closed, and there is practically no trading between the two countries.

If Turkish accession to the Eurasian Economic Union is not on the agenda, Ankara raised the idea to sign a free trade agreement with the

⁷⁶ PANTUCCI–PETERSEN 2013.

⁷⁷ SAKAOĞLU 2013.

⁷⁸ VELIYEV 2013, 97.

EAEU. But currently even this is not possible, because Turkey is bound by EU trade policy whereby unless the EU signs an FTA with Russia, in theory Turkey cannot do so either.

Economically not quite so relevant as yet, the Economic Cooperation Forum (ECO) is another existing formation. Established in 1985 by Turkey, Iran and Pakistan, the ECO was enlarged in 1992 by the five Central Asian post-Soviet republics, as well as Azerbaijan and Afghanistan, and assembles the non-Arab Muslim states of the region. While the organisation's goal is to improve intra-organisation trade and economic relations, the implementation is fraught with difficulties caused by missing infrastructure. Trade is controlled by bilateral agreements, and no comprehensive regional cooperation exists.

D-8 is an inception initiated by Turkey and comprises the largest Muslim countries (Turkey, Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria and Pakistan). It is based on the idea of Necmettin Erbakan, leader of the Turkish Islamist movement, who started to organise cooperation in 1996, during his brief period as Prime Minister. D-8 was eventually created after his fall from power. D-8 represents a greater economic strength compared to ECO⁷⁹ and offers cooperation in a number of areas; however, its real economic potential is not very great as the member countries are scattered rather than forming a contiguous bloc.

Assessing alternatives outside the EU, a possible way for Turkey seems to be the "opening up to the East", given the country's geographical position and cultural ties. The economic problems and declining demand of the EU coupled by a faltering accession process have pushed Turkey towards diversifying its external economic relations and seeking new markets. The next chapters will explore to what extent these emerging relations could be an alternative to the European Union.

⁷⁹

While ECO represents a combined population of 460 million and 1,600 billion dollars in GDP (or 4,700 billion dollars on purchasing power parity), D-8 has a combined population of 1.1 billion and approximately 4,000 billion dollars GDP (10,800 billion dollars on PPP).

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Chapter 6

Neighbouring Regions

This chapter addresses the three neighbouring regions and the states in these regions. Most of them earlier belonged to the Ottoman Empire. Regarding the Balkans not only the Western Balkans is analysed, but also the relations with the Balkan countries which are already members of the EU. North Africa is examined together with the Middle East, and Ukraine together with the Caucasus.

6.1. The Balkans¹

Most of the area belonged to the Ottoman Empire from the 15th to the late 19th century. In most countries the Ottoman past still has an impact, it evokes positive historical memories in some countries and regions (Albania, Bosnia, Kosovo, part of Macedonia and the Serbian Sandzak), while elsewhere it evokes negative ones. For many decades Turkey had a passive attitude towards the Balkans, relations were complicated by historical and ideological differences. Economic opening-up in the eighties and nineties proved to be insufficient to revitalise relations, but changes in Turkey's internal and foreign policy after 2002 dramatically altered the country's relations with the surrounding regions including also the Balkans.

Many thought that a certain kind of “neo-Ottomanism” could be identified in the foreign policy activism of Turkey.² Ahmet Davutoğlu, former Foreign Minister of Turkey detailed his position during his visit to Bosnia in 2009: “The Ottoman centuries of the Balkans were success stories. Now

¹ In the framework of subsections about the Balkans, we will also analyse the four EU member states, Bulgaria (member of the EU since 2007), Croatia (2013), Greece (1981) and Romania (2007).

² See for example TASPINAR 2008; RÜMA 2010; SOMUN 2011.

we have to reinvent this. Turkey has returned.”³ Turkish foreign policy concerning the Balkans is based on three elements. The first element is strengthening relations with traditional partners. These partners include the Muslim-majority Albania, Bosnia and Macedonia, the latter two with significant Muslim populations, also Kosovo and Bulgaria where Turkish minority is around 10%. The second element is the opening-up towards countries with which relations are not settled: primarily Greece, Serbia and partly Montenegro. The third element is promoting stability in the region by mediation and supporting multilateral initiatives. The Istanbul Declaration initiated by Turkey and aimed at the reconciliation between Serbia, Croatia and Bosnia is part of this element.

Historically and geographically the Balkans is situated in the intersection of three regional powers: Europe, Russia and Turkey, also reflected in the religious division: Western Christianity, Eastern Orthodoxy and Islam are equally part of tradition and everyday life. In recent years “struggle” for the Balkans has intensified both in the economic and political fields, also indicated by high-ranking state officials visiting the region including Angela Merkel, Vladimir Putin or Recep Tayyip Erdoğan.

While Europe can enhance its appeal by promising integration, and Russia can do the same by promising cheap energy and the opportunity of switching on to the gas network under construction, Turkey has become popular through its development model which is promising also for the less developed countries and through its increasing investments in the region. Furthermore, religious and cultural similarity forms part of Turkey’s “soft power” for the Muslim population of the area.⁴ Although some consider only the rhetoric side of Turkey’s presence significant and not the economic help and perspective,⁵ Turkey is present in almost every country of the region and expands its interests dynamically.

Greek–Turkish relations were traditionally characterised by hostilities or rivalry. The most acute problems were the Cyprus issue and the Aegean border dispute. Despite the NATO membership of the two countries, armed conflicts were imminent many times. Following its 1981 EU accession,

³ See CAIN 2010.

⁴ See IDRIZ 2011. This was an obligation relating to the EU customs union because the Stabilisation and Association Agreement between the EU and the Balkan countries included the free trade agreement.

⁵ See The Economist 2011.

Greece prevented Turkey's integration steps, the 1995 Ankara Agreement could only be reached in exchange for serious political concessions (integration perspective of the divided Cyprus).

However, relations with Greece have improved dramatically over the last two decades. After the 1999 Istanbul earthquake the two countries signed bilateral agreements. Although the Greek opposition protested against the start of accession negotiations with Turkey, the Greek Government now supports Turkey's accession to the EU, which is surprising after the past decades. The Greek society is divided, however, support of further enlargement is highest in the country (56%); among the old member states, Greeks are less enthusiastic about Turkey's accession.

Macedonia was scarcely included in Turkey's trade and investment destinations for a long time. This is interesting because Macedonia is one of Turkey's closest allies in the region. In addition to memories of the past – Kemal Atatürk, whose museum is in Bitola, studied in the town – the two countries were linked by the opposition to the Greeks.⁶

6.1.1. Turkey's economic influence in the Balkans

Turkey's return to the Balkans is indicated also by the intensifying economic relations. Turkey has concluded free trade agreements with all Western Balkan countries; in addition, it has also signed visa waiver agreements with the states of the region. Turkey's economic growth in respect of the EU member states was even more convincing.⁷ Turkey had previously low-level relations with these countries because of ideological (Bulgaria, Romania) or historical (Greece) differences. However, the 2000s have brought radical changes here.

⁶ Turkey was one of the most enthusiastic states about Macedonia's accession to NATO. Turkey recognises the name Macedonia in contrast to the United Nations and other countries which use the name FYROM (the Former Yugoslav Republic of Macedonia) due to Greek protests.

⁷ SZIGETVÁRI 2015.

6.1.2. Trade relations

After the 2000s, Turkey's trade with the Balkans increased from 2.9 billion (2000) to 17.7 billion dollars (2007). Following a minor recession after the economic crisis, trade peaked in 2013 at 19 billion dollars, then dropped to 15 billion dollars by 2016. Nevertheless, the importance of the Balkans in Turkey's foreign trade is still not significant, its share is 6–7% in exports and 3–4% in imports.

Turkey's most important partners are Greece, Bulgaria and Romania. Croatia, which joined the EU in 2013, has a much smaller economic weight, but it has large growth potentials. These countries represent 80–90% of Turkey's trade with the Balkans, at the same time these countries account for 85% of the region's GDP, so the share of non-EU Western Balkan countries is not too significant.

The largest trade volume has emerged with Romania; Turkey was for years Romania's fourth most significant export partner and the most important among the non-EU countries, although recent years brought decline also in this field, 7.5 billion dollars turnover fell below 5 billion. Bilateral trade is diversified and is dominated by manufactured products, but Romanian export of raw materials is also significant. However, Romanian trade surplus has favoured Turkey in recent years.

The value of bilateral trade with Greece increased from 600 million dollars in 2001 to 5.6 billion in 2013, but while bilateral trade had been characterised by Turkish surplus for a long time, in 2013 a 2 billion dollars Greek surplus was generated. Greek exports consist mainly of raw materials (oil, cotton), while Turkish export is more diversified (primary agricultural products, clothing, machinery and metals). Trade slumped to 2.6 billion dollars by 2016 mainly due to a decline in Greek exports, and Turkish surplus became regular.

Similarly to Greece, in Bulgaria historical aversions were overridden by economic interests. Bilateral trade developed dynamically in the 2000s; Turkey became Bulgaria's most important partner with over 4 billion dollars turnover. While Bulgaria exports primarily raw materials and heavy industry, Turkey's export consists mainly of machinery products, vehicles and electronic products.

Table 7.
Turkey's foreign trade with the Balkan countries (million dollars)

	Exports				Imports			
	2001	2006	2011	2016	2001	2006	2011	2016
Bulgaria	299	1,568	1,623	2,384	394	1,663	2,475	2,140
Greece	476	1,603	1,553	1,428	266	1,045	2,569	1,185
Croatia	30	214	242	278	17	61	311	134
Romania	392	2,350	2,879	2,671	481	2,669	3,801	2,196
Albania	73	214	271	305	4	13	126	21
Bosnia	28	151	268	309	5	9	90	288
Kosovo	n/a	76	265	261	n/a	2	10	9
Macedonia	89	173	299	378	9	56	92	83
Montenegro	n/a	8	27	52	n/a	1	15	23
Serbia	81	279	355	582	7	49	213	288

Source: TurkStat

Although Turkish–Croatian relations started to develop relatively late, Croatia's importance is appreciated by its 2013 EU accession, even if it is less reflected in trade flows. Turkey exported over 200 million dollars per year in the recent period (automotive goods, electric devices, steel and textile industry products), but the country's imports, which consist mainly of oil industry products, ore and fertilizer, are rather volatile.

As a result of improving political relations, Serbia is becoming an increasingly significant Balkan partner for Turkey. The free trade agreement signed between Ankara and Belgrade in 2010 and the introduction of visa-free regime in January 2011 contributed to the development of relations: in January–February 2011, bilateral trade was 10% higher year-on-year. Bilateral trade in 2016 already exceeded 850 million dollars which included 582 million dollars exports from Turkey (textile fibres, fruit and vegetable, electronic devices) and 288 million dollars imports (products of oil industry, iron and steel, cereals).

From among the non-EU Balkan countries Albania and Bosnia were Turkey's main partners previously, but trade has become more intense with Macedonia and Kosovo.

Many bilateral agreements were concluded with Bosnia including the 1998 free trade agreement, entered into force in 2002. Ankara also signed an FTA with Albania in 2006.

Bilateral trade with Bosnia reached 600 million dollars in 2016; Turkey had a slight export surplus. From among the Western Balkan countries Bosnia has the most balanced trade relations with Turkey.

Import increased dynamically to Albania, but Turkish products (steel products, textile articles, grains, electronic devices), exceeding 300 million dollars, are hardly compensated by Albanian products; Albanian export (mainly iron and steel products) which was previously around 100 million dollars declined significantly in recent years.

We can experience increasing trade with Macedonia. Signed in 1999, the FTA eliminated all customs duties by 2008, but resulted primarily in the expansion of Turkish exports, trade in the opposite direction was much lower. Compared to Turkish political relations, paradoxically, Macedonia's economic relations are closer to hostile Greece.

Turkey concluded an FTA with Kosovo in 2013, ahead of the EU.⁸ Bilateral trade increased asymmetrically, Turkish exports amounting to 250–300 million dollars were hardly matched by Kosovan products. Turkey is currently Kosovo's fourth most important trading partner after Macedonia, Serbia and Germany.

Montenegro is not a priority destination for Turkish products and investment, however, the 2008 FTA and lifting the visa requirement boosted bilateral relations. Turkey's exports amounted to 52 million dollars and imports, to 23 million dollars in 2016 – not a high value, but a dynamic expansion over previous years.

6.1.3. Investment

The Balkans' share in Turkey's foreign investment is higher compared to trade. In 2009, 4.6 billion (16%) of Turkey's 28 billion capital export was deployed in the region in 2009, mainly in infrastructure investments (communication, banking, road construction, retail).⁹ Regarding the volume of investment, EU member states were the most important partners also in this case.

⁸ The conclusion of the agreement between the EU and Kosovo was hindered by the fact that five EU member states do not recognise Kosovo's independence. Finally the EU signed the agreement in 2015.

⁹ See Turkish–Balkan Commercial Ties 2011.

Turkish companies invested more than 6 billion dollars in Romania, primarily in banking and insurance,¹⁰ chemical industry, textile industry, logistics and tourism.¹¹ Turkish construction enterprises are also important contractors in Romania's construction sector, with projects implemented exceeding 6 billion dollars.

Turkey is a remarkable investor also in Bulgaria, where two Turkish banks and over a thousand Turkish companies are operating with almost 2 billion dollars capital investment. Besides the financial sector, the following sectors are prominent: glass manufacturing, tourism, textile and petrochemical industry, vehicle electronics manufacturing and food industry. Şişecam established 5 glass manufacturing plants with 400 million dollars capital employed, Alcomet is a dominant actor in aluminium production, Doğuş Group is a key player in the construction sector. Bulgaria, Turkey and Qatar agreed on the development of the Bulgarian motorway network in 2012; in the framework of the agreement a 300-kilometre-long motorway section will be built between Svilengrad (Turkish border) and Ruse (Romanian border) for 800 million dollars in a public–private partnership scheme.¹²

Greece was the only significant investor in Turkey from the region. Over the past decade, approximately 7 billion dollars Greek FDI was deployed in Turkey, mainly in the banking sector (two Greek banks were launched), but telecommunications, food industry and tourism were also favourite investment targets.¹³ Turkish investors also appeared in Greece; currently the value of their capital investment is about 500 million dollars. Ziraat Bank opened many branches, but infrastructure, real estate market and tourism are also popular with Turkish investors. The Greek financial crisis starting in 2010 and privatisation plans in response to the debt crisis offered new opportunities: the 23 Aegean ports offered for sale aroused the interest of the Turkish Limak Holding.

After Italy and Greece, Turkey is the third most important investor in Albania with more than 80 Turkish companies operating in the country. The most important one is Çalık Holding which, jointly with Türk Telekom, has acquired through privatisation 76% of the shares of Albtelecom

¹⁰ Two Turkish-owned banks are the Credit Europe and Garanti Bank Romania.

¹¹ See POSIRCA 2012.

¹² See TOKYAY 2012.

¹³ The financial crisis affected Greek investment, the National Bank of Greece sold its 99.81% share in Turkish Finansbank to Qataris (Republic of Turkey Ministry of Foreign Affairs s. a.).

national telephone service provider for 120 million euros in 2007. Currently, Albtelecom provides services for about one third of the Albanian households and provides more than 50% of broadband internet connections. Albtelecom established its mobile service provider company, Eagle Mobile, in March 2008. CETEL (a subsidiary of Çalik Holding) invested 70 million euros in development during the first three years and Eagle became the third biggest service provider with a 12% share by 2010. In 2006, Çalik Holding bought 60% of the shares of BTK, the second largest bank, then acquired the remaining 40% in 2009. Albaraka Türk, one of the most important Islamic banks in Turkey, is also planning to extend its operation to Albania.

Turkey is the fourth most important investor also in Bosnia after Austria, Slovenia and Germany, with investments exceeding 132 million euros by 2011.¹⁴ Founded in 1997, TZBB (Turkish Ziraat Bank Bosnia) was the first bank in Bosnia established with foreign capital. The initial capital was 10 million German marks, raised by 15 million German marks in 2000, so TZBB has become one of the biggest banks in Bosnia. This position was strengthened by further capital increases in 2004 and 2007. In 2008, Turkish Airlines has bought 49% of the shares of the Bosnian national airlines BiH Airlines; the majority of the shares remained in state ownership. Following Kosovo, Bosnia is the second largest beneficiary of Turkish aid in the Balkans. However, Turkey's activity in Bosnia has recently been criticised repeatedly (mainly by local Serbs), and Turkey is less and less able to mediate between the Bosnian parties. Besides, Turkey's interest is also distracted from Bosnia by Serbian opportunities.

Over the past decade Turkish businessmen became active in Kosovo, where Turkey is the third largest investor after Germany and the United Kingdom. The Kosovan Agency for Promoting Foreign Investments (APIK) registered 405 Turkish companies and more than 2,300 Turkish employees mainly in the field of construction, education, tourism, health care, telecommunications and trade.¹⁵ The most active companies were Bechtel Enka, Limak Group (construction), Ziraat, TEB and BKT (banking). Turkish companies realised 1.2 billion dollars in investment until 2014. In 2011, Limak and the French Aeroport de Lyon have jointly acquired the rights to operate Pristina's two international airports for 20 years and made a commitment to invest 100 million euros (construction of a new terminal).¹⁶

¹⁴ See SOSTARIC 2011.

¹⁵ See KARADAKU 2011.

¹⁶ See BRAJSHORI 2011.

Bechtel-Enka has won a 700 million euros tender for the construction of a motorway between Pristina and Durres (Albania), with possible connection to Serbia. Turkey shows interest in the privatisation of the Kosovan Post and Telecommunications Company and more state-owned companies. Turkey is also present in the Kosovan education and health sector, it has agreed with Kosovan authorities on the construction of the Medicana Turkish international hospital. Turkish companies are popular in Kosovo, many young people speak or learn Turkish, and many of them consider working in Turkey a great opportunity.

Fierce competition emerged between Greek and Turkish investors in Macedonia. Greek companies acquired many concessions at the beginning of the 2000s, Hellenic Petroleum has bought the oil refinery near Skopje in 1999. Greek companies invested 380 million euros in Macedonia until 2010; at the same time Turkish companies invested only 50 million euros. Interest shown by Turkish companies became more intense after 2005. In 2008, TAV Turkey acquired a 20-year concession to operate Skopje and Ohrid airports and committed itself to realise airport infrastructure development (new runway, cargo buildings, modernisation) amounting to 200 million euros within 2 years; in addition, the construction of a new airport in Stip is planned within 10 years.¹⁷ Turkish specialists are also working in the Macedonian financial sector (Halk Bank).

Turkish companies are also interested in the evolving Serbian privatisation, companies expressed their interest in JAT Airways¹⁸ (now faced with debts), the telecommunications company (Telekom Srbija) and the largest car and truck manufacturer (FAP Korporacija), but eventually these projects were not realised. Regarding the reconstruction of Nis airport, Turkish companies were about to participate, having successfully implemented similar projects in the region.¹⁹ In addition to opening a branch in Belgrade, the state-owned Turkish Halk Bank has acquired the Serbian Cacanska Bank (having 23 branches) and is planning to expand. Turkish investors are also interested in retail and the entertainment industry.

In Serbia, Muslim-majority Sandzak attracts Turkish companies' attention most. Even though it may carry political risks, in this region burdened

¹⁷ DURIDANSKI 2011.

¹⁸ This airline company ceased to exist, Etihad has become co-owner of the newly-established Air Serbia.

¹⁹ LYNCH 2015.

by ethnic conflicts, the influx of FDI is favourable for Serbia as economic development can mitigate the region's problem.²⁰ Turkish investors have already discovered the region, Turkish clothing company Jeanci employs 1,100 people in its two Serbian factories, one of them being in Sandzak.²¹ Three major construction companies are involved in the construction and partly in the financing of the 445 kilometres long motorway section between Belgrade and Bar (Montenegro), crossing Sandzak.

The total annual amount of investment is around a few million euros in Montenegro, primarily in the field of tourism, retail, construction and infrastructure. Toscelik, a member of Tosyali Holding, invested almost 45 million dollars in Zeljezara Niksic steelworks in 2012, while Global Ports Holding acquired a majority stake in the company operating the largest port of Montenegro (Bar) in 2014.²²

In Croatia, Turkish investors are mainly focusing on tourism, chemical industry and textile industry.

6.1.4. Other elements of Turkish influence

Besides political and economic factors, the cultural factor plays an important role in Turkey's activity in the Balkans. About 9 million Muslims live in the Balkans, they are a majority in Albania and Kosovo; in Bosnia they represent one of the three main ethnic groups constituting the nation, while Muslims live in minority in Bulgaria, Macedonia, Serbia and Montenegro. One of the most spectacular fields of Turkey's renewed interest in the Balkans was cultural life. Turkey has become active in the support of cultural organisations associated with Muslim identity; it encourages restoration of monuments recalling the Ottoman era and provides funding to that end.

Turkey's participation in the education system is also significant. Turkish schools and universities opened in Albania, Bosnia and Kosovo; at the same time universities in Turkey offer scholarships to gifted students from the region. The Turkish Cooperation and Coordination Agency (TIKA) has financed more than fifty education-related projects in Serbian Sandzak.²³

²⁰ ALIS 2011.

²¹ LYNCH 2015.

²² TOKYAY 2014.

²³ Daily Sabah 2017a.

In addition to its past, Turkey's today is also promoted by the popular television series (soap operas).²⁴

After decades, Turkey has reappeared in the Balkans, this time not as a military force or a conqueror but as one of the region's most dynamically growing economies which can be attractive and can serve as an economic driving force for the Balkan countries. Although economic cooperation is closest with the EU member states, relations with Muslim-majority states have been a priority for Turkey; since 2010 the most important state of the Western Balkans, Serbia has been in the forefront of Turkey's attention.

Here, too, competition is fierce. For the time being the European Union has a greater appeal by offering accession prospects. Russia, in addition to its historical and religious ties, is able to attract countries of the region with its oil stocks. Turkey cannot match these potentials, but given its geographical proximity and its dynamic and relatively developed economy compared to the region, Turkey is in a good position beyond doubt.

6.2. Middle East and North Africa

The region including the Middle East and North Africa, also referred to as MENA, spans the Arab world from Morocco to Iraq, and Oman, also incorporating Israel and Iran. For long decades Ankara did not keep it high on its agenda to build relations with countries of the Middle East and North Africa. Over the past decade, however, partly due to its increasing economic power, active foreign policy and foreign trade performance, Turkey has achieved decisive status in the region. Turkey's new position is especially easy to see in the light of the events of the Arab Spring. Although Turkey continues to emphasise the strategic importance of the Western alliance, many people nurture visions of a regional leadership under the flag of Islam (the secular opposition in Turkey do that with a rather negative overtone).

The history of Turkey and the MENA region inhabited mostly by Arabs was for centuries interlaced under the Ottoman Empire, a major factor from the 15th to the early 20th century in the Mediterranean region and the entire Middle East. In its heydays, the Empire extended its supremacy from Algeria to Mesopotamia and Yemen. From the 19th century onwards, it became increasingly difficult to keep the huge territory under control, and

²⁴ The Economist 2011.

so provinces started to spin off due to ever greater internal dissatisfaction, and the active intervention of external (mostly British and French) factors of power. The new Turkish state established following World War I considered Arabs to be traitors for a long period as they fought in collusion with the British to achieve the disintegration of the Ottoman Empire. But similar lack of trust and adverse feelings characterise the other side, too. Arabs held the Ottoman rule responsible for their backwardness, and viewed Turkey – denying the institution of the caliphate – the ‘traitor’ of Islam.²⁵ In the subsequent period Turkey, building a close relation with the West, and especially with the US, and maintaining good relations also with Israel, was mostly treated as an enemy by Arab countries.

6.2.1. Political relations

A type of ‘Muslim priority’ has clearly taken shape over the past years in Turkish foreign policy, and, following the Palestinian question and the Arab Spring, it became the general approach in regard to the Middle East. Turkish leadership was characterised by a special division of labour. Erdoğan was mostly ‘in charge of’ the Muslim line, while Abdullah Gül (as president of the republic) or Davutoğlu (as foreign minister, then prime minister) used a much more restrained language. Erdoğan attempted to win over Shiite public opinion, too: in 2012 he delivered a speech in Istanbul at the Shiites’ greatest religious festival, and met Ayatollah Sistani, the religious leader of Iraqi Shiites; and in 2011, upon the Saudi-led intervention in Bahrain, he warned strongly of a new ‘Karbala’. However, the past years, and the escalation of the Syrian conflict in particular strengthened Sunni unity.

Davutoğlu, referring to the ‘psychological affinity’ between the Turkish and the Arab world, emphasised Turkey’s priority role with regard to the Middle East.²⁶ Turks feel it is their mission to mediate between Europe, the Western world and the Arab–Muslim world as they understand rational thinking, and are familiar with Western values, while at the same time Eastern thinking is not alien to them either. Turkey’s ties with the neighbouring countries are, in each relation, influenced, besides general strategic objectives of foreign

²⁵ International Crisis Group 2010.

²⁶ SHADID 2011.

policy, by individual factors, and therefore we will now embark on a brief overview of the most decisive political elements in bilateral relations.

Relations with Iraq were long overshadowed by border related issues. After World War I Turkey was reluctant to accept that Mosul had become part of Iraq formed as a British mandated territory. The applicable argument points out that Mosul is not an Arab but a Kurdish territory, and Turkey – labelling Kurds *mountain Turks* – was unwilling to recognise them as a nationality in their own right. Their relationship remained volatile also after World War II, depending to a large extent on the two countries' internal processes. In the 1960s, following all-out Western orientation, Turkey slowly started to open towards the Middle East. That policy seemed lucrative when oil prices sky-rocketed during the 1970s, and the pipeline completed between 1973 and 1977 resulted in even closer ties between Iraq and Turkey. Bilateral relations were based on mutual economic advantages, thus, from the 1990s onward, economic embargoes against Iraq under pressure from the US came as a serious drain on Turkish interests.

Good relations, however, were overshadowed by the river control program in South Anatolia. Although relations with Iraq were less tense than with Syria, the project and the agreement on water supply remain a fundamental dispute to date in the relationship of the countries involved. In years of draught in particular, the debate on the amount of water allowed through flares up. Under the tripartite agreement concluded in 2009, Ankara agreed to let more water flow through, and Iraq was committed to providing crude oil in return.

The Kurdish issue is likewise a source of ceaseless debates. North Iraq achieving growing independence controlled by the Kurds roused serious fears in Ankara dreading Kurdish autonomy. Tensions, however, were successfully mitigated over the past period as the Iraqi Kurdish Government agreed to support the fight against the PKK. Iraqi Premier Núri al-Maliki himself promised more resolute action equating PKK and al-Qaeda. All this is 'compensated' for by the Turks through ever tighter economic ties.

Turkey did not take its share from overthrowing the Hussein system, but was still given a central role in re-building the country following the war. It is implementing a policy of active (aggressive) expansion in the whole of Iraq, but mainly in the North.²⁷ Turkish politics tried to build good relations with the new Iraqi administration. It also supported the election of Jalal

²⁷ KARA 2011.

Talabani in 2005, and Turkish government representatives regularly met with North Kurdish leaders (discussing mostly economic issues in addition to the fight against the PKK).

In 2009 Foreign Minister Davutoğlu, and in 2011 Prime Minister Erdoğan visited the Kurd capital Erbil.²⁸ Although Ankara is no doubt trying to help ensure the stability of the new Iraq, it is ready even for armed conflict when it comes to the Kurdish question.

Iran was one of the first allies of the newly forming Turkish nation state, and it was in 1926 that Kemal Atatürk and Reza Pahlavi signed the Treaty of Friendship between the two countries. One of the tacit objectives of the Treaty was to enable joint action against the Kurds. Sympathy between the two countries was also apparent in their similar modernisation policies: both strong leaders had a vision of a fast-developing Western-friendly country. They also participated jointly in the 1955 Baghdad Pact, and had good relations until the mid-1970s. Following the victory of the Iranian Revolution, however, the relation of secular and NATO member Turkey and anti-Western Iran rooted in Islam was no longer unclouded. Ankara held Iran responsible for its support of the PKK, while Teheran's grievance was primarily the close cooperation between Turkey and Israel.

Turkey's change of government in 2002 brought a turning point in the two countries' relations. A populous delegation of businessmen led by President Ahmet Necdet Sezer had previously visited Iran with the aim of strengthening economic relations, and ties became even friendlier as the AKP took office. The primary focus was the economy: while bilateral trade amounted to barely 1 billion dollars around the millennium, by 2011 it exceeded 16 billion. The US was not pleased to see intensifying economic relations between the two countries, but once it successfully counteracted building ties with the UAE, this time Ankara resisted the American pressure. Moreover, in 2010 Prime Minister Erdoğan visited Teheran with Brazilian President Lula da Silva to offer their assistance in the peaceful use of nuclear power.²⁹ Turkey did not in fact turn its back on its Western allies, it simply wanted to send a message that it had become a significant factor in the

²⁸ FIDAN 2016.

²⁹ When the US and the UK requested Turkey to join the sanctions against Iran, Erdoğan said that Iran did not for the time being have a nuclear weapon, while Israel did, and Turkey was at equal distances from the two; then he asked why the international community failed to take action against Israel (Middle East Online 2010).

region. Once more it intended to act as mediator monopolising the role of bridge between the Western world and the Muslim world.

Under increasing international pressure, in 2011 Turkey permitted the erection of a US (NATO) missile defence and radar system on its territory.³⁰ In the background of the move was partly Iran's growing activity in Syria, which scared Turkey. At the same time Ankara wanted to prevent the US from sharing relevant information with Israel, which, however, Washington declined. The erection of the radar system deteriorated Turkish–Iranian relations. Iran warned Turkey to rethink its policy concerning Syria, its place in NATO, and the dissemination of its own secular model with regard to the Arab Spring. Their sour relation was part of the reason why the PKK relocated its camp from the Qandil Mountain in Northern Iraq to the Iranian side with Teheran's clear consent.³¹

Turkey's turn in 2002 seemingly put an end to the secular–Islamist conflict that existed up to that point. What in fact happened was the creation of a new fault between radical Shiite, and moderate Sunni Islamists. The Arab world clearly finds the Sunni and economically successful Turkey integrated in both the world economy, and world politics more attractively. That was perceptible also at the time of the Arab Spring. Iran became more hostile to Turkey due to the latter's increasingly obvious regional leadership. The civil war in Syria further deepened the conflict between Iran supporting Assad, and Turkey promoting his ousting.

In Syria's case, relations during the cold war were essentially determined by political-ideological conflicts, i.e. while Turkey was a NATO member, Syria counted as one of the Soviet Union's most important allies in the region. Also, numerous additional conflicts sparked with Syria. One fundamental problem was represented by the Hatay province (Alexandretta). Syria struggled long to regain a territory that it thought was illegitimately annexed by Turkey, but in 2004 it waived its territorial claim, moreover, in 2009 a number of agreements aimed at facilitating travel were concluded by the two countries. Yet to date Syria has not formally recognised Turkey's title to the territory.

Another permanent source of conflict is the construction of the Euphrates dams. Turkey built a huge system of hydroelectric dams on the Tigris and the Euphrates from the 1980s onward, and used the water to irrigate the Southern

³⁰ SHANKER 2011.

³¹ PAUL 2012.

Anatolia region, and to generate power. That, however, significantly reduced the water supply of the Euphrates in Syria. They tried to settle the conflict in the 2000s by reaching an agreement on dividing the water supply in return for which Ankara requested Syria to formally recognise the status of Hatay.

Another lasting conflict between the two countries came from supporting 'internal enemies'. While Syria regularly helped the Kurdish PKK, and allowed PKK guerrillas in the country, Turkey provided (and still provides) refuge to Syrian opposition members. When in 1998 under a secret agreement the Turks managed to have PKK leader Öcalan (then residing in Damascus) expelled, relations of the two countries started to improve at an unprecedented rate. They further improved in 2003 when the Turkish Parliament refused military involvement in the invasion of Iraq. That gesture resulted for Turkey in no longer being considered by Syria an American vassal. Next year Prime Minister Erdoğan travelled to Damascus to sign the FTA between the two countries.

In 2008, Ankara tried to mediate between Damascus and Tel Aviv in the Golan Heights conflict as the new Turkish foreign policy favoured the country's role as mediator. Negotiations broke down after four rounds, partly due to the increased tension in Turkish–Israeli relations as a result of the Gaza conflict. All that brought even further development to Turkish–Syrian relations. In 2009, they conducted a joint military exercise along their common border, and plans were made for cooperation in the defence industry.

It was due to improving bilateral relations and a good personal rapport between Erdoğan and Syrian President Assad that in the civil war that erupted in 2011 in the wake of the Arab Spring Turkish interventions were initially quite restrained. But due to bloody action by the government, and the increasing number of Syrians seeking refuge in Turkey, the diplomatic warnings to the Assad regime became more and more serious. Border incidents and the downing of a Turkish military plane in June 2012 caused Ankara to discontinue relations with the Assad regime, and support the Syrian opposition forces.³² Developments since then, however, rendered Syrian–Turkish relations even more complex: the military successes of the Islamic State, conflicts on the Turkish border, the activity of Turkish Kurds, action by an international coalition against the Islamic State all render both the final status of the process, and the future of bilateral relations practically unpredictable.

³² BBC 2012.

Apart from the three states bordering Turkey, it is worth describing briefly some of the other countries in the Middle East that are decisive factors concerning Turkey's position and politics in the region.

Israel had been a particularly good partner to Turkey for a long period. In March 1949 Turkey was the first country with a Muslim majority population that recognised the new State of Israel. The US powerfully backed the good relations between Jerusalem and Ankara. The first spectacular confrontation was triggered by the occupation in 1967 of Palestinian territories, and that was when Turkey joined the Arab League's resolution that condemned Israel. Bilateral diplomatic relations were upgraded to ambassadorial level in 1992, and the 1990s in general brought an improvement of relations. In 1996 a military agreement was signed which, besides arms purchases and renovation of military hardware, permitted Israel to use the Turkish airspace for practice flights. Then, in 2000 the two countries concluded an FTA.

Relations gradually declined in the 2000s even though both Turkey (with its 'zero problem' policy) and Israel were interested in maintaining the cooperation. In 2005 Erdoğan visited Israel, and offered his mediation services to move the peace talks forward. Still in 2007 they were planning to extend their military cooperation, and Israel offered a military satellite and air defence missiles to Turkey, and agreement was reached concerning the upgrading by Israel of the Turkish army's F-4 and F-5 planes, and its M60A1 tanks (and agreement worth just below 1.5 billion dollars). A 5 billion dollars combat car and a 2 billion dollars missile procurement deal was also on the agenda. The mediation offered by Turkey to help improve Syrian–Israeli relations was also accepted by Israel in 2007.

However, conflicts prevailed in two areas: the Palestine issue, and the assessment of Iran's nuclear program. Even before the AKP took office, Turkey had condemned Israel's action against Palestinians, and in April 2002 Prime Minister Bülent Ecevit labelled the Israeli interventions as 'genocide'. The significant difference compared to the previous status quo was that while in the late 1990s, Foreign Minister Ismail Cem tried to mediate as an unbiased third party between Israel and the Palestinians, Erdoğan and the AKP clearly favoured the Palestinians, and viewed supporting them as the duty of the 'elder brother'.³³

³³ BILGIN–BILGIÇ 2011, 191.

Relations declined spectacularly after 2006 when Israel resented that Turkey hosted Hamas leader Khaled Mashal. Ankara, on the other hand, strongly condemned Israel's interventions in Gaza in 2008–2009. In early 2010, amidst protests in response to a TV series unfavourably portraying Turkey, Israel communicated humiliatingly with a member of the Turkish diplomacy, for which Turkey required a public apology.

The weightiest conflict, however, came in May 2010 when Israel attacked a ship (Mavi Marmara) bringing supplies for the inhabitants of Gaza without the permission of Israel, claiming the lives of nine Turkish activists. As before, Ankara required an apology and damages, and when these remained unprovided for, it expelled the Israeli ambassador, and suspended all military agreements, and its orders previously placed there. Relying on Israeli assistance in exploiting Cyprus' Mediterranean natural gas resources foreshadowed another confrontation.

At the same time the strategic significance of the two countries' relations is indicated by the huge efforts made by the US to restore them. US President Barack Obama and his Foreign Minister tried personally to reconcile the parties.³⁴ Relations over the past years have been normalising mostly on economic motivations, and the two countries' interests overlap at multiple points in relation to Syria, one example being the reduction of Iran's increasing profile.

For a long time the relation of Turkey and Saudi Arabia could not qualify as friendly. Although instances of economic cooperation became more frequent – Turkey needed oil, and Saudi Arabia needed Turkish construction businesses –, at a political level they still failed to come closer to each other despite efforts by the US. Moreover, in the early 1990s when Saudi Arabia, Egypt and Syria joined forces to create a new Arab world, Syrians eventually extended their aversion for Turkey also to the other parties concerned.³⁵ Seeing Iraq's occupation in 2003 and the Shiites gaining ground in Iraq, Saudi Arabia re-considered its policy. Faced with the Iraq–Iran Shiite axis, and the close Iran–Syria alliance the Saudis, too, were seeking an ally, and Turkey under the AKP seemed an ideal partner in ensuring stability in the region. Earlier, the Gulf States had repeatedly lined up behind the Turkish–Saudi 'coalition', e.g. in issues where they tried to counterbalance Iran's claim for control. There were

³⁴ ABRAMOWITZ–BARKEY 2011, 114.

³⁵ ALTUNISIK 2012.

cases, however, where Turkey and Qatar, and Saudi Arabia supported different forces (most obviously with regard to Egypt).

Egypt and Turkey, seen as the vanguards of Arab nationalism, also had a lasting tension between them with relations consolidating only from the 1980s onward. Egyptian leaders coming to power following the Arab Spring added a new hue to the political spectrum. The country seeking new ways forward welcomed Erdoğan and his populous delegation with great enthusiasm arriving in Cairo in September 2011.³⁶ The popularity of the Turkish premier before the Arab public opinion further grew as he made a firm statement concerning the existence of the independent Palestinian state, and as he promised to support the transition to democracy. Speaking of Egypt and Turkey, Foreign Minister Davutoğlu referred to the ‘axis of democracy’.³⁷ The agreements concluded with Egypt concerned infrastructure megaprojects (power line and gas pipeline under the Mediterranean), and a significant expansion of trade and investment; they were all in line with a set of Turkish regional agreements concluded over the previous years. In addition, closer relations with Egypt also strengthened the Turkish position with regard to the relationship becoming sensitive with Egypt.

The election of Mohamed Mursi as President in 2012 created a situation similar to what Turkey was experiencing. A moderate Islamist governing party and president was facing an army defending a secular system. The restoration in Egypt, the military coup against Morsi (June 2013), then the assumption of power by General Sisi undermined their relationship. Ankara did not recognise the new leadership, and froze economic relations, in response to which Egypt expelled the Turkish ambassador, and downgraded diplomatic relations to *chargé d’affaires* level. Political relations of the two countries were tense still in 2017, and Erdoğan stipulated politically undeliverable conditions to their improvement,³⁸ but economic relations finally slowly got into gear.

Libya under Gaddafi ‘reconciling’ with the world was an attractive economic partner to Turkey. Economic relations came into full swing in the 2000s, and numerous fruitful agreements were signed by Turkish firms and Libyan leadership. In 2011, the Arab Spring igniting the Libyan

³⁶ ABOUZEID 2011.

³⁷ FOUAD 2011.

³⁸ They expect free presidential elections and the release of political prisoners imprisoned after June 2013 (HASSAN 2017).

civil war threatened the completion of Turkish projects of almost 15 billion dollars, which gave Ankara a reason to initially oppose NATO's intervention. By the end of March, however, seeing the changed circumstances, Turkish leadership became a supporter of the intervention. Building good relations with opposition forces (financial assistance, food supplies, a visit by Davutoğlu in August 2011, then Erdoğan's visit in September) it tried to secure future Turkish positions in the country. Despite these efforts Libya, too, seems to lose significance for Turkey. Support for the Muslim Brotherhood amidst chaotic conditions of domestic policy resulted in criticism by the other forces, and although Turkish foreign policy has recently tried to improve Turkey's overall image, the former favourable position was lost in both political and economic terms.

The Maghreb countries (Morocco, Algeria and Tunisia) became a more valuable target for foreign policy as Ankara was looking for allies seeing the rise of the Shiite Iran and the conflict with Egypt, and in that plan the states of Sunni majority proved good partners. Tunisia's aim was to reinforce the system born in the wake of the Arab Spring, and Turkey even provided economic aid. With Algeria and Morocco, however, economic interests and the restoration of its prestige shaken in the Arab world could be the primary foreign policy objectives.

6.2.2. Economic relations

Restructuring made the Middle East one of the most important destinations of Turkish export, and Turkey accordingly considers the conclusion of bilateral and regional agreements with the countries of the region a priority. Under the EU–Turkish customs union, Ankara signed FTAs with North African and Middle Eastern countries, and Turkish export to these countries started to grow fast as a result. Apart from trade, Turkish firms took their share of implementing projects worth over 30 billion dollars (airports, metro systems, oil refineries and other facilities of chemical industry). Over the past years, direct Turkish investment also appeared in the countries of the region.

Table 8.
Turkish trade with countries of the Middle East (million USD)

	Export				Import			
	2001	2006	2011	2016	2001	2006	2011	2016
UAE	380	1,986	3,706	5,408	65	352	1,649	3,701
Iraq	n/a	2,589	8,310	7,638	n/a	121	86	836
Iran	360	1,067	3,589	4,957	840	5,627	12,462	4,700
Israel	805	1,529	2,391	2,956	529	782	2,057	1,385
Yemen	100	198	272	536	0	0	0	0
Jordan	119	322	506	711	14	9	66	102
Qatar	8	342	188	439	6	66	481	271
Kuwait	104	219	297	431	123	56	270	110
Lebanon	183	241	718	734	26	126	283	82
Saudi Arabia	501	985	2,763	3,174	730	623	2,002	1,835
Syria	281	609	1,609	1,323	463	187	337	65

Source: TurkStat

For Iraq, Turkey is the most important source country for imports before China and the US. Iraqi export, although rising during the past years, remains far below that level. While crude oil would seem a plausible import commodity, Iraq is no longer the primary source country. The problem is that the Kurdistan region for which Turkey is a partner of priority status is only allowed to conclude oil related deals subject to approval by the government of Iraq. Although the Kurds would export 550 thousand barrels of oil per day, the central government will not allow that for political reasons.³⁹ Consequently, a part of the oil ends up in Turkey through illegal channels (and also fails to appear in statistics). Unofficial crude oil trade used to be the primary income for the Islamic State, and for them, too, Turkey was the primary market. Many believe that Turkish government agencies themselves were actors in that trade.⁴⁰

Kurdistan is the region in Iraq that is the fastest growing market of Turkish products. The region features a huge demand for all sorts of consumer goods, and Turkey is logistically the most advantageously positioned to satisfy it. In 2007 Kurdistan had a share of 50%, in 2013 it had already

³⁹ ÜNAL 2017.

⁴⁰ NAZEMROAYA 2015.

67% of the trade volume that meanwhile grew almost fivefold. Turkish construction firms were particularly active in restoring the infrastructure with almost 80% of the projects won by Turkish businesses.⁴¹ In 2013 there were already 1,500 Turkish firms operating in Kurdistan, but the military conflict that developed afterwards coupled with the advancement of the Islamic state reduced trading and economic activity in general. Due to the budgetary resources held back by the federal government of Iraq, the Kurdish Government could not finance its own investments.

Thanks to good political relations (Ankara stood by Teheran in the nuclear dispute) Turkish–Iranian trade exceeded 21 billion dollars in 2012. The suspension of international sanctions promised even better prospects because on 1 January 2015 a preferential agreement came into effect that enabled lower customs tariffs, and higher quotas on almost 300 products. That created more favourable situations for numerous Turkish industries in the Iranian market,⁴² and plans suggested that bilateral trade would multiply within a few years.⁴³ Reality, however, was disappointing. Despite a beneficial legislative environment, trade significantly declined. True, Turkish export increased over the past two years, but with an intensity lower than expected.⁴⁴ The explanation is clearly regional political disagreements. In February 2017, the Turkish economic minister's plan to visit Teheran to breathe the new life in economic relations went astray.⁴⁵

The Syrian economy also saw rather beneficial processes get underway in the 2000s that were disrupted by the civil war breaking out in the wake of the Arab Spring in 2011. From 2012 onward, import from Syria stopped practically fully, while different tendencies worked in the opposite direction: following a short decline, Turkish export started to rise again in 2013, and approached its previous values. Its structure, however, significantly changed: previously the main export goods were lasting consumer goods from Istanbul and its environs, while today the same is comprised of foodstuffs and consumer staples.⁴⁶ Turkey's share of Syrian import has risen above

⁴¹ FIDAN 2016.

⁴² As Iran is not a WTO member, it is not obliged to apply the principle of the greatest benefit, counting as a basic WTO principle (that requires trade free of discrimination).

⁴³ DOĞAN 2015.

⁴⁴ ÇETINGÜLEÇ 2017.

⁴⁵ ÇETINGÜLEÇ 2017.

⁴⁶ AİTA 2017.

20% from 9% in 2010. The number of Syrian firms established in Turkey suddenly rose in 2013, even though total investment remained at a negligible level given that most micro businesses were registered by Syrian refugees to ensure their own livelihood.⁴⁷ Syria has become the greatest beneficiary of Turkish aid. TIKA data suggest that 3 billion dollars are spent annually on Syrian refugees coming in the country.⁴⁸

Israel and Turkey used to be important partners to each other traditionally even though political tensions of the past years left their mark on their excellent former cooperation. Import from Israel between 2011 and 2016 dropped to 2/3 of its previous rate, and Turkish export grew by almost as much. Turkish exports consist of vehicles (cars, buses), electronics, and metallurgical products (iron and steel), while import is mostly processed oil industry items and products of the machine industry. Previously one of the main markets of Israel's defence industry export was Turkey, and the deterioration of political relations also hit this area most severely. Trust, however, did not return even as relations normalised; and so Israel does not find that this is the right time to revitalise relations.⁴⁹ Apart from trading in commodities, the trade of services (tourism) and the construction industry are equally important, and the expected rise in these areas ensures Turkey useful opportunities. The re-construction works in Gaza are a significant factor for the construction industry where Turkish firms were granted contracts worth about 1 billion dollars, and Turkey may have special status in the Palestinian areas.⁵⁰ For Israel, Turkey grew in significance again due to the natural gas resources in the Mediterranean as the export route to Europe of the recently found gas leads through Turkey. The pipeline called 'Peace' bringing the gas to Turkey, and from Turkey to Europe, costs about 4 billion dollars.⁵¹

Economic relations with GCC countries⁵² also developed with bilateral trade rising from 1.5 billion dollars in 2002 to 16 billion in 2016. The most important partner is the UAE and Saudi Arabia. Base materials for

⁴⁷ AİTA 2017.

⁴⁸ TIKA 2015.

⁴⁹ OPALL-ROME 2016.

⁵⁰ ATEŞ 2016.

⁵¹ ATEŞ 2016.

⁵² GCC (Gulf Cooperation Council) is an alliance of Saudi Arabia, the United Arab Emirates, Qatar, Kuwait, Bahrain and Oman.

the construction industry,⁵³ and products manufactured by the processing industry (e.g. defence industry) and having higher technological content, have been added to the goods traditionally exported to Turkey (foodstuffs, textile), and mostly oil industry commodities are purchased in return. Saudi Arabia supplied approximately 10% of Turkish crude export in 2014, but the proportion of the chemical industry is also on the rise. Turkish construction firms are important players in the region in bilateral relations with prices and quality. GCC countries are important investors in Turkey with just below 1 billion dollars coming from gulf states in 2012, and even in the past years the typical value of annual investment moved around 500–800 million dollars. Regional capital, however, fails to substitute for European capital in Turkey despite its increased significance. The most important investment is that of Saudi Oger Telecom purchasing 55% of Türk Telecom in 2005, but investment firms and banks (e.g. Abraaj Capital or Investcorp Bank), and/or government funds (e.g. Kuwait's Reserve Fund for Future Generations) also acquired shareholdings in numerous firms, and property acquisitions in Turkey have also become popular. GCC banks have entered the Turkish banking sector, and are very active in selling financial instruments in line with the teachings of Islam (i.e. not using the concept of interest).⁵⁴ Apart from that, GCC countries are not only purchasers of Turkish agricultural products, but also investors in Turkish agriculture, even if sales of arable land incited outrage among parts of the Turkish population.⁵⁵ Politics makes economic relations fragile; it had a role in preventing several investment projects, and the GCC–Turkish FTA dragging out since 2005 has also slowed down partly on account of political factors.⁵⁶

⁵³ Turkey provides 34% of the steel import of the GCC countries, the most important ingredient of building sky scrapers (OxGAPS 2015, 39).

⁵⁴ Examples include Albaraka Türk, Türkiye Gınans and Kuveyt Türk banks.

⁵⁵ OxGAPS 2015, 43.

⁵⁶ That FTA was expected to be signed in 2017 (KALIN 2017).

Table 9.

Turkish foreign trade with countries of North Africa (million USD)

	Export				Import			
	2001	2006	2011	2016	2001	2006	2011	2016
Algeria	421	1,021	1,471	1,736	1,064	719	1,150	464
Egypt	421	709	2,760	2,733	92	393	1,382	1,443
Libya	67	489	748	906	848	241	140	161
Morocco	98	551	920	1,469	38	174	419	918
Tunisia	141	324	802	911	73	150	250	214

Source: TurkStat

Egypt has also become an important partner to Turkey in the post-2007 period. The FTA between the two countries came into effect in 2007. Turkey immediately abolished all customs tariffs, but Egypt only agreed to do the same by 2020, over a transition period of 12 years. Bilateral trade peaked in 2012 (at over 5 billion dollars), but has slightly declined since due to the change of political circumstances. Bilateral trade is characterised by major Turkish surplus with exports of the iron and steel industry and vehicles, and import consists mostly of plastic and other chemical industry products. Turkey invested nearly 5 billion dollars previously in Egypt, but the plants that employed a large number of local employees exported most of their output, and closed down following the unrest in 2011, and after a short period back in production in 2013, they closed again following the removal of Morsi from power. In 2017, hopes of a new beginning flared up as both Turkey and Egypt have an interest in settling their economic relations despite the political fault between the two countries seeming unbridgeable for the time being.⁵⁷

As for Libya, increasing Turkish export and shrinking import used to be typical. Prior to the Arab Spring, Turkey had increasing economic interests in Libya in projects worth almost 28 billion dollars.⁵⁸ All ‘got stuck’ in 2011 as due to the civil war; even diplomatic missions left the country in 2014. In 2017 there was a faint hope that the situation in Libya would normalise, and Ankara was among the first to re-open its diplomatic mission in Tripoli. Turkish ENKA Teknik continued the construction works on one of Libya’s

⁵⁷ HASSAN 2017.⁵⁸ MÜFTÜLER-BAÇ 2016, 54.

most important investment projects; the gas turbine operated 160 megawatts at the Obari power station that stopped in 2013 little short of completion.⁵⁹

The share of the Maghreb countries (Morocco, Algeria and Tunisia) did not rise significantly in Turkish foreign trade; it negligibly exceeds 5 billion dollars meaning that it lags behind other countries of the neighbouring regions in terms of growth dynamics. Bilateral relationships, however, are relatively diversified even in comparison with EU–Maghreb trade, which also makes the Maghreb countries interested in developing relations.⁶⁰ The main Turkish export commodities are vehicles, electronics and textile industry articles, and iron and steel products. Import means chemical products apart from crude oil and natural gas, and, as for Morocco and Tunisia, fertilisers and clothing items. For the main hydrocarbon exporter, Algeria, the negative commercial trend of the pre-2000s period reversed and now here, too, the balance is positive for Turkey (similarly to Morocco and Tunisia). While the FTA has been in effect with Tunisia since 2005, and Morocco since 2006, the same is missing with Algeria. As Algeria concluded an FTA with the EU, it comes as a major disadvantage for Turkey as the volume of bilateral trade is calculated to have shrunk by about 15%.⁶¹

The Maghreb is likewise a not insignificant target area for Turkish capital investment. In 2013, the Tosyali steel plant invested 750 million dollars in erecting a steel mill in Algeria.⁶² In addition to that, Turkish businesses had a share of nearly 6 billion dollars in Algerian projects (hospitals, dams, motorways, tunnels and ports). The role of the public sector is significant in the Algerian economy, and even though partial privatisation has long been on the agenda, the public sector plays a significant role in the economy, which means a further opportunity for capital investment.

In Tunisia there was a 200 million dollars' worth of Turkish capital investment between 2007 and 2011.⁶³ The influx of private capital slowed down thereafter, but official development aid came more generously: Ankara provided support of 500 million dollars (aid and soft loans) to Tunisia, and the country became one of the main beneficiaries of TİKA. In Morocco, too,

⁵⁹ Libya Herald 2017.

⁶⁰ KIRIŞCI 2014, 71.

⁶¹ DINCER et al. 2017.

⁶² TELCI 2014.

⁶³ ERGÜN 2012.

capital equal to about 240 million dollars was invested by Turkish firms over the past years, and they are also partners in numerous construction projects.

The role of Turkey has significantly increased in the regions around it, and more specifically, in the Middle East region. Turkey has managed to turn into what American foreign policy has long wanted it to be: the model state of the region. However, it owed its new status not to any external power, but only to itself. It was partly due to a conscious foreign policy strategy that initially built up the image of the reliable Turkey on the basis of the 'zero problem' principle, but later it focussed on its political and economic objectives, and was even open to confrontation to strengthen Turkish positions. The political structure was an important ingredient to becoming a model that successfully 'married' democracy with Islamic ideology. Part of the success was the fast growing economy producing a variety of commodities making the country a primary trading partner to numerous countries in the region.

For a long time both the Turkish political model and the growing economy counted as a factor contributing to the region's stability that squared with the US's and the EU's policy concerning the region. Turkey's growing role in the region was viewed as a welcome fact from the point of view of external powers. The developments in the Middle East following the Arab Spring (civil war in Syria and Libya, restoration in Egypt) and the respective responses by Turkey in many respects question the effectiveness of Turkish endeavours of foreign policy and foreign economic policy. After being the model (*düzen kurucu*) in previous years, Turkey encountered problems and resistance with increasing frequency.⁶⁴ All that significantly deteriorated the favourable image built up during previous years even in the case of countries of the Middle East.

6.3. The Caucasus and Ukraine

Historically, the Caucasus was of unique importance for the Ottoman Empire sometimes as an occupied region and at other times as a plain neighbouring one, but when still part of the Soviet Union, it had little relevance by itself for Turkey. That was where the border between the Eastern bloc and NATO ran in the years of the cold war, and that circumstance offered little opportunity for opening relations. The 1990s brought a new chapter in the

⁶⁴ KIRIŞCI 2013b, 215.

history of Turkey and the region, and a similar situation emerged with the Ukraine winning its own independent statehood.

6.3.1. Political relations

The relations of Caucasian states winning their independence were overshadowed by conflicts suppressed during the Soviet era. The conflict concerning the status of the Mountain Karabakh and where it belongs erupted as early as 1988 when the Soviet Socialist Republic of Armenia claimed back the area granted by Stalin to Azerbaijan but inhabited by an Armenian majority. The conflict ended up in an armed confrontation which, as the former Soviet republics became independent, escalated into war. In 1994 the two countries concluded a truce helped by international (mainly Russian) mediation, but the conflict has not been resolved up to the present day; moreover, clashes claiming human lives became more frequent in 2016.

Turkey followed an Azerbaijani-friendly foreign policy that only further deteriorated their relations with Armenia already poisoned by historical experience. Their relations with the third country of the Caucasus, Georgia, are well-balanced even if the current state of the Russia–Georgia and the Russia–Turkey relations influences cooperation.

Azeri–Turkish relations are rooted in common culture and history, and the language that all of them can understand, wherefore they are often called ‘one nation in two states’. Ankara was a supporter of Azerbaijani independence endeavours, the restoration of Azerbaijan’s territorial integrity and the economic exploitation of the Caspian Sea. Bilateral cooperation is a priority for both parties, a fact well reflected by wide-ranging cooperation in the fields of politics, commerce, finance, technology, science and art. The Turkish–Azerbaijani visa waiver, however, has not yet materialised due to Iran’s hostile intervention.

Armenian–Turkish relations have been, since 1915, substantially influenced by the deportation of Armenians living in the Ottoman Empire, i.e. the Armenian genocide. During Soviet times, especially during the cold war, the question did not directly reach the level of macro-politics; the Armenian diaspora, however, used all its clout to ensure that the big powers achieve the assumption of historic responsibility by Turkey. In the 1980s, the Armenian Secret Army for the Liberation of Armenia headquartered in Lebanon started a series of assassinations against Turkish diplomats setting the objective

of forcing Turkey to assume responsibility, pay damages and liberate the area granted to Armenia under the Peace Treaty of Sèvres. The terrorist attacks, however, were condemned even by the majority of the Armenians.

Interestingly Ankara was among the first to recognise independent Armenia in 1991, but Armenians quoted historic grievances, and remained reluctant to open diplomatic relations with Turkey until the latter admitted its responsibility. Borders on roads and railway between the two countries were opened nevertheless. The Azerbaijani–Armenian strife escalating to war due to the Mountain Karabakh had its implications on the Turkish–Armenian relations, too. Seeing Armenian successes, Turkish public opinion was considering the necessity of military intervention, which, however, the government was reluctant to launch, and only made advisors and supplies available to Azerbaijanis. They also actively contributed to the resolution by the UN Security Council declaring that Mountain Karabakh belonged to Azerbaijan, and ordering Armenian troops to leave; in 1993 they announced an economic embargo together with the Azerbaijanis against Armenians, and closed their borders.

Due to the new Turkish concept of foreign policy, their relationship started to improve and in 2007 high-level talks took place in Switzerland between Turkey and Armenia in the spirit of Turkey's policy of 'zero problem with neighbours'. The Russian intervention in South Ossetia in August 2008 further confirmed for the Turkish Government the need for a general settlement and reconciliation in the Caucasus.⁶⁵ In the spirit of sports diplomacy Abdullah Gül visited Yerevan to see the Armenian–Turkish world championship qualifier in September 2008 at the invitation of Armenian President Serzh Sargsyan, which the Armenian President reciprocated in October with an invitation to the return match. Top level informal talks brought some relief to bilateral relations, but when the secret talks in Switzerland leaked to the public, it triggered resentment in the nationalist forces of both countries; moreover, even the thought of reviewing the Azerbaijani–Turkish gas agreement emerged. Eventually, the agreement signed by the foreign ministers of the two countries in October 2009 in Zurich remained unratified. To reconcile Baku, Erdoğan announced that they would make the Turkish action dependent on the settlement of the Mountain Karabakh question, in response to which Armenians stopped the ratification process. The reconciliation process has since come to a complete halt, moreover,

⁶⁵ ARAS–AKPINAR 2011, 60.

as the Armenian–Azerbaijani conflict flared up in 2016, relations became tenser again.

Turkish–Georgian relations may be labelled outstandingly good, not overshadowed by political problems,⁶⁶ leaving economic aspects and mutual advantages to dominate. A sign of good neighbourhood between the two countries is that their citizens enjoy visa-free travel to each other's countries, and their ID alone entitles them to cross the border. That is surely one of the reasons why entry by nearly 2 million Georgians was registered in 2015.⁶⁷

Turkey was among the first to recognise independent Ukraine; their bilateral relations were settled. However, the 2014 Ukrainian crisis brought with it a new situation whereby Turkey tried to manoeuvre its way between Western and Russian interests and concepts. Although Ankara supported the EU's position in general, it continued to regard Moscow its strategic partner. It recognised the new Ukrainian Government in line with Western positions, but not the annexation of Crimea. In observance of NATO's decision, it suspended military cooperation with Russia. Turkish–Russian relations turning sour from mid-2015 brought Turkey and the Ukraine closer together. They agreed on the reinforcement of bilateral defence cooperation, and staged a joint marine exercise on the Black Sea. A reconciliation of Turkey and Russia, however, is expected to bring a setback to political and mainly military cooperation given that Russia is sensitive to that, but economic relations continue to strengthen.⁶⁸ On that note the two countries agreed that from March 2017 onward, their citizens can enter the other country by simply showing up their IDs, a move expected to boost tourism and economic relations.

6.3.2. *Economic relations*

From among the four countries, the Ukraine is Turkey's most important partner for both its size and economic weight. Bilateral trade once even

⁶⁶ Seizing the Turkish ships on their way to Abkhazia (separated from Georgia) caused a minor conflict in 2009–2010 but the parties managed to achieve negotiated settlement (ARAS–AKPINAR 2011, 63).

⁶⁷ Find more information on the website of the Foreign Ministry of Turkey, www.mfa.gov.tr/economic-relations-between-turkey-and-georgia.en.mfa (Accessed: 18 March 2020.)

⁶⁸ BALCER 2016.

exceeded 6 billion dollars in 2011, but declined to around 4 billion dollars since the beginning of the political crisis in the Ukraine. It is easy to see at the same time that with the dropping of export to Russia in 2016, export to Ukraine increased. Turkey is currently Ukraine's fifth most important trading partner with a share of almost 5%. Future prospects are promising as, following the signing of Ukraine's EU association agreement, Turkey also began talks on a bilateral FTA. Ukraine became a substitute of Russia not only in terms of trading goods. In the first part of 2016, simultaneously to the Russian sanctions, the number of Ukrainian tourists to Turkey grew 1.5-fold, which, even so, remains below the number of Russian visitors, but it still fuels hopes for the future. Besides a presence of Turkish subcontractors in the construction industry in excess of 5 billion dollars, direct investment is also significant. The most sizeable transaction took place in telecom as Turkcell bought 45% of Ukrainian Lifecell for 100 million dollars, thereby assuming 100% ownership.

From among the countries of the Caucasus, Turkey has practically no economic relations with Armenia, Azerbaijan and Georgia; however, they are important partners. Developing infrastructure is a major contributor to improving relations even if there is still room for further development.

The Baku–Tbilisi–Ceyhan oil pipeline was completed in 2006 costing 4 billion dollars, has the capacity of transporting 1 million barrels of oil per day, and is owned by 11 oil firms.⁶⁹ The South Caucasus gas pipeline completed simultaneously with it carries 8.8 billion cubic metres per year, and was later extended to 20 billion cubic metres per year. It runs to Erzurum. The two pipelines enable the direct export of Azerbaijani crude oil and natural gas, and made Turkey a key actor in regional energy transit.

Apart from the two pipelines, the completion of the Baku–Tbilisi–Kars railway also supports bilateral relations. The previous train connection in the Caucasus crossing Armenia has been down since the closing of the border in 1993, which called for an alternative solution. That is also essential from the point of view of the passenger and goods transportation between Azerbaijan and Turkey, but it also creates a new connection through the railway connection planned under the Sea of Marmora, while it also opens a new connection to Europe including goods coming from China. All that, however, only adds to the marginalisation of Armenia. Construction work

⁶⁹ The largest stake belongs to British Petrol (30.1%) and Azerbaijani SOCAR (25%).

started in 2007, the Georgian section was built using Azerbaijani credit.⁷⁰ Completion, originally planned for 2010, was repeatedly delayed, the last deadline being 2017. The motorway connecting the two countries is now in the preparation phase.

Table 10.

*Turkish foreign trade with countries in the Caucasus and Ukraine
(million USD)*

	Export				Import			
	2001	2006	2011	2016	2001	2006	2011	2016
Azerbaijan	225	695	2,064	1,286	78	296	262	278
Georgia	144	408	1,092	1,176	127	344	314	212
Armenia	n/a	n/a	0	0	n/a	0	0	0
Ukraine	289	1,121	1,730	1,253	758	3,059	4,812	2,547

Source: TurkStat

The weight of Turkish regional trading relations grew significantly even though it is only partly ascribable to the completion of regional projects. Turkey's exports to Azerbaijan tripled up since 2000, and imports have also steadily grown. Although Azerbaijan's share in Turkey's total foreign trade is not high, Turkey has become its most important foreign trading partner. Trading volumes between the two countries amount to 1.5–2.5 billion dollars per annum, which falls short of the full potential. Moreover, due to declining oil prices over the past years, the import potential of the Azerbaijani economy has shrunk, which also put a lid on Turkish export potential. Even within bilateral trade Turkish export (1.2–2 billion dollars) significantly exceeds imports (0.2–0.4 billion dollars). Turkish export comes mainly from food, textile, construction material, communication and electronic products, vehicles and base material for the chemical industry (plastic). A requirement for developing exports is, besides reducing red tape, the simplification and harmonisation of the Turkish–Georgian–Azerbaijani tariff system.

The most dynamically developing branch of bilateral trade with the completion of the oil and the gas pipeline is hydrocarbons. One of the central

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The EU and USA would have preferred re-opening the Armenian section in one process with Caucasian settlement, and that is why they were reluctant financing that alternative.

questions of gas export is the amount that Turkey will be able to purchase from the Azerbaijani gas, and if it will be granted re-export rights. That is subject to negotiations.

Turkey is itself a major market for gas, the second biggest customer of Gazprom after Germany.⁷¹ Gas import from Azerbaijan started in 2007, and by 2009 it reached 5 billion cubic metres mostly by reducing Russia's share. The most important dispute between the two parties was that the previous agreement promised 6.6 billion cubic metres of gas to Turkey at a relatively low price of 120 dollars/1,000 cubic metres, but Turkish BOTAS insisted on the re-export option, which would have resulted in significant profits, and would have given Turkey a role similar to that of Gazprom.

Turkish firms became the most important investors in Azerbaijan besides American and British firms. As far back as 2000, 1,300 Turkish firms operated here, and their number now exceeds 2,600, thus Turkey has had the greatest share among foreign investors in Azerbaijan based on the number of firms. Turkish firms invested 4.5 billion dollars over the past years in Azerbaijan becoming the No. 1 target country of Turkish capital. Turkish businesses are active in energy, telecom, tourism and some branches of the processing industry, and the financial sector. Another priority target of Turkish capital has been the construction industry since the early 1990s. In this area, Turkish investment exceeded 700 million dollars.

TPAO (the Turkish state oil firm) and Turkcell, one of the biggest Turkish telecom providers, entered the market as investors relatively early on, and the TPAO's investments in energy amounted to more than half of the Turkish capital invested.⁷² DHT Metal, a subsidiary of Turkish DHT Holding has been present in the Azerbaijani market since 1996. In 2009 it launched a major investment project, a 200 million investment in Baku. The plant employs more than 1,000, and produces 450 thousand steel per annum.⁷³ DHT holding wanted to be an actor in the steel industry and agriculture, and planned the erection of a sowing seed plant investing 22 million dollars.

⁷¹ In 2015, 55.3% of 48.4 billion cubic metre gas import came from Russia, 16.2% from Iran and 12.7% from Azerbaijan. As for crude oil, Turkey only ensures transit for Azerbaijani crude.

⁷² KARDAŞ–MACİT 2015, 40.

⁷³ That investment is important not only for the competitiveness of the industry, but also for environmental reasons. The investment will use the steel of the obsolete, rusting metal of oil rigs on the Caspian Sea to manufacture state-of-the-art earthquake resistant steel structures for the construction industry.

In 2010, however, DHT Holding suddenly sold its Azerbaijani interests (in addition to DHT Metal, it sold Azeryem, Azertoxum and Azerargo), and, on top, it sold it to Azerbaijani buyers, which the owner DHT explains by the deteriorated relationship between Dağıstan Turanlı and the Azerbaijani authorities.

Another important investor is the Azerbaijani interest of the Turkish Coca Cola İçecek, Coca Cola Baku that builds a new bottling plant in Azerbaijan investing 100 million dollars. The plant is going to be an important production base of the company serving 350 million consumers in almost 20 countries producing 52 million bottles per year. The company present in the country since 1994 is a major taxpayer, and has contributed 95 million dollars annually in taxes to the Azerbaijani central budget. But perhaps even more important than capital was the business experience and the know-how that the Turkish brought to Azerbaijan.⁷⁴

During the past years, as oil and gas production came in full swing, Azerbaijan became an increasingly important exporter of capital. The primary target of Azerbaijan is Turkey where their investments so far equal 3 billion dollars over the past years. Azerbaijani oil giant SOCAR buying up Turkish Petkim chemical company and building a refinery (Ceyhan) using Azerbaijani oil will become a significant actor of the world market. SOCAR prepares to invest a total of 10 billion dollars in Petkim, which, when complete, may well reduce Turkey's chemical imports now 70–75% to 30%. Besides, SOCAR, together with the Palmali group purchased for 520 million dollars, has a 50% stake in Tekfen Insaat, one of Turkey's biggest construction firms.

Economic relations with Turkey are essential for the Nakhchivan area, part of Azerbaijan, which borders Turkey, but not the mother country. Numerous political positions have been created over the past period to strengthen cooperation, and more powerful activity of the corporate sector is being encouraged at business forums. In addition, the construction of the new 200 km gas pipeline between Igdir and Nakhchivan, and the railway connection between Nakhchivan and Turkey is likewise necessary.

Turkish experience in human resource development is similarly important for independent Azerbaijan. The activities of Turkish businesses and educational institutions have greatly contributed to the strengthening of bilateral economic relations. Cultural cooperation is also close between the two countries, and currently Azerbaijani students are the second largest

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BEDIRHANOĞLU 2016, 118.

group of foreign students after North Cyprus at Turkish universities. Also, a large number of schools and universities founded by Turkey operate in Azerbaijan.

Turkish–Georgian trade has also increased recently. Although a total volume of 1.4 billion dollars does not seem significant in terms of magnitude, it is still a considerable figure in the light of the Georgian economy. With 17% of commodities imported from Turkey, it is the most important source of Georgia. Under the EU association agreement, Georgia concluded an FTA with the EU, so now negotiations are in progress on Turkish–Georgian free trade.

Economic relations are particularly important. While for Ankara Georgia is important as a transit country of Azerbaijani import of crude oil, natural gas and commodity trade, due to the mutual economic embargo between Georgia and Russia since 2008, Turkey has become Georgia's most important trading partner. Turkish businesses are particularly active in Georgia with construction firms realising more than 200 investment projects worth 3.5 billion dollars. A Turkish company, TAV has modernised the Batumi international airport, which – due to its proximity to the border – Turks may use as their domestic airport.

Turkish experts play an important role in developing the Georgian army, although they have to be careful providing their assistance if they are to maintain their good relations with Russia.⁷⁵

⁷⁵ ARAS–AKPINAR 2011, 62.

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Chapter 7

Major Powers and Emerging Regions

This chapter examines the relations of the three major powers, Russia, the United States of America and China. The currently developing relations between Turkey and other regions are also addressed.

7.1. Russia, the Eurasian partner and opponent

Analysis of the political and economic relationship between Turkey and Russia is an interesting issue in its own right due to the regional importance of the two countries, made particularly topical by numerous recent events. Both countries are emerging economic powers, members of the G20. Based on its GDP, Russia's economic output is 1.5 times that of Turkey's, but the Turkish economy has been closing the gap in recent years. Both are located in Eurasia, so they play a central role in the external relations of the EU and their relation with the EU is important for them. The two countries have significant influence in several regions, albeit less and less in the Balkans. Regarding the Caucasus, the Middle East and Central Asia, they play a crucial role, albeit in different ways.

7.1.1. Political relations

Ottoman and Russian politics going back to centuries caused several conflicts between the two empires at the buffer zones. While the Ottomans supported Muslims and Turkic people living under Russian rule in the Caucasus or elsewhere (Astrakhan, Crimean Khanate), Russia meant to be the external support for the Slavic and Orthodox peoples in the Ottoman Empire living mainly in the Balkans. After World War I, a relatively close cooperation emerged between Turkey and the Soviet Union as a means of resistance against the Allied Powers. The Soviet Union helped Turkey with

its independence fight (1919–1923) in military and financial terms. After achieving independence, industrialisation was realised with significant Soviet aids and partly in a Soviet fashion. After World War II, conditions changed as the two countries were on opposite sides during the Cold War. In the Stalinist period their relation was severely stressed. From the 1950s, tensions slightly eased, but when Turkey became a member of NATO and a strategic ally of the United States, the antagonism was perpetuated.

Even with relations becoming more intensive after the Cold War, several factors made cooperation difficult. The approach of the two countries regarding the Caucasian and Balkan conflicts (Chechnya, Nagorno-Karabakh, Bosnia) was fundamentally different, and Turkey created tension through its strengthening activities in the Central Asian region in connection with their Turkic relatives (the Kazakh, Turkmen, Uzbek and Kyrgyz peoples). By the end of the 1990s, the Pan-Turkic dreams died. Later, economic, cultural and educational cooperative programmes became more dominant than the military and political ones, which was less aggravating for Moscow.

The millennium marked a new approach in relations. Ankara considered Moscow less and less a geopolitical opponent. The policy of the United States (The Greater Middle East Project, Iraq and Afghanistan invasion, etc.) and several steps of the EU pulled the two countries together, also helped by the dynamically developing economic relations. The new Russian and Turkish leadership could now communicate in a more effective way than earlier. Russia welcomed the independent foreign policy of the moderate Islamic government, which refused to allow American combat troops to use Turkey as a base for the invasion of Iraq in 2003. The importance of bilateral relations is proved by the Turkish–Russian strategic partnership announced in 2010. A Common Strategic Planning Group was initiated aimed at improving economic, political, cultural and security cooperation. Some spoke of a new Eurasian federation, but in reality many of the conflict sources between the two countries still exist.

Flanagan states the cooperation is rather tactical than strategic, since the two countries do not have a common political programme and their interests are different.¹ In the Caucasus, Russia became the strategic partner of Armenia, the relation with the Azeri is balanced, but because of the oil and gas business it is often burdened with conflicts. On the other hand, a threat of war was gradually forming with Georgia. Turkey has strategic

¹ FLANAGAN 2013, 166.

relations with Azerbaijan, has balanced relations with Georgia – although in some cases there is tension –, and it does not have diplomatic relations with Armenia.

Despite differing interests, the foreign policies of Turkey and Russia agreed in numerous issues and they respected each other's sensitive areas. Ankara did not intervene in the Nagorno-Karabakh conflict, and Moscow supported the Armenia–Turkey rapprochement, which led to signing the Zurich Protocol in October 2009. Separatist activities were mutually denounced, therefore Turkey did not stand up for Chechnya's independence, and Russia did not support the Kurdistan Workers' Party (PKK) and did not provide asylum for its leader, Öcalan. Ankara provided (unofficial) support to Abkhazia and did not stand up for NATO membership of Georgia and Ukraine. Conflicts seemed to be handled well and the economic interests in the background outweighed political conflicts. Albeit 10% of the population in Turkey is Caucasian (Circassian, Abkhaz, Azeri and Chechen) or Crimean Tatar in origin, politics managed to calm down the sensitivity of some of the population.²

The Syrian conflict starting in March 2011 was a new conflict source between the two countries. Russia supported Assad's regime and Turkey supported the rioters and urged Assad's resignation, which put the two countries on opposite sides. The annexation of Crimea in 2014 became another source of conflict, analysed above in connection with Ukraine. Ankara was very cautious. While it did not acknowledge the border changes, it reacted to the Russian annexation very slowly, and did not enter into confrontation with the 'strategic partner'.³ It seemed for a long time that clever manoeuvring could make Turkey a beneficiary of the deteriorating relation between Russia and the West.

Shooting down the Russian fighter plane flying into the Turkish aviation space during the Syrian action in November 2015 brought a new turn, and political and economic relations plunged to their lowest; Moscow retaliated with targeted sanctions, mainly affecting tourism. Not only does tourism contribute 6% to the Turkish GDP, but it is also a major employer (providing

² MARKEDONOV–ULCHENKO 2011.

³ Crimea is an internal political question for Ankara. Opponents of Russia's seizing power, the Crimean Tatars, constitute only 15% of the population of the peninsula due to earlier displacement and are a strong interest group in Turkish political life, therefore the status of Crimea is a sensitive issue.

half a million direct and over two million indirect jobs). There was a decline in this sector, which had an impact on the GDP.⁴ The import of Turkish food and textile products was also sanctioned by Russia,⁵ but Russian exports (primarily wheat) and energy were not sanctioned because of their importance, although some major investment projects were suspended, including the construction of the pipeline TurkStream. Finally, the conflict was settled by a Turkish apology in June 2016.⁶

The key elements of political relations are the following:⁷

1. *Pragmatism.* Instead of ideological disputes both parties are involved in practical politics, which provides effective and flexible cooperation and creates opportunities for broadening relations.
2. *Multifunctional approach.* The two countries deliberately develop relations in increasing numbers of areas of the economy (energy, tourism, trade) and of culture and politics.
3. *Common features despite the asymmetries and oppositions.* However, asymmetries are more tangible in opportunities, resources and, in many cases, goals. Domestic processes were similar in both countries (e.g. strengthening the position of the President) and both countries are increasingly dominant participants of regional geopolitics.
4. *They are still strategic partners despite occasional confrontations.* The goal of both countries is to support good relations, which has not been significantly altered by past conflicts (Syria, Crimea).

But many doubt the sustainability, or even the existence, of a strategic partnership. Balcer thinks that economic relations are overemphasised, and conflicting positions in regional issues will not be so easy to manage in the long run.⁸ The arising geopolitical and geostrategic disputes, significant in some key areas such as energy, handling regional conflicts or security strategy issues, make the formation of partnership impossible. Turkey does not agree with the regional policy of Russia, which, on its part, questions the

⁴ More than 90% of the 3 or 4 million Russian tourists 'vanished'. Already in trouble because of the Istanbul terror attacks, tourism slumped 35% due to the Russian sanctions (BIRYUKOV 2016).

⁵ The consequences also hit Russia; furthermore, the sanctions were not always effective and they could be evaded by re-exports across other countries (UZUN 2016, 68).

⁶ There were several different factors in the background.

⁷ Based on WARHOLA-BEZCI 2013.

⁸ BALCER 2014.

territorial integrity of many countries in the region (Azerbaijan, Georgia, Moldova and Ukraine). Unlike Russia, Ankara is interested in alternative transport routes and sources of energy.⁹ However, mutual economic interests in many cases outbalance existing political conflicts of interest.¹⁰

7.1.2. Economy

The relatively lively economic relations between the two world wars declined after World War II. The initial hostile relations reduced economic relations between the two countries; with the relaxation of the international situation, improvement started from the 1960s. Based on an agreement signed in 1967, Turkey received a 200-million-dollar Soviet grant in the form of a steelworks, an oil refinery and an aluminium smelter. Following the oil price shock, Turkish demands for alternative sources of supply promoted the revival of trade relations. Moscow and Ankara signed the gas transport agreement in 1984. Then in 1985, they concluded a 25-year agreement whereby Turkey could purchase gas from Soviet sources up to 6 million cubic metres. In the same year, transport started down the Trans-Balkan pipeline through Romania and Bulgaria.

After the Cold War, new opportunities appeared in bilateral economic relations from the 1990s. Relatively low priced Turkish export products soon became popular with low-budget customers in Russia. Exports took the form of ‘out-of-the-suitcase trade’: small amounts of goods were sold directly to customers. Exports were very small in quantity; in addition, the 1998 Russian economic crisis had a negative effect on Russian demands and also on the Turkish economy. The 1990s seemed to be a loss for both countries in political and economic terms alike.

The first years of the 2000s marked the beginning of an economic success story for both countries, albeit the economic growth originated from vastly different sources. In Russia, the economic driver is the energy sector, i.e. gas and oil.¹¹ But economic growth based on raw materials has several

⁹ AKTÜRK 2013, 133.

¹⁰ ÖNIŞ-YILMAZ 2016, 71.

¹¹ The oil price per barrel has increased to 140 dollars from 20 dollars at the beginning of the 2000s, which also influenced the price of gas. Currently, in the case of Russia, the energy carriers provide 16% of GDP and 70% of the export.

disadvantages: the phenomenon of the Dutch disease hinders the growth of competitiveness in the manufacturing sector and, consequently, the diversification of exports. On the positive side, Russia has become an outlet for other countries' products.

Gas import remained in the centre of bilateral relation. The agreement between the two countries on a direct connector replacing the former Trans-Balkan route was signed in 1997 by Gazprom and Botaş. Transport started in 2003 through Blue Stream with an annual capacity of 16 million cubic metres, although the official inauguration took place only in 2005 due to a price dispute between the two parties. Because of the Ukraine transit conflicts and the ensuing European demand of diversification, Turkey got into a key position.¹² South Stream was announced in 2007 as an alternative for European supply (bypassing Ukraine, built with Turkish transit) as a joint project of Gazprom and Italian ENI. The South Stream project became a competitor to Nabucco, which had already been at the planning phase and would have been an alternative for European gas supply not only in terms of route but also its source. Russia was striving to tip the scale in South Stream's favour by making Nabucco's supply sources insecure (e.g. gas agreement with Azerbaijan), and also by persuading Turkey. Although South Stream would not have crossed Turkey onshore, the section under the Black Sea was to go through Turkey's exclusive economic zone and therefore Ankara's consent was required. Consent to South Stream was a trump card for Turkey. Eventually, in 2015 a decision was made to build a new, direct gas pipeline, TurkStream, instead of South Stream frustrated by the EU. The bilateral agreement was signed in October 2016 (after resolving the political differences).

Today Russia provides 55–60% of the Turkish gas import, which serves for generating one-third of the electricity Turkey uses, therefore Russia's role in the Turkish energy supply remains significant. In addition, Turkey intends to be an international 'energy hub' vying for a significant position in the gas transit of the region. It is eminently suitable because of its location at the intersection of the Russian, Central Asian, Iranian,

¹² The agreement signed for twenty-five years in 1987 expired and Turkey would have liked more favourable conditions instead of the old "take and pay" (the feed in tariff of the quantity already contracted.) Finally, they managed to achieve an agreement that was 1 billion dollars more favourable than the one before (ULCHENKO 2013, 8).

Persian Gulf and Eastern Mediterranean gas fields and the transit route to the European markets.

Examining trade relations, it is noticeable that bilateral trade started to increase dynamically in the 2000s due to a large extent to direct gas import from Turkey. Between 2002 and 2008 exports increased five and a half times and imports more than eight times.¹³ Because of the 2009 crisis and mainly the drop of oil prices, bilateral trade shrank nearly by half. Although after the crisis both exports and imports started to rise, from 2012 they have plummeted again against the background of dropping oil prices, stagnation of the Russian economy, and the 2015–2016 Russian sanctions. Of the products imported from Russia, about 65% is oil and gas. The increasing value of imports was the effect of increasing prices rather than quantities: the price of oil in 2012 was four times higher than in 2003. Devaluation of the Turkish lira and the lower prices of Turkish exports resulted in a relatively slower growth in the value of exports simultaneously with dynamically growing quantities. As a result, while in the mid-1990s bilateral trade was roughly balanced, today it is characterised by a huge surplus on Russia's side.

Table 11.

Russia–Turkey trade relations, 1996–2016 (USD million)

	1996	2001	2006	2011	2012	2013	2014	2015	2016
Exports	1,510	924	3,238	5,993	6,681	6,964	5,943	3,588	1,733
Imports	1,921	3,436	17,806	23,953	26,625	25,064	25,289	20,402	15,161
Total	3,431	4,360	21,044	29,946	33,306	32,028	31,232	23,990	16,894
Balance	–411	–2,512	–14,568	–17,960	–19,944	–18,100	–19,346	–16,814	–13,428
EX/IM (%)	78.6	26.9	18.2	25.0	25.1	27.8	23.5	17.6	11.4

Source: TurkStat

Between 2006 and 2014 Russia had been the most important trade partner of Turkey, but in 2016 it dropped to third place behind China and Germany. It was due to the price fall of gas and oil imported from Russia. Turkey is the seventh most important trade partner of Russia. Even China, some EU countries, Belarus and Ukraine are ahead of it. For Russia, a dynamically

¹³ Because of high oil and gas prices, the import in 2008 was over 31 billion dollars.

developing Turkey means an appropriate alternative market for its oil and gas products. Looking from the other side, the third most important country for Turkish exports is Russia. Currently one-fourth of Turkish exports is contributed by textile and apparel, 15% by food, 12% by vehicle and another 12% by electronics. The contribution of high-tech products is barely 3%. The most stable elements of bilateral trade are food, mainly citrus fruits. The position of the new manufacturing industry products is less significant in the Russian market. To improve this situation, the number of Turkish trade representations and exhibitions in Russia has been increased over the past years.¹⁴

Formerly the heads of the state of both countries hoped for a 100-billion-dollar bilateral trade within a few years (by 2020), which will likely not be realised, seeing the currently slowing dynamics. The Turkish trade deficit is slightly compensated by trade in services, primarily tourism, where traditionally Turkish surplus is significant. Due to the visa waiver agreement between the two countries signed in 2011, four million Russians travelled to Turkey in 2013, but only 200,000 Turks travelled to Russia.¹⁵ As regards bilateral direct investment, in the early 2000s Turkish companies invested more. The main Turkish investors included Efes Beverage (brewery, member of Anadolu Group), Vitra (sanitary and ceramic products), Vestel (electronics), Pasabache (glass), Enka and Gama (construction) with a combined Russian investment of over 4 billion dollars. Besides these companies, another 200 important construction businesses are present in Russia, having carried out nearly 1,000 projects since 1990 including hotels, roads, shopping centres and plants in the value of more than 30 billion dollars.¹⁶

Recently Russian investors have become more active in Turkey. Sberbank bought the Turkish DenizBank in 2012 for 3.6 billion dollars, Magnitogorsk Metallurgia built steel works together with the Turkish Atakas in Turkey, and Yandex (IT) appeared as an internet provider. Total Russian investment reached 6 billion dollars. In 2010, the two countries agreed that the Russian Rosatom would build a power station consisting of four 1.2 GW units by 2018, which would cover 10% of the energy demand of Turkey. The 20-billion-dollar cost would be provided and operated by Russia. (It would be the first Build Own Operate financed power station.) It is to be mentioned that in 2013

¹⁴ ULCHENKO 2013.

¹⁵ ÖNİŞ-YILMAZ 2016, 80.

¹⁶ GÖRIKMAK 2012.

Turkey signed an agreement with a Japanese–French Consortium about the construction of a 22-billion-dollar power station of a similar capacity.

Russia and Turkey planned and jointly implemented several projects concerning trade and economic cooperation of the two countries, e.g. logistic terminals and joining of the two countries' railways via sea ferry (bypassing Georgia).¹⁷

Russia and Turkey are two significant participants of the emerging multilateral world order. Directly or indirectly, both of them have an influence on the surrounding regions: the Balkans, the Black Sea region, the Caucasus, the Middle East, Central Asia, and the European Union and its member states. The strategic partnership agreement between the two countries raises questions, many doubt its sustainability, but the past events support the perception that both parties are interested in maintaining the special relationship. With a mutually pragmatic approach, arising issues and disputes are handled successfully.

7.2. The United States of America

Strategic relations between Turkey and the United States were strengthened at the beginning of the Cold War. The Truman Doctrine was drafted with the intent to counter Soviet geopolitical expansion in Southeast Europe, so Turkey was included in the American assistance package, the Marshall Plan. Turkey was among the first countries to join the American invasion in Korea, which was a major step towards its NATO membership finalised in 1952. NATO has been a key element in Turkish–American relations from the outset. During the Cold War period, strategic interests outweighed identity differences, and NATO considered Turkey an equal member of the Western world.¹⁸

Following the Cold War, relations became controversial. The direct external threat disappeared, many questions were raised in connection with the future of NATO. Turkey's position was not clear, and the importance of the American relation was questioned in Turkish politics. With the new conflicts in the 1990s, Turkey's importance was again on the rise, stoked by the Gulf and Balkan wars, the Armenian–Azeri conflicts, the Central

¹⁷ VASILIEV 2010.

¹⁸ SADIK 2009, 16.

Asian power balance. While the nature of cooperation had changed, due to its strategic position, Turkey became a more valuable partner for the United States than ever before.¹⁹ Besides the stability of the region, fight against terrorism, drug trafficking and monitoring the Iraqi activities (from Ankara's point of view, mainly the Northern Iraqi Kurdish activities) became the new priorities. Turkey is also attached to the USA due to the modernisation of the Turkish army.

Despite the common interests, relations were not easy. The military action against Iraq in 2003, which the USA executed without the authority of the UNSCR, especially aggravated the disagreement. The Parliament of Turkey denied consent to the invasion from Turkish territory, which reduced military opportunities. Following Iraq, Syria also became a source of conflicts. The support of the Syrian opposition forces failed, so the Kurds became the local force supported by Washington, which hurt Turkish interests. Recently, another dispute surfaced in connection with Fethullah Gülen living in the United States, whose extradition has been increasingly sternly demanded by Turkey following the July 2016 coup. After the millennium, the 'traditional' anti-American public opinion has also become stronger. This shift has a much stronger impact on foreign affairs decisions than before. Consequently, in order to improve Turkey–USA relations, it would be essential to improve the image of the United States in the eyes of the Turkish public.²⁰ Despite all that, relations with the United States have remained close. Turkey is important for the USA due to its geostrategic importance and as an idol for a functioning democratic Muslim state.

Traditionally, Washington is considered to be one of the main supporters of Turkey's EU integration. However, the motivation and the intensity of support have changed significantly in the past few decades. While the Eisenhower Administration supported Turkey for political reasons, in President Kennedy's era, trade interests, to some extent, ran counter, but relations were still supported strategically. In the second half of the 1960s, the American activity was reduced, and improved again only in the early 1970s because of the Cyprus crisis. President Ford urged cooperation with Ankara for a Cyprus settlement and supported Turkey's possible EC membership. But the question was put on a backburner in the Carter era.²¹

¹⁹ SADIK 2009, 17.

²⁰ SADIK 2009, 85.

²¹ ÇAKIR 2016, 282.

It is thought if the United States had pushed harder in this period, Turkey could have joined then (together with Greece).²² From the end of Reagan's presidency, the United States again urged the EC to put Turkey's accession on the agenda. The EU–Turkey relations turned sour because of the coup in 1980, but the USA had a good relationship with the Turkish military leaders, and tried to act as an intermediary between the two parties. In 1990 President George Bush offered Ankara his influence with the European countries in an effort to promote Turkey's accession, but Ankara turned it down for fear of such a move being counterproductive. Instead, only Secretary of State James Baker drew attention to the advantages of Turkish accession in a letter addressed to the EC foreign ministers.²³ The American lobbying reached its peak in the Clinton era. The customs union agreement was signed (December 1995), the common European defence and security policy was established (December 1998) and the Helsinki decision on candidate status (December 1999) were all preceded by strong American diplomatic pressure. Under the Bush and Obama administrations, the intensive American lobbying for Turkey continued, albeit with no spectacular achievements. As Günter Verheugen, Enlargement Commissioner said, in some cases the American pressure was rather counterproductive (especially between 2002 and 2004).²⁴

Table 12.

USA–Turkey trade relations (USD million)

	1996	2001	2006	2011	2012	2013	2014	2015	2016
Exports	1,639	3,126	5,061	4,584	5,604	5,640	6,342	6,396	6,624
Imports	3,516	3,261	6,261	16,034	14,131	12,596	12,728	11,141	10,868
Total	5,155	6,383	11,322	20,618	19,735	18,236	19,070	17,537	17,492
Balance	–1,877	–135	–1,200	–11,450	–8,527	–6,956	–6,386	–4,745	–4,244
EX/IM (%)	46.6	95.9	80.8	28.6	39.6	44.3	49.8	57.4	60.9

Source: TurkStat

²² ÇAKIR 2016, 284.

²³ ÇAKIR 2016, 283.

²⁴ ÇAKIR 2016, 284.

Traditionally, the United States was an important foreign trade partner of Turkey: in 1996 it was the second most important export partner after Germany, and third in imports behind Germany and Italy. In the last few years, although bilateral trade has been increasing, global opening-up has been less tangible vis-à-vis the United States. Bilateral trade has increased but its dynamics is lagging far behind other regions and also behind potentials.²⁵ Still, the USA is the fourth or fifth most important foreign trade partner. Significant changes can be seen in the balance of relations. While before and during the 1990s, bilateral trade was characterised by deficit, in 2001, due to the drop of imports, the value of exports and imports was nearly the same. By 2011 exports declined while imports increased, but since then, the trend has again been decreasing imports and increasing exports.

Turkey is in a favourable position as it has been involved in the GSP system supporting economic growth in developing countries and offering tariff preferences. As a result, Turkey can export nearly 5,000 products to the USA duty free, including automotive parts.²⁶ Exports by Turkey are rather diversified, comprising mainly textile, apparel and machinery products and iron and steel products. Free trade negotiations between the EU and the USA (TTIP) made Ankara review the impacts of a future FTA with the United States.²⁷

The USA is the second biggest investor in Turkey.²⁸ Ford Motors has been active in the Turkish market since the early 1930s. In the 1960s, Otosan, a new model manufactured under Ford license was introduced in the local market (named Ford Otosan since 1977). Since the 1990s, Ford models have been produced, nearly 400,000 cars a year. General Electric has invested 900 million dollars since 2012 (e.g. power station construction and diesel locomotive engines manufacturing). AmGen has bought Mustafa Nevzat pharmaceutical company for 700 million dollars. With the help of a 1-billion-dollar investment, DOW Chemical created a joint venture with the Turkish company AKSA to produce carbon fibre.²⁹ Western countries were ready to invest in Central Asia and in the Middle East through Turkish companies.³⁰ Istanbul has become an investment centre for both regions (as well as the Balkans).

²⁵ KIRIŞCI 2013a, 12.

²⁶ SADIĞ 2009, 65.

²⁷ See KIRIŞCI 2013c. Should the TTIP not materialise, Turkey would stand to lose a lot.

²⁸ About 8% of the FDI stock is contributed by American companies (UNCTAD data).

²⁹ Daily Sabah 2017b.

³⁰ SADIĞ 2009, 53.

7.3. China

For Turkey, similarly to the other countries of the world, China is one of the fastest growing economic opportunities, appreciated not only because of direct trade but also because of the transit route plans.

As a NATO member and a state linked to the western alliance, Turkey did not have a diplomatic relation with the People's Republic of China up to the 1970s. This only changed in 1971, during the *détente* between the USA and China. Ideological differences remained rife despite the potential economic advantages, and up to the 1990s economic relations between the two countries remained mostly negligible. Then in the 2000s, bilateral relations started to develop dynamically. The process is still going on and relations are expected to further improve in the coming years.³¹ Admittedly, the effect of the western alliance is still conspicuous: in 2013 Ankara decided to buy a Chinese missile system and only gave up the idea upon NATO pressure.³²

Although today political relations are basically settled, there are some sensitive areas, such as the effort at autonomy of the Uyghurs, a Muslim minority of Turkic ethnicity who live in West China (considered separatist by the official Chinese politics), which often was a source of conflict between the two countries. In 2014–2015 it affected the bilateral relation so much that during his visit to Beijing in July 2016 Erdoğan had to appease Beijing showing a strong resolve against terrorism, which, for China, meant a stand against Uyghur terrorism.³³ Turkey is convinced that keener bilateral relations (e.g. the Silk Road) can improve the conditions of the Uyghurs the best, so in this respect, too, the priority of economic goals is visible.³⁴

Interestingly enough, China's appraisal by the Turkish public opinion is worse than that of the EU or the United States. Perhaps it is a consequence of the Sèvres Syndrome that Turkey is mistrustful of even those powers with which they have not had negative historical experience.³⁵

³¹ TAO 2016, 20.

³² LAVI–LINDENSTRAUSS 2016, 121.

³³ China expressed its resentment of the ambitious policy of Turkey, which supported Uyghur terrorism, while Turkish demonstrators attacked Chinese restaurants and Korean tourists thought to be Chinese and burned Chinese flags, angered by alleged Chinese steps against the freedom of religion (banning the celebration of Ramadan) (LAVI–LINDENSTRAUSS 2016, 123).

³⁴ KORU–KAYMAZ 2016.

³⁵ KORU–KAYMAZ 2016.

There is a huge Chinese export surplus in bilateral trade relations. While Turkish exports increased up until 2013, since then it has shrunk to approximately two-thirds, so the Turkish trade deficit has increased and the EX/IM rate has decreased recently. On the other hand, several Chinese products compete with Turkish products (e.g. in textile industry and in other manufacturing sectors), undermining the Turkish position in both internal and external markets.

Table 13.
China–Turkey trade relations (USD million)

	1996	2001	2006	2011	2012	2013	2014	2015	2016
Exports	65	199	693	2,466	2,833	3,601	2,861	2,415	2,329
Imports	556	925	9,669	21,693	21,295	24,685	24,918	24,873	25,440
Total	621	1,124	10,362	24,159	24,128	28,519	27,779	27,288	27,769
Balance	–491	–726	–8,976	–19,227	–18,462	–21,084	–22,057	–22,458	–23,111
EX/IM (%)	11.7	21.5	7.2	11.4	13.3	14.6	11.5	9.7	9.2

Source: TurkStat

An important element of the Turkish opening-up to the East is that Turkey feels their relations with Europe have reached a ‘saturation point’ both politically and economically, and EU accession can hardly be expected. They do not have too much leeway with the United States either: relations there, too, are strategic rather than economic. Asia is a ‘virgin’ area for them and accordingly, the Silk Road project largely falls in line with long-term goals.

Historically Turkey was part of the Silk Road, the trade route stretching from China through Persia to Europe. As a legacy, many towns in Asia Minor are located 35 kilometres from each other, at the daily distance of caravans’ progress. The new project would open the way not only to China but also to other Asian markets.³⁶ Currently, most of the Turkish trade takes place along EU, Balkans and the Middle East roads, but using roads to get goods even to Central Asia is inauspicious, let alone further east (e.g. to China): the land link does not work, not only because of poor infrastructure but also relevant agreements are missing. China announced the revival of the Silk Road under the name of ‘One Belt, One Road Initiative’ in 2013. The

³⁶ KORU–KAYMAZ 2016.

project was labelled the 'Project of the Century' at the Beijing summit in May 2017, and the President of China promised a 100-billion-dollar investment for constructing new railways, motorways and ports.³⁷

The vast majority of the Turkey–China trade (27 billion dollars) is realised through Rotterdam. Not only is it economically counterproductive, but it is also a symbol of Western influence on South–South relations.³⁸ The Silk Road project can change this. The present 30-day shipping time can be reduced to 10 days, which can hugely energise bilateral relations. Together with the land project, the Maritime Silk Route is also underway, and it can also impact the bilateral trade between China and Europe. Due to the Suez Canal Expansion, since 2016 the flow of goods is much greater on this route, and the importance of ports in the Mediterranean region has gone up. The Greek port of Piraeus has been the primary route for the Chinese trade, since COSCO, the state-owned Chinese shipping company acquired a minority stake in the container port in 2008, followed by a majority share in 2016 and significantly expanded capacities. This new development has also given a boost to Turkish ports. In 2015 COSCO acquired 65% of Kumport Terminal next to Istanbul for 920 million dollars and is considering other development opportunities.³⁹ A Chinese company built high-speed railways between Istanbul and Ankara for 4.1 billion dollars. The State Railways of the Republic of Turkey is planning another 10,000 km railway for 45 billion dollars, in which Chinese companies will be heavily involved.⁴⁰ Independently from the Silk Road project, China is an increasingly significant actor in the Turkish capital market, not only as an investor but also as a financier.

7.4. Central Asia

At the beginning of the 1990s, following the dissolution of the Soviet Union, Turkey was among the first to establish diplomatic relations with the newly independent Central Asian states. The main motivations were not so much geographical proximity or economic interests but rather linguistic, cultural,

³⁷ KUHN 2017.

³⁸ KORU–KAYMAZ 2016.

³⁹ ATLI 2017.

⁴⁰ INANÇ 2016.

ethnic and religious factors. Similarly to Turkey, the dominant religion in the region is Hanafi Islam, and except for Tajiki, the languages are Turkic languages. The denial of accession by the EU in 1989 also contributed to Ankara's opening to the East, and rekindling the ideal of Pan-Turkism, Turkey tried to carve out a better position in a region offering good opportunities. Russia was withdrawing, China did not expand so far yet, so the main regional rival was Iran. No wonder that the United States supported the NATO member Turkey that embraced western values.

First to recognise the newly independent states, Ankara opened embassies and concluded bilateral agreements to promote trade and the flow of capital. It was the first to provide higher education grants, launch air services and extend its satellite television system. Furthermore, Turkey promised significant financial aid and investment to the countries in the region. To realise it, they established the Turkish Cooperation and Coordination Agency TİKA.⁴¹

Despite the ambitious plans and Turkish activity, the expected influence in the region fell short of expectations. The efforts of the 1990s turned out to be a failure rather than success. The Turkish economy at the time was not strong and stable enough to provide great volumes of support on an ongoing basis. The 'export of the Turkish model' did not work: having just got rid of the Russian influence, the countries in the region did not accept Turkey as a big brother. While they embraced the theory of common Turkic origin, they developed independent identities, which they were not prepared to subordinate (again) to a wider cultural or political community.⁴² In addition, competition was fierce as several global and regional powers were competing for the region rich in fossil fuels. Besides Turkey, Russia, China, the USA, Iran, Saudi Arabia and even Pakistan, India and Japan – almost like the great historical game between Russia and the British Empire.⁴³

In the early 2000s, Turkish foreign policy was much more active in other directions, turning first to the EU, then to the Middle East.⁴⁴ Aids extended within the region declined,⁴⁵ although Turkey is still one of the most important donors in the region. Between 2005 and 2010, it donated

⁴¹ WHEELER 2013, 3.

⁴² AYDIN 2004, 7.

⁴³ AYDIN 2004, 6.

⁴⁴ BALCER 2012, 154.

⁴⁵ WHEELER 2013, 4.

Kyrgyzstan 450 million dollars in aid, contributing with 20% to total aids extended to the country.⁴⁶

In recent years, the Turkish foreign policy has again paid more attention to Central Asia, but it did not return to its former ambitious political goals. Instead, Turkey works on improving bilateral economic, energy or cultural cooperation. They intend to strengthen the idea of 'one nation, many states' among the Turkic peoples, they do not interfere with political processes and appear to be neutral.⁴⁷

Ankara tries to institutionalise the relations to a greater extent. In 2009 it was a founding member of the Cooperation Council of Turkic-Speaking States (the Turkic Council), established with the intent to enhance the economic opportunities of the trading state. Countries of the region are not enthusiastic about the institutionalised forms of closer cooperation, although their attitude is now changing as they feel the need to counteract the increasing Chinese and Russian influence.⁴⁸ Turkey has an important role in the relationship between the region and NATO; in the NATO programme 'Partnership for Peace' Turkey acts as a 'liaison', e.g. they regularly organise military training for the officers coming from the region.

From among the countries of the region, Turkey has the best political relationship with Kazakhstan, but they have also established a high-level cooperation council with Kyrgyzstan and Tajikistan. Relations with Turkmenistan were strained until 2006, but after that, there was a radical change due to the new Turkish foreign policy. Turkmenistan enjoys priority as a potential partner because of its significant gas reserves. Political relations are also tense with Uzbekistan for historical reasons: in the 1990s, the Uzbek opposition found shelter in Turkey.⁴⁹ Here, too, relations have improved in recent years.

⁴⁶ BALCER 2012, 156.

⁴⁷ Except for the most flagrant cases such as the Andijan massacre in Uzbekistan in 2005 or the revolution in Kyrgyzstan (BALCER 2012, 153).

⁴⁸ BALCER 2012, 155.

⁴⁹ BALCER 2012, 154.

Table 14.
Turkey–Central Asia trade relations (USD million)

	Exports				Imports			
	2001	2006	2011	2016	2001	2006	2011	2016
Kazakhstan	120	697	948	750	90	994	1,995	1,094
Kyrgyzstan	17	132	180	295	6	27	52	101
Tajikistan	16	72	173	163	14	118	324	162
Turkmenistan	106	281	1,493	1,858	71	190	392	422
Uzbekistan	90	176	355	489	36	416	940	709

Source: TurkStat

The trade data indicate that although the volume of bilateral trade has increased, it took off from a very low base value and at present it is still relatively low, below the potential level that can be expected, given the geographical location, good political relations and kin cultures. One of the main reasons is the lack of infrastructure connections (public roads, railway and pipelines). Their construction (e.g. the new Silk Road) offers a significant growth potential. Bilateral trade is realised via Iran (80%) and Russia (11%) on land, and by ferry via Azerbaijan and the Caspian Sea (9%), which means it is vulnerable to transit countries.⁵⁰

Over the past 15 years there have been significant differences and trends⁵¹ regarding the importance of countries and in exports and imports. Since the settlement of political relations, Turkmenistan has become Turkey's most important trade partner. Currently, the value of the Turkmen export is above the aggregate value of export by the other four Central Asian countries. Regarding imports, Kazakhstan is the most important partner ahead of Uzbekistan and Turkmenistan; however, in recent years there has been an overall decline. For Turkmenistan, Turkey is the most dominant import partner (33%), well before Russia (15%) and China (15%).⁵² For Tajikistan, Turkey is the main export destination.

The position of Turkey in the region is strong. It is the fourth most significant trade partner of the region following China, the EU and Russia.⁵³

⁵⁰ KORU–KAYMAZ 2016.

⁵¹ DOĞAN–KUTLAY 2011, 36.

⁵² OEC s. a.

⁵³ KONOPELKO 2016, 431.

The change in Turkish foreign policy pushing for its own regional power penetration besides, or together with, the East–West bridge role, is conspicuous in Central Asia. For instance in the field of energy, Turkey strives for the role of the regional distribution hub,⁵⁴ and wants to be one of the alternative routes for the Central Asian hydrocarbon market. The region has a huge hydrocarbon reserve. Kazakhstan possesses 3% of the world's oil stock; Turkmenistan possesses 4.5% of the natural gas stock. These landlocked states deliver all of their minerals to the world market across transit countries. The most important transit partner is obviously Russia. In the Soviet era, some of the exploited fuels was distributed to other Soviet member states and the rest was exported to Eastern Europe. Their vulnerability to competing Russia made the situation of the newly independent Central Asian countries very risky, therefore transport diversification has become a priority.⁵⁵ The first attempt at the beginning of the 1990s was to pipe natural gas to Turkey via Iran. A pipeline has been built in part, but the international sanctions against Iran meant permanent instability of transport through a pipeline that had a low capacity anyway.⁵⁶ The best alternative was China. The pipeline to Turkmenistan across Kazakhstan and Uzbekistan were commissioned in the early 2010s. Started in 2015, the construction of the pipeline to India across Afghanistan and Pakistan is expected to be completed in 2019. The simplest would be to build a link between Turkmenistan and Azerbaijan under the Caspian Sea for the Western pipelines (to Turkey and the EU), but it has been hampered by the dispute about the jurisdiction over the sea for more than a decade. Russia and Iran are opposed for environmental protection reasons, but in reality, the submarine pipelines are against their economic interests. The oil and gas pipelines have been built from Azerbaijan to Turkey and to the Mediterranean Sea ports.⁵⁷ A popular route for oil is Novorossiysk on the Mediterranean Sea, from where the raw material can be shipped to the destination countries in tankers. The problem here is the narrow capacity of the Bosphorus. The increasing amount of oil transport through the heart of Istanbul has risks,

⁵⁴ EFEGIL 2008, 169.

⁵⁵ Different countries had different Russian strategies depending on their relations.

⁵⁶ AKINER 2015. The swap deal with Iran opened new opportunities, in return for the raw material transported to North Iran. Iran provides the countries involved with equivalent amounts from its southern production.

⁵⁷ Kazakhstan and Turkmenistan can transport oil in the Baku–Tbilisi–Ceyhan pipeline, oil is transported across the Caspian Sea in tankers.

therefore Turkey would like to replace maritime transport with a North–South pipeline in Turkey.

The importance of the construction industry has increased dynamically in Central Asia. Nearly 2,000 Turkish contractors realised projects amounting to approximately 50 billion dollars in the above mentioned countries.⁵⁸ In Turkmenistan alone, more than 20 billion dollars were invested by Turkish companies, and the Kazakhstani involvement is similar in size, competing with the Russian activity. The other three countries offer fewer opportunities (with an aggregate investment of 1 or 2 billion dollars), but in proportions they can be considered significant.⁵⁹

Turkish foreign direct invest (FDI) was deployed primarily in Kazakhstan (650 million dollars), and a smaller amount in Uzbekistan (110 million dollars).⁶⁰ Turkey is among the four or five biggest investors in Turkmenistan (9% of the total FDI), in Tajikistan (5%),⁶¹ and in Kyrgyzstan.⁶² The development aid facility diminished the role of capital influx in the region, although in 2014 Turkey extended aid to Kyrgyzstan (85 million dollars), Kazakhstan (41 million dollars), Turkmenistan (12 million dollars), Uzbekistan (4 million dollars) and Tajikistan (3 million dollars). In the same year Kyrgyzstan was the third biggest beneficiary following Syria (2.2 billion dollars) and Tunisia (200 million dollars).⁶³

Education is a priority area of bilateral relations (and assistance), since several thousand Central Asian students are learning in Turkey. Turkey has also been active across the borders: two universities have been opened in Kyrgyzstan, two in Kazakhstan and one in Tajikistan.⁶⁴ These universities are among the best in the region, the language of tuition is English and Turkish, in an attempt to reduce the dominance of Russian as the *lingua franca*.

The stronger Turkey is, the more attractive partner it can be as a counterbalance of other powers. On the other hand, a lesson from the competition for the region is that cooperation among the partners such as realisation of

⁵⁸ Republic of Turkey Ministry of Foreign Affairs 2018.

⁵⁹ BALCER 2012, 158.

⁶⁰ UNCTAD data, 2012 stock.

⁶¹ ADBI 2014, 48.

⁶² BALCER 2012, 158.

⁶³ TIK A 2015, 108.

⁶⁴ BALCER 2012, 156.

the Chinese Silk Road, involving Iran, and establishing balanced relations with Russia can be beneficial for all partners.⁶⁵

7.5. East Asia and South Asia

The aim of the Eastern and Southern opening-up pushed by Turkish policy is to vitalise trade and economic relations with the countries of Southeast Asia and Africa so far neglected. Formerly, relations were determined by alliance systems of the Cold War. While good relations were maintained with South Korea and Pakistan, relations with China and India were almost non-existent. The increase in activity can be captured in the growing numbers of visits by the President and the Prime Minister in countries which were economically important and/or had a significant Muslim population. Besides China, the targets of changing priorities include Japan, South Korea, Pakistan, Bangladesh, India, Indonesia and Malaysia.

Japan has been the model of successful modernisation for Turkey since the early 20th century,⁶⁶ even though specific Japanese economic policy measures could not be adopted. Following the Turkish opening-up in the 1980s, Japan became the most important economic partner from the region, not only in the field of trade, but Japan also appeared as an investor in Turkey. However, from the 2000s, the position of Japan has gradually deteriorated. From 2001 China, South Korea and India have outdistanced Japan in trade relations and after 2011 Japanese imports have shrunk in absolute value.⁶⁷ The position of Japanese consumer goods and intermediate products is clearly taken over by the products of South Korea and China.⁶⁸ Turkish exports are barely 10% of imports and comprise mainly foodstuffs and textile products.

Japan continues to dominate in FDI. In the period from 2002 to 2015, about one and a half billion dollars were invested by Japan. Currently there are nearly 200 Japanese owned companies operating in Turkey.⁶⁹ One of the biggest is Toyota, which has produced automobiles here since 1994, with a capacity of 150,000 cars per year at present. A number of high-profile

⁶⁵ DUARTE 2014, 38.

⁶⁶ WORRINGER 2014.

⁶⁷ It is also true that in 2016 there was a significant upswing.

⁶⁸ AKKEMIK 2016, 56.

⁶⁹ Republic of Turkey Ministry of Foreign Affairs 2019a.

infrastructure investment projects (new Bosphorus Bridge, tunnel under the Sea of Marmara, Izmit Bridge and Sinop Nuclear Power Plant) are constructed with Japanese participation.⁷⁰

Because of the EU–Japan free trade negotiations, Ankara also initiated talks with Tokyo. A possible FTA could help bilateral relations; however, the trends of the past decade suggest that Japan is not likely to regain its former position.

Turkey has fostered a good relationship with South Korea since the 1950s. It joined in the Korean War on the side of the South. The strong relationship lives on, as suggested by the expression “Kore–Türk dostluğu” (Korean–Turkish fraternity). The volume of the bilateral trade started to grow in the 2000s. The Turkish deficit was quite big at the time and it was not helped by the FTA signed in 2013. In accordance with the agreement, tariffs on industrial products will phase out by 2020; furthermore, in 2015 an agreement on investment and trading in services was signed.⁷¹ On the other hand, in agriculture the relatively high tariffs and other barriers still prevail.

Between 2002 and 2015 South Korea invested 564 million dollars in Turkey, and Koreans had holdings in approximately 270 companies.⁷² The biggest investor is Hyundai Motor Company producing 120,000 cars per year in the country and intends to increase this number to 200,000 in the near future.⁷³ South Korean Posco manufactures special steel and is one of Hyundai’s suppliers. As regards Turkish investment, 84 Turkish companies deployed 73 million dollars in South Korea.

Although Turkey entered into diplomatic relations with the independent India in 1947, there was hardly any contact between NATO member Turkey and non-aligned India. Although there has been some improvement after the end of the Cold War, as Ankara persistently supported Pakistan (e.g. in the matter of Kashmir), there has been no significant change. Recently the more pragmatic Turkish foreign policy has made efforts to improve relations and has taken strong diplomatic moves since 2008. President Abdullah Gül and Prime Minister Erdoğan visited New Delhi, which significantly

⁷⁰ AKKEMİK 2016, 57.

⁷¹ KILINC et al. 2015, 1.

⁷² South Korean statistics set the volume of investment at 1.5 billion dollars. The difference is due to a different method of calculation, which includes indirect investment (deployed through third countries) (Republic of Turkey Ministry of Foreign Affairs 2019b).

⁷³ WITTER 2013.

boosted bilateral relations.⁷⁴ India has become the third most important partner from the region after China and South Korea. It also initiated free trade agreement with Ankara, but currently India imports just refined oil, oil products and textile materials from abroad.

Between 2008 and 2014, Turkey invested 212 million dollars in India, while India, in the same period, invested 102 million dollars according to official data, but the real figure was probably considerably higher.⁷⁵ The Indian GMR Group is the biggest shareholder of Sabiha Gökçen Airport. Other important Indian investment projects have also been realised in the Turkish steel and pharmaceutical industries.

In 2010 Turkey became an observer in ASEAN. Its external trade with ASEAN states grew dynamically and quadrupled in ten years and was over 8.5 billion dollars in 2014. Four new Turkish embassies were opened in the region, in Myanmar, Cambodia, Laos and Brunei.

Traditionally, the most important partners among these countries were Indonesia and Malaysia, the two most significant Muslim states in Southeast Asia. Relations with Malaysia were upgraded to strategic partnership in 2010, and in 2015 Malaysia was the first country in the region to sign an FTA with Turkey. Since 2011, Indonesia has also been a strategic partner of Turkey. In recent years, Thailand and Vietnam have assumed a similar status in foreign trade, mainly in imports, while Singapore has the biggest share in Turkish exports. The free trade agreement with this state signed in November 2015 covers trade in goods, services and investment.

The relationship with Pakistan is traditionally good, although interests differ regarding numerous issues. During the Afghan war Ankara supported the Northern Alliance which had a strong Turkic population, while Pakistan stood up for the Pashtuns and the Taliban. Pakistan was not happy about the keen Turkey–India relations, but all in all, bilateral relations are exceptionally good. The two countries started free trade negotiations in 2015, and the agreement was finalised in October 2017. Turkey played an important role in the rebuilding of Afghanistan and with the help of tripartite Turkish, Afghan and Pakistani talks and agreement, it promoted stabilisation in the region.

⁷⁴ ÖZKAN 2011, 127.

⁷⁵ Republic of Turkey Ministry of Foreign Affairs 2019c.

Table 15.
Turkey–Southeast Asia trade relations (USD million)

	Export				Import			
	2001	2006	2011	2016	2001	2006	2011	2016
Afghanistan	7	91	276	146	0	10	5	9
Bangladesh	15	92	132	264	22	168	896	881
South Korea	62	156	528	519	759	3,556	6,298	6,384
Hong Kong	146	148	425	400	102	142	100	126
India	74	222	756	652	355	1,579	6,499	5,757
Indonesia	32	85	307	254	202	1,031	1,931	1,424
Japan	124	263	296	354	1,307	3,217	4,264	3,944
Malaysia	35	60	183	321	239	934	1,568	1,997
Pakistan	31	130	213	347	101	380	873	263
Singapore	104	357	840	418	111	254	354	363
Taiwan	67	80	164	138	316	1,649	2,025	1,597
Thailand	37	61	125	164	152	937	1,592	1,482
Vietnam	13	45	100	234	21	189	1,009	1,736

Source: TurkStat

7.6. Sub-Saharan Africa

While North Africa was a well-known region as a legacy of the Ottoman era with uninterrupted relations, Sub-Saharan Africa was a neglected region in Turkish foreign policy and foreign trade. Although Eritrea, Somalia, the Sudan and the Chad were under Ottoman reign for a short period and contacts were made with the West African states of the time, mainly with the areas inhabited by Muslims; these relations fizzed out during the time of the republic after the termination of the caliphate.⁷⁶

The new start was the Africa plan initiated by Ankara in 1998 but implemented under the AKP Government after 2005 because of the economic and political crises. The year 2005 was declared the Year of Africa by Turkey. Prime Minister Erdoğan visited numerous African countries (e.g. Ethiopia and South Africa). Turkey also became an observer, then a strategic partner of the African Union, and a shareholder of the African Development Bank. In 2008, the Africa Summit was organised in Turkey

⁷⁶ ÖZKAN 2011, 119.

with more than fifty participant countries. In the same year openings of embassies in different African countries were announced.⁷⁷ In November 2014, the second Turkey–Afghanistan Partnership Summit was held in Equatorial Guinea, where a plan was accepted for the period of 2015–2019.⁷⁸ It envisioned increasing the volume of trade from 3 billion dollars in 2013 to 50 billion dollars. Upon the requirements of the EU customs union, Ankara would grant preferential treatment for African products, and would increase development and humanitarian assistance.

While many considered such vigorous development of African relations unnecessary, Turkey saw some indirect benefits.⁷⁹ The new foreign policy tries not to separate the importance of North Africa and Sub-Saharan Africa, although significant differences exist in the intensity of economic relations.

The economic networking was assisted by the development agency TİKA and also promoted by Turkish NGOs, including İHH, highly active in humanitarian assistance.⁸⁰ TİKA's original activity concentrated on Central Asia and the neighbouring regions (the Caucasus and the Balkans), but by today it has become global, and it has become particularly prominent in Africa. It opened local offices in many countries, e.g. the Sudan, Ethiopia, Senegal, which coordinate dozens of aid programmes regarding health care, education, agriculture, infrastructure and environmental protection.⁸¹ The amount of aid is about 150 million dollars a year. The Yunus Emre Institute is expanding as well: besides Khartoum in Sudan, they intend to open new centres in South Africa, Djibouti, Gambia and Niger.⁸²

⁷⁷ ÖZKAN 2010, 94. The number of Turkish embassies in Africa increased from 12 in 2009 (including five in North Africa) to 40, while the number of African embassies in Ankara increased from 10 to 32 (Republic of Turkey Ministry of Foreign Affairs 2017).

⁷⁸ Republic of Turkey Ministry of Foreign Affairs 2014.

⁷⁹ For example, the support of African countries greatly contributed to Turkey's membership of the United Nations Security Council (2009–2011) (ÖZKAN 2011, 122).

⁸⁰ ÖZKAN 2011, 124.

⁸¹ TİKA 2015.

⁸² Republic of Turkey Ministry of Foreign Affairs 2017.

Table 16.
Main trade partners in Sub-Saharan Africa (USD million)

	Exports				Imports			
	2001	2006	2011	2016	2001	2006	2011	2016
Angola	8	44	220	128	n/a	27	0	6
South Africa	78	598	510	406	345	1,793	1,955	1,058
Ivory Coast	9	29	66	110	17	44	139	251
Ethiopia	32	92	275	404	0	24	42	35
Ghana	18	33	219	298	36	57	292	180
Kenya	10	85	199	127	3	4	15	13
Congo	4	15	78	103	1	15	26	8
Nigeria	69	83	394	242	228	87	366	158
Senegal	13	40	155	154	0	1	3	6
Somalia	0	2	40	116	0	3	2	2
Sudan	54	216	244	462	1	8	9	50
Tanzania	3	27	171	96	1	16	22	23

Source: TurkStat

The approximately 6-billion-dollar trade with Sub-Saharan Africa is still not very big. The most important partner is the strongest economy of the continent, South Africa: the former trade value of several hundred million dollars increased to approximately 2 billion dollars. Turkish imports dominate, while exports lag far behind, and in the last few years there has even been a decline. The two G20 emerging economies plan to strengthen relations, but South Africa still does not want to conclude a free trade agreement with Turkey despite the fact that it has already signed an FTA with the EU.

Turkey has a free trade agreement with Mauritius and Ghana. Besides Congo and Cameroon, other ACP countries have initiated FTAs.⁸³

Turkish exports cover mainly furniture, major household goods, foods, textile, iron and steel products, electric equipment and construction materials. Regarding imports, oil, raw materials, gold and other minerals dominate. Turkish investment and business companies can help diversify African trade: agricultural technology transfer and development of food processing are potential possibilities.⁸⁴

⁸³ Source: <https://aynokom.com/free-trade-agreements/>. These are also customs union related obligations of the EU.

⁸⁴ ÖZKAN 2010, 102.

For the Turkish construction industry Africa is an important area (contributing 21% of the total general contracts), but at the moment it is mainly focused on North Africa (19%), with Sub-Saharan Africa contributing only 2%. The total value of the 1,150 projects realised in Africa is 55 billion dollars.⁸⁵

⁸⁵ Website of the Ministry of Foreign Affairs of Turkey. www.mfa.gov.tr/turkey-africa-relations.en.mfa (Accessed 19 March 2020.)

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PART 3

Summary

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Chapter 8

Dilemmas of Turkey at the Beginning of the 21st Century

The twin-track situation of Turkey between East and West has for a long time had a fundamental influence on the country's identity, ambitions and politics.

The establishment of the new Turkish nation state has been strongly determined by the circumstances of its formation: the heroic fight, led by Kemal Atatürk, which recovered sovereignty in areas formerly considered the sphere of influence of external powers, and the consequent mistrust of these powers still affect Turkish consciousness. However, the failure of earlier modernisation was blamed on internal factors: the Islam, the betrayal of the peoples formerly belonging to the empire and now neighbours (Greeks, Armenians, Arabs) that wanted autonomy. Turkey saw the solution in radical Europeanisation and the reduction of the Islam as fully as possible. In the economy, an intensive industrialisation was launched, also inspired by the Soviet example. Foreign relations with the neighbouring countries were reduced to a minimum. On the other hand, they were reluctant to be allies with the European countries.

In the new world order following World War II, Turkey became a strategic ally of the United States, which was helped by the Marshall Plan and NATO membership. Nevertheless, relations with Western Europe remained ambivalent. Despite the association agreement with the EEC and permission for labour migration, the acceptance of being European, an old desire of Turkey, was not obvious. Although the political life became diverse, it led to a decline in efficiency. The army interfered with the life of the state on several occasions to ensure the dominance of the fundamental principles of the Kemal model. The weaknesses of the import substitution strategy in the economy could be noticed in the 1970s, and the new model based on exports and initiated by Turgut Özal was slow to be successful, partly because of the defensive foreign policy. Nevertheless, the new economic policy made

foreign trade opening necessary. The primary intent was to engage in trade with the European Union, but Turkey had to face successive failures and obstructions. The dissolution of the Soviet Union created new opportunities, but the cooperation with the newly independent Turkic peoples of Central Asia did not meet expectations. Political controversies also complicated relations with the neighbouring countries and the economy was hit hard by repeated crises due to liberalisation, executed perhaps too quickly.

The new millennium brought radical changes in Turkey in every respect, which was discussed in detail in Part 2. The signs of changes had been present for a long time and at the beginning of the 2000s, their coaction thoroughly changed Turkey's political and economic life as well as its regional and global position.

The most important factor in politics was the return of Islam. For a long time, the secular state discouraged its appearance in public life, but Islamism never entirely disappeared in Turkey. It survived in religious movements based mainly on Sufism, then political liberalisation allowed it to appear in parties. Although the Islam-based parties were regularly banned, they were always restored because the rural conservative groups constituting its base also became stronger and stronger. Named Anatolian Tigers because of the successful export oriented production, conservative and religious entrepreneurs having an interest in global and European integration embraced a sort of Muslim 'Calvinism'. This point of view, which exemplifies the compatibility of Islam and modern capitalism, emphasised taking advantage of worldly economic success and globalisation, whilst keeping the Islamic morality. This required a new approach of the Islamist parties as well. Founded in 2001, the AKP met this demand the most. Although it had an Islamist basis, it supported the country's liberalisation and integrational efforts. After coming to power, it urged political reforms required by the European integration. The programme was successful economically, and reasonable politically, as besides increasing foreign economy trust in Turkey, the reforms resulted in weakening the former Kemalist state model.

New reforms were instituted in the economy already after the 2001 crisis. Their aim was to consolidate the weak financial system. The AKP Government continued this policy. In the next decade, it took measures that improved the competitiveness of the Turkish economy and contributed to rapid economic growth, which was named (with some degree of overstatement) the Turkish 'economic miracle'. Started in the late 1980s, the structural changes bore fruit by then, and a more diversified economy

was able to appear in the world market with competitive products in an increasing number of sectors.

Political and economic changes had an impact on foreign policy and external economic relations. The former security-oriented and reactive foreign policy doctrine was replaced by a proactive new line, which mainly opened up to the surrounding regions and countries. In the spirit of the 'zero problem' ideal, Turkey's intention was to settle relations even with countries with which relations were stressed, such as Greece, Armenia and Syria. Behind the new approach, the emerging trading state policy could be seen, which, driven by its economic interest, intends to keep good relationship with everybody. Moreover, this aspect appeared not only in bilateral politics, but acting as a mediator, Turkey also tried to promote the reconciliation of the neighbouring regional countries.

Some saw the increasing interest in neighbours as the manifestation of 'neo-Ottomanism', i.e. Turkey's intent to control again the areas that used to belong to the Ottoman Empire. Although the official Turkish politics denied it, since the expansion of the Turkish economic potential was the most spectacular in the neighbouring regions, it is also here that the increasing 'soft power' became most dominant, and made the Turkish relation desirable. Putting the religious and cultural background aside, the successful 'Turkish model' became a model for the Muslim countries also from a political and economic point of view. All these influenced the economy, from which Turkey profited through expanding business relations and increasing tourism.

The consequences of the slow progress of accession and the 2008 global financial crisis had a serious impact on the European economies slashing import demands, which led Turkey to question the priority of European integration. In the new foreign policy, which emphasised the strategic importance and position of Turkey, the unilateral Euro-Atlantic linkage was replaced by a multidimensional approach. In the official Turkish communication, alliance with the European Union and the West has remained the central theme, since the country is a NATO and a Council of Europe member as well as a candidate of the European Union. However, the new strategy has been gaining ground in economic processes, foreign policy actions and in government rhetoric.

In the second part we examined the changing relationship between Turkey and the European Union, the neighbouring regions, and other countries and regions that are significant as potential or actual partners.

Relations with the EU and its member states have been ambivalent since the very beginning. Although Turkey has always tried to become a European nation, Europe has never thought Turkey was 'one of us'. This perception was due to Islamism, in addition to historical memory. Although Turkey became a secular state, the difference in religion seemed to be the strongest reason for those who rejected the idea of accession. Yet strategic interests rather support cooperation, therefore relations are characterised by a permanent volatility, a combination of conflicts and cooperation. Currently, the Turkish authoritarian forces urge for a review of political cooperation and strengthen doubts about EU integration; on the other hand, in areas such as migration, foreign policy or energetics cooperation it is absolutely necessary. There are significant differences in the member states' attitude towards Turkey's accession. In some countries it largely depends on the political composition of the government; in other countries public opinion is clearly either opposing or supportive.

From an economic point of view, appreciation and strengthening of relations was conspicuous at the beginning of the 2000s. The integration of a dynamically developing Turkey as a market, a production base, and a tourist destination has become important for the EU. Including Turkey in the customs union had basically a positive effect on the economy, but it came at additional costs for Turkey. Besides the harmonisation of laws, the lack of participation in the decision-making processes and the negative effects of agreements concluded between the EU and other trade partners have become important sore points. Turkey undertook these costs primarily in the hope of accession, but as it is still an open question, the issue of the customs union is becoming increasingly urgent.

Seeking alternatives of full membership seems to be more and more relevant for the future development of relations. Germany has for a long time been the ambassador of establishing a special partnership but Turkey refused a second-line membership. Perhaps the present processes within the European Union including Brexit and the possibility of a multi-speed integration will make forms of integration other than full membership more palatable.

It is still possible that conflicts will escalate and institutional relations will be disrupted. European politicians voice more and more frequently the possibility of breaking off the accession negotiations, and Turkey is exploring alternative integrations (Eurasian Economic Union, Shanghai Cooperation Organisation). Nevertheless, these statements can be considered

exaggerated and are intended to influence domestic public opinion and the other party alike. For the time being Turkey's cooperation in the migration crisis makes the country an indispensable partner for the EU, while close European economic relations have no real alternative for Turkey as yet.

Therefore, while unfavourable political processes, violation of the rule of law and of fundamental rights in Turkey, the unresolved Cyprus issue or the problems related to the customs union challenge the relations between the EU and Turkey these days, still mutual dependence and interests support their continuity. It is important not only for the two parties; its demonstrative effect influences the relations between the EU and countries of the neighbouring regions; therefore, it can be significant in the long term for European security and welfare.

The Balkans is one of the regions where both the European Union and Turkey have a significant impact on future processes. Although the EU is more dominant, since most states of the region are candidates, and the Union is more important because of its economic weight, recently the Turkish 'soft power' has shown a spectacular increase in the region. The competition for the region can doubtless generate some confrontation, but involving Turkey in the politics of the Balkans, mainly in connection with Muslim minorities, can rather be advantageous for the EU.

Because of the European orientation, Turkey made efforts to move away from the Middle East region for a long time, but this was impossible to realise. The Kurdish problem connected Turkey to Iraq, Iran and Syria, and even its energy demand made relations with the Middle East necessary. The 2000s gave good opportunities for Turkey. Iraq (mainly Kurdistan) and Iran became major economic partners and relations with other countries of the region also developed dynamically. Simultaneously, 'soft power' also increased, the Turkish model started to be attractive for the whole region. For a long time the 'Arab Spring' seemed to bring yet more opportunities, and Turkey could grow to be a major regional player – a goal long set in its foreign policy doctrine. However, the events exacerbated several problems, dormant until then, in the region, dragging Turkey into a maze of complex problems. All of it forced Turkey to give up its former foreign policy; 'hard power' gained more and more ground, which had a negative impact on economic relations.

The Caucasian and Black Sea neighbourhood relations are also replete with ambivalent processes: on the one hand, Turkey strengthened economic relations with Georgia, Azerbaijan and Ukraine; on the other hand,

increasing political influence greatly affected opportunities. Moreover, relations among the countries in the region are equally complex; the most important factor is Russia that has traditionally considered this area its sphere of interest, exercising not only its influence but also interfering to promote its own agenda.

Special emphasis has been accorded to discussing Turkey–Russia relations, since the two Eurasian powers had traditionally been competitors and even opponents, but recently a new chapter has opened in bilateral relation and seems to have benefits for both parties. This was slightly overshadowed by the Syrian incident of 2015, which resulted in freezing relations, but the fact that the situation was settled within a year clearly shows that the partners are interested in normalisation. For Russia, Turkey's geostrategic position is important, and Turkey has been an increasingly important customer of the Russian energy industry products and services. For Turkey, besides the export of products, Russian construction industry orders and Russian tourism are crucial, as highlighted by the negative effects of the sanctions. Many foresee a stronger cooperation based on similar developments of the political systems (hybrid regimes), but in reality, cooperation is mostly motivated by the interests.

Relations between Turkey and its former main ally, the United States, are not all rosy. Although the United States has been a staunch supporter of Turkey's EU integration, their strategic interests regarding Middle East issues often differ. This was the case earlier with Iraqi and Iranian or Israeli and Palestinian politics, and the same applies now to Syria, where US support of the Kurds angered Turkey. Extradition of Fethullah Gülen living in American exile also causes tension. All this has not much bearing on economic relations as the United States is still a priority partner for Turkey, albeit to a decreasing extent. That is why a free trade agreement between the EU and the United States would have affected Turkey in a particularly negative way if they had not been able to conclude a similar agreement at the same time.

The importance of the emerging superpower China has surged. The new Silk Road project offers especially great perspectives. Due to its geostrategic position, Turkey can vie for a key position in the ambitious Chinese plans, although admittedly, there are alternative routes. China's increasing activity can be an important catalyst of Turkey's 'opening to the East'. The infrastructure projects to be realised would create new opportunities not only for China but also for the intermediate regions.

Central Asia stands out among these regions, where Turkey has tried to forge stronger relations since the early 1990s. The approach based on the Turkish kinship had limited popularity. Instead of political cooperation, culture and education emerged as significant. The development of economic relations was set back by the lack of infrastructure connections. This can be improved by the envisioned ambitious development programme initiated by China, which can also promote more intensive economic cooperation with several Asian regions. Besides India, which has recently risen to be a significant partner, the Asian Muslim states are priority allies at present. Economic relations between Turkey and several African countries have also been strengthened over the past two decades.

Considering external alternatives, we find that while the EU's economic difficulties and declining demand urged Turkey to diversify its trade relations and to search for new markets (in Africa, the Middle East, the post-Soviet region or in Asia), these relations lag far behind the importance of European markets and European cooperation. Regarding the opportunities outside Europe, some of the rhetoric is exaggerated and does not reflect economic rationale. Retaining close European economic ties remains a top priority for Turkey, partly because Turkey has already been embedded in the production value chains of the European multinational companies, which contribute three-quarters of FDI; but also because the advantages of the customs union and cooperation in RD&I are crucial for the state.

Although opening up to the East brings opportunities involving long-forgotten neighbouring regions or remote markets of Asia and Africa, for the time being they only constitute ancillary benefits rather than a real alternative for EU relations. On the other hand, Turkey's geopolitical weight and role is also growing. It is a hub in the energy sector, especially with regard to the gas supply of Europe, and 'the epitome of the Muslim state', whose economic success and democratic structures may serve as a positive example for other countries in the region. This makes Turkey strategically important for the European Union.

Based on the above summary, it seems that rather than choosing between European integration and opening to the East, Turkey can most successfully shape its orientation in the 21st century by finding a synthesis of the two.

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Ludovika University Press Non-Profit Ltd.
H-1089 Budapest, Orczy út 1.
Contact: info@ludovika.hu

Responsible for publishing: Gergely Koltányi,
Managing Director
Managing Editor: Fanni Karácsony
Copy Editor: Zsuzsánna Gergely
Typeset and design: Anikó Gyapjas
Printed and bound by Pátria Printing House

DOI: https://doi.org/10.36250/00830_00

ISBN 978-963-531-161-3 (print)
ISBN 978-963-531-162-0 (PDF)
ISBN 978-963-531-163-7 (ePUB)

Turkey has long sought to act as a bridge between the East and the West, and today it aspires to be not only a bridge but also a regional factor that is significant on its own right in a strategically important region. A Turkey that can combine the elements of both the Western and Muslim civilisations and ways of thinking may become a most successful and competitive society of the 21st century, and may serve as a model and regional hub for neighbouring countries and regions.

However, for the time being, although opening up to the East brings opportunities involving long-forgotten neighbouring regions or remote markets of Asia and Africa, they only constitute ancillary benefits rather than a real alternative for EU relations.

The work was created in commission of the National University of Public Service under the priority project PACSDOP-2.1.2-CCHOP-15-2016-00001 entitled "Public Service Development Establishing Good Governance".

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