

Turkish business and EU accession

By Sinan Ülgen

Turkish accession prospects were becoming bleaker at the end of 2006, just over a year after the start of accession talks. Both Turkey's political elite and its people are disillusioned with the EU. Opinion surveys show that support for accession among the Turkish electorate has fallen to around 32 per cent, a drop of 30 percentage points in just two years. Some Turkish politicians are advocating that Turkey should walk away from the accession process. Against this background of growing doubts and uncertainty, Turkish businesses have stood out as steadfast supporters of their country's EU aspirations. Their support has remained strong throughout the turbulent history of EU-Turkey relations. However, now that business support is needed more than ever, there is a risk that it might be waning.

Turkish business has influenced, and continues to influence, the country's approach to the EU. Conversely, Turkey's relations with the EU have been instrumental in shaping the relationship between business and government in Turkey. To understand this complex interaction, it is worth taking a brief look back at the history of the business community's approach to the EU.

The triangle of business, government and Europe

After the Second World War, Turkey's development strategy was based on import substitution: high tariff walls and other barriers protected fledgling domestic industries from international competition. The Ankara Association Agreement of 1963 envisaged the gradual establishment of a customs union between Turkey and the EU (or European Community, as it was then called). Trade opening was to be 'asymmetric', with the EC scheduled to phase out all tariffs on Turkish industrial exports well ahead of reciprocal action from Turkey, which would enjoy a 22-year transition period. Turkish companies backed this plan. As long as international competition was limited, getting closer to the EU had few economic costs and many political benefits.

To gain a voice in the forthcoming European journey, Turkish businesses set up the Economic Development Foundation (IKV), an early institutionalisation of business support for Turkey's EU objectives. The IKV was unique in its focus on EU relations. In all other candidate countries, existing industrial associations just added EU-related questions to their extensive portfolios of business concerns.

By the late 1970s, it was clear that the import substitution strategy had failed and Turkey entered a prolonged period of macro-economic instability. Political turmoil eventually followed, and the drive to deepen Turkish-EU relations was put on ice. As Turkey was rocked by repeated economic crises and military coups, the question of Europe disappeared from the domestic agenda.

The military government that took over in 1980 restored order and started a fairly radical programme of economic change – a watershed in Turkish economic history. Economic reform and competition replaced protectionism and import substitution. The military handed over to a civilian government in 1983. Economic recovery was accompanied by a revival of the European dream. Plans to build an EU-Turkey customs union by 1995 (spelled out in an 'additional protocol' from 1973) were dusted off. The EU kept its commitment to eliminate all industrial tariffs, but it was not shy to resort to protectionism in 'sensitive' sectors, for example by imposing strict quotas on Turkish textile exports in the 1980s. Turkey did not start to cut tariffs in earnest until 1987, the year the government of Turgut Özal applied to join the EC.

Since the customs union was implemented in the 1990s, at a time when Turkey was still mired in macro-economic instability, it did not have an immediate, noticeable impact on economic growth and investment. Foreign companies shied away from a country where inflation topped 80 per cent, GDP growth oscillated widely and the government ran an unsustainable budget deficit. Turkish companies were initially too busy trying to survive and paid little attention to the liberalisation drive connected to the customs union. But gradually this began to change.

The steady dismantling of trade barriers forced Turkish businesses to think more seriously about the implications of integrating with the EU. They realised for the first time that support for accession would come at a price. Therefore, their approach to the EU objective became more ambivalent and conditional. Most business leaders still wanted economic integration but insisted that the EU should reciprocate with faster political integration. Sectoral divisions appeared. The textiles industry, for example, strongly backed the customs union, hoping that it would spell the end of the vexed quota system. Car producers, on the other hand, feared competition and lobbied the government for protection.

In the event, the negotiations that led to the completion of the customs union in 1996 were conducted with little consultation with Turkish industry. Turkish officials feared that protectionist lobbying could endanger the politically important objective of completing the trade pact. The inability of Turkish industrialists to act in concert and raise their concerns collectively enabled the government to keep them at a safe distance from the core of the negotiations. This was a mistake that the industrialists would not repeat.

After the customs union

The completion of the customs union was a second watershed for Turkey's economy. It not only required Turkey to liberalise most trade but also to follow some EU rules on competition policy, intellectual property rights and so on. The business environment changed considerably. For instance, the new and highly effective competition authority was instrumental in spreading a culture of competition among Turkish businesses. Similarly, stronger consumer protection rules forced Turkish companies to become more responsive to consumer concerns. Work remains to be done in many areas. For example, the government still freely dishes out industrial subsidies (in contravention of EU state aid rules). Some import barriers remain and different regulations, such as those on industrial standards also complicate bilateral trade. Moreover, the EU-Turkey customs union excludes entire sectors, most notably agriculture and services, and is therefore not suited for building a truly integrated market between the EU and Turkey.

Nevertheless, the progress that has been achieved has profoundly changed the attitudes of both business and government. Turkish officials and politicians realised that there was no going back to protectionism. Companies, likewise, adjusted their strategies to the new environment. The transition to an open, market-orientated economy in the early 1980s had brought to the fore a host of home-grown entrepreneurs who thrived in, and staunchly supported, the new liberal regime. The rest, perhaps realising that competition was here to stay, were forced to adjust. Turkish business sought international partners, invested in new ventures and rationalised production processes. The Turkish economy became a more integral part of international production and distribution networks.

The results were positive, and in some cases surprising. The automotive industry, which had opposed the customs union most vehemently, turned out to be the biggest winner. In the ten years to 2005, Turkish car exports rose from just \$400 million a year to \$16 billion. But the really important change was in business attitudes.

Based on their happy experience with the customs union, Turkish industrialists became stronger and more straightforward supporters of the EU project. Nowhere was this change more visible than in the case of TUSIAD, the industry federation that represents the country's big conglomerates such as the Koç, Sabancı, Dogan and Doguş groups. Before the customs union, TUSIAD had mainly concerned itself with regulation, taxes and tariffs. Then, having strongly backed the EU cause, TUSIAD became a watchdog for the entire accession-driven reform process. The boundary between business and politics became blurred in TUSIAD's statements and activities. In 1997 TUSIAD published a seminal and critical report on Turkey's democratisation process – a step that would have been unthinkable a decade earlier.

The EU as an anchor

A second reason for changing business attitudes was the experience of corruption, economic mismanagement and political instability in the 1990s. In economic terms, the 1990s were a lost decade for Turkey – in 2001 income per head stood at the same level as in 1991. Business came to the conclusion that the country needed an outside anchor for stabilisation and good governance. But for the EU to be able to perform this role, political relations between Turkey and the EU had to improve.

The aftermath of the deep economic crisis of 2000-2001 provided a new opportunity in this respect. Kemal Derviş, then Turkey's economy minister, started a radical economic reform programme with IMF backing. Subsequently, national elections in 2002 ended decades of unstable coalition governments: Recep Tayyip Erdoğan's AKP won an absolute majority in parliament. But as a new party with Islamist roots, AKP also lacked credibility, especially with the country's more liberal business leaders (and the media they control). The AKP leadership seized the EU agenda as a way of winning their support. With EU accession being its top priority, AKP embarked on an ambitious programme of political reforms, which involved such controversial steps as abolishing the death penalty, giving more cultural rights to minorities and reducing the role of the military in politics. As a result, the EU gave Turkey the go-ahead for accession talks on October 3rd 2005. Another result was that the EU became a much more important and visible factor in Turkish domestic political debates. Turkey's transformation now had two anchors: the IMF for macro-economic stability and the EU for political and regulatory reforms.

Since it was the AKP government that drove these changes – while the opposition parties appeared ambivalent at times – business leaders made a conscious effort to show that their enthusiasm for EU-driven reform would not be misinterpreted as support for the government *per se*. TUSIAD in particular has not been shy to criticise the AKP on other issues, for example whenever it appeared to move away from Turkey's secular principles.

Business gets active

However, Turkey's company bosses have done much more than back the government's pro-EU initiatives. They have developed their own, pro-active EU strategies, with the following elements:

- ★ **Monitoring:** The business community has rung alarm bells whenever the reform agenda has suffered a setback or slowdown. For example, in the run-up to the December 2006 EU summit – which was to decide whether Turkey's accession talks should continue – business groups such as IKV, TUSIAD and TOBB (the umbrella group representing the various business groups) got together with other civil society organisations and trade unions. They arranged to meet Prime Minister Erdoğan to ask him publicly to amend a controversial clause on free speech in the Turkish penal code. The business community's ability to set the agenda and hold the government to account also has much to do with the fact that the big conglomerates own many of the key media outlets.
- ★ **Education:** The business federations have worked hard to educate their members, as well as farmers, workers and the general public, about the EU accession process. TUSIAD, for example, has published papers explaining how EU accession requires changes to the judicial system, agricultural policy and the energy sector. IKV and TOBB have conducted information campaigns aimed at specific constituencies.
- ★ **Representation:** Not content to leave Turkey-EU relations to the government, the business community has strengthened its presence in Brussels. TUSIAD opened its Brussels office in 1995. It was followed by TOBB and ITKIB (which represents textile and clothing exporters). Having learnt the intricacies of Brussels policy-making and established good links with the Commission and other EU institutions, TUSIAD has subsequently opened offices in Paris and in Berlin.
- ★ **Networking:** Turkish business associations have integrated themselves and built alliances with EU-wide business organisations. TUSIAD has become a member of UNICE, the European employers federation, while TOBB has raised its profile within Eurochambres, the European association of chambers of commerce. At the sectoral level, ITKIB has joined Euratex, its EU counterpart, while IMMIB (the Turkish association of metals producers) is now a member of Eurofer. These links have not only allowed Turkish business to raise its profile in the EU and establish a multitude of profitable commercial links. But they have also enabled it to influence policy-making. ITKIB, for example, has used its links to Eurotex to push for EU quotas to stem an influx of Chinese textiles into the European market. Since Turkey has a customs union with the EU, Turkey's external trade policy is largely determined by the EU.
- ★ **Public relations:** Painfully aware of the weak public support that Turkey's membership bid enjoys across the EU, Turkish businesses have made increasing efforts to improve their country's image abroad. In a first step, they won the support of UNICE. Such lobbies, it was hoped, could help to influence attitudes in the Commission and the European Parliament. However, the scepticism of European voters may actually increase if 'big business' speaks out in favour of Turkish accession. Therefore, TUSIAD in particular has started to focus its PR efforts more directly on key policy-makers and opinion leaders in individual EU countries. Delegations of Turkish industrialists have met government leaders in Germany and France, and held meetings with the press and other opinion formers across the EU. Turkish business leaders have held discussions with José Manuel Barroso, Angela Merkel, Jacques Chirac, Tony Blair and others. TUSIAD has drawn up (and funded) a medium-term PR campaign that is targeted specifically at

those countries where public and political support for Turkish accession is low, such as Austria, France and Germany.

Working with the government remains tricky

While the business community works well with the Turkish public, the Brussels institutions and selected EU governments, the same cannot always be said about its relations with the Turkish government. Business-government co-operation on EU-related issues got off to a very good start, especially in the area of PR. Public diplomacy – traditionally the exclusive domain of the government – became the subject of a public-private partnership. The idea was that representatives from the government, TUSIAD and IKV would jointly evaluate Turkey's EU-related communication strategy. Public money would fund the approved PR projects, but civil society organisations would implement them. This new model worked well in the run-up to the EU's December 2004 decision about whether and when to start accession negotiations with Turkey. More than 30 projects were implemented in a single year. Since then, however, the government has lost interest, and no new public-private initiatives have been taken. The government's own PR efforts in the EU have remained ineffective. To the mounting frustration of business, the Turkish government has been unable or unwilling to devise a model of genuine dialogue with businesses to make their voices heard in the accession negotiations.

Turkey cannot afford to lose the business sector as a source of forward momentum in the EU accession process. This is all the more true since support for the EU is already waning among Turkey's political elites and the wider public. Political leaders have become more critical of the EU. They complain that Brussels keeps on making new demands, on Cyprus and other issues, without being able to reassure Ankara that full membership is a convincing prospect. Growing scepticism is mirrored in public opinion. A survey conducted in October 2006 showed that two-thirds of Turks thought that the EU was never going to let them join.

Will business turn away from the EU?

Will Turkish business remain enthusiastic about EU membership despite the disillusionment of political leaders and voters? Several factors suggest that business support is likely to remain strong, at least for now. First, Turkish businesses have invested a lot in their pro-EU policies, for example in the form of new representative offices in Brussels and series of EU-related events and seminars. Second, economic and business links between the EU and Turkey continue to multiply. Since the creation of the customs union, Turkey's economy has become considerably more open. Exports now account for 32 per cent of GDP, a ratio that is higher than those of EU members Spain and Portugal. Over half of Turkey's exports go to the EU (53 per cent of the total), and the EU is the single biggest supplier of imports (43 per cent of the total). EU countries are also by far the largest foreign investors in the Turkish economy, accounting for 58 per cent of total foreign direct investment (FDI) inflows in 2005. This proportion rose to 91 per cent in the first half of 2006.

There has been a string of multi-billion dollar acquisitions over the last couple of years, as outside investors have sought to establish a foothold in Turkey's fast-growing market and take advantage of the business opportunities created by pre-accession reforms. For example, Citigroup bought a 20 per cent stake in Akbank, Fortis (a Dutch-Belgian bank) took over Disbank, the UK's Vodafone bought mobile operator Telsim and Oger, a Saudi business group, acquired Turkish Telecom. The sale of Finansbank (a mid-sized Turkish bank) to the National Bank of Greece is particularly notable. Even a few years ago, a major Greek-Turkish merger would have been inconceivable, given the level of mistrust that used to prevail between Greece and Turkey. Growing trade and investment links have created a new dynamic that will persuade most Turkish businesses that EU accession is central to their interests and needs to continue.

The third, and arguably most important, reason why business is likely to maintain support for joining the EU is that the accession process provides a sorely needed external anchor for the modernisation and governance of the Turkish economy. The most acute fear among the Turkish business community is a return to the chaos and public mismanagement of the 1990s. Turkey's economy has grown by a cumulative 30 per cent since 2002. IMF conditionality and the EU accession process have been instrumental in bringing about the improvements in macro-economic management, the business environment and (not least) confidence that have underpinned this performance.

The Erdoğan government (just like its predecessor) has had limited room for independent economic policy-making. The IMF requires Turkey to run large surpluses on the primary budget (the fiscal balance before debt servicing costs), leaving little leeway for populist measures and the distribution of spoils to political supporters. The end of the current IMF programme in 2008 will be a real test for Turkey. Those who worry over the depth of the Turkish government's commitment to responsible economic policies argue that the EU

anchor will become all the more important after 2008. Therefore, the support of Turkish business for the EU is likely to remain strong – provided, of course, that the EU sticks to its commitment to negotiate with Turkey on future membership.

Remarkably, the EU integration process has not so far opened up significant divisions within the Turkish business community. In other EU candidate countries, traditional or declining industries, as well as small businesses, were often more sceptical of EU entry than big, export-oriented companies. One of the reasons why Turkish business still stands united behind the drive to join the EU is that the integration process is rather slow. There has not been any significant market opening since the completion of the customs union in 1996. Therefore, Turkish businesses bore most of the adjustment costs a decade ago – at a time when it was difficult for them to disentangle the impact of the customs union from the country's chronic macro-economic instability. Even today, integration is only partial: a big and backward farm sector, which employs 30 per cent of the workforce, and a rather protected services sector have yet to be exposed to increased competition.

As the EU negotiations progress and move into new areas, the sectoral impact of EU integration will become more obvious and may cause divisions in the business community. Already, TUSIAD – which represents larger, more internationally competitive businesses – exhibits a more pronounced pro-accession stance than TOBB, which is seen as the representative body of smaller businesses. Farmers have not so far been particularly visible or vocal in the EU process. They have, however, been able to prevent Turkey from following up on a commitment to open its market to meat imports.

The continued support of Turkish business for EU accession should not be taken for granted, however. The growing openness and competition caused by EU-led reforms will invariably create losers as well as winners among Turkish companies. Even those industrialists who do good business with the EU may become complacent. If successive Turkish governments managed to sustain responsible economic policies, and growth continued at strong rates, the perceived need for an external anchor such as the EU could weaken. With a stronger economic outlook, Turkish industrialists and entrepreneurs could re-evaluate their support for EU membership.

To avoid a loss of faith and enthusiasm among the business community, the EU must deliver a clearer message to Turkey about its potential membership. Turkish entrepreneurs, like Turkish politicians and the public at large, are aware of the EU's current problems, such as the uncertain fate of the draft constitutional treaty and enlargement fatigue. While the EU may not be able to make big strides at the moment, the member-states should at least not hamper progress in the technical and legal accession negotiations. It is through this process of working together and integrating Turkey's economy with that of the EU that Turkish companies will gain a growing sense of ownership of Turkey's European ambitions.

Turkish business has been, and will continue to be, a key player in Turkey's EU accession process. The country's industrialists and entrepreneurs are needed as a source of impartial information on EU accession, as indispensable lobbyists in European capitals and impressive ambassadors for modern Turkey. Most importantly, by taking advantage of the opportunities provided by the accession process, Turkish business will create jobs and boost incomes in Turkey. These economic improvements will not only help to sustain public support for EU accession within Turkey. They will also ease the fears of West Europeans over Turkey joining the EU.



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The CER would like to thank the Open Society Institute Assistance Foundation - Turkey for supporting this publication.

December 2006

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