

Fine-tuning Turkey's economic diplomacy In support of its EU accession process¹

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Overview

There is a need to step up the efforts to consolidate Turkey's EU accession process at a critical time when the EU is in an enlargement fatigue and trying to put its house in order, and when Ankara shows signs of drifting away from the initial enthusiasm as a result of the frustration due to the re-opening of the Pandora's box on its fitness economically, culturally and politically for the eventual goal after so much road that has been traveled since the early 1960s. The economic diplomacy remains a powerful instrument for both sides to deploy in this relationship of ups and downs.

There has recently been much talk in the streets of Brussels over whether or not the new French President Sarkozy will attempt to block Turkey's EU accession ambitions as promised during his election campaign. In a tactical move, Foreign Minister Bernard Kouchner confirmed that France would not block anything this time around at a time when such a move would have been unjustified and potentially very damaging in a relationship that is already sailing on very rocky waters³.

However, after the constitutional crisis is sorted out, Turkey will be very near the top of Sarkozy's action list when a full discussion not only on Turkey but on Europe's borders as a whole will take place at the December 2007 EU Summit. So, between now and December, both sides need to prepare themselves and the public for what could be a win-win solution in

¹ This paper represents the views of its authors and not those of any organisation they are associated with.

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³ EU and Turkey crawl onward, Amanda Akcakoca, 20 June 2007, Today's Zaman.

order for the critically important relationship to not turn into another frustrating affair.

This paper argues that in the coming period, the chances of Turkish accession process moving on smoothly will be greater if Turkey can continue managing its recent economic recovery and turning it into sustainable growth over the next decade. This will eliminate or at least reduce the deep-rooted concerns on the side of the EU about accession being too costly and too destabilizing in economic and social terms⁴. An effective and targeted deployment of economic diplomacy in this context by the Turkish government, private sector and civil society, as well as international organizations in which Turkey is a member will be of great help in allaying fears in the EU that this 73-million nation will join the faltering club as an asset and not as a liability.

"It's the economy, stupid" approach?

Turkey -- a country of 780,576 square km -- is almost the size of Germany and France put together. The enormous amounts of minerals and raw materials, the world's 10th largest area of arable land, a key position as a transit country for crude oil and natural gas and its water resources -- all of these are precious assets to the resource base of a future Europe.

What opponents of Turkey's accession complain most about is that its population is too poor and too big (the world's 17th most populous nation). If calculated in terms of purchasing power parity (PPP) Turkey is the world's 17th largest economy with a 2006 GDP of around \$500 billion. With an average 5-6 percent growth up to 2015 and 80 million in population by then, we are talking about an economy that will have a \$10,000 per capita GDP and an overall GDP of \$800 billion.

These figures imply an economic power that can by no means be neglected by the EU. It is believed that Turkey can do better over the longer term, judging from the performance of dynamic Asian economies, if it can pursue a "high growth" (7-8 percent per annum -- Turkey's economy grew at an average annual rate of 4 percent between 1965 and 2001, with its real per capita GDP growing at just under half that rate due to rapid population

⁴ Turkey and the EU: How to achieve a forward-looking and mutually beneficial accession by 2014, Mehmet Ögütçü, 24 March 2005, <http://www.turkishdailynews.com.tr/article.php?enewsid=8699>

growth. This long-term growth performance makes Turkey less successful than many of its competitors among the dynamic, emerging market economies located mostly in East and Southeast Asia and Latin America. Korea, Thailand and Malaysia grew two to three times more rapidly in per capita terms over the same period, and Brazil, India and Chile also outperformed Turkey, with average annual per capita GDP growth rates well above 2 percent⁵), "investment in people" and a "leap to the highest levels in technology" strategy.

The discrepancy between the GDP average of the EU and Turkey has important implications for the Union's structural policy. Until today, the EU's philosophy with respect to its prospective members has been to bring the citizens of new member states to the same standard of living, i.e. to about the same GDP average, of the existing members through financial measures (mainly structural funds and long-term credits). This may no longer be the case as before because there are 12 new members states that just joined plus Bulgaria and Rumania on 1st January 2007. These 27 member states compete for increasingly scarce resources.

In addition to Turkey's relative low GDP per capita, the considerable percentage of the Turkish population active in the agricultural sector, namely 45 percent, emerges as another area of potential serious concern. Agriculture accounts for 16 percent of its GDP (industry for 24 percent, and services for 60 percent). The EU has long been subsidizing its farmers with the notorious Common Agricultural Policy (CAP), but budgetary constraints would prevent the EU from providing the same level of CAP funding to the Turkish farmers.

Another worrying case is Turkey's huge foreign and domestic debt. In the new member states of the EU, gross public debt is typically about 40 percent of gross domestic product, according to the IMF. At about 80 percent of GDP, Turkey's gross debt is double that figure. Turkey's debts have largely arisen from its efforts to push through banking reform after a run on the banks in 2001 caused the country's devastating recession. Any return of Turkey's economy to the unsustainable, erratic growth of the 1990s would negatively impact the EU's perception of the feasibility of Turkish accession (This would, in more concrete terms, imply a continuation of the present

⁵ Turkey and the EU: How to achieve a forward-looking and mutually beneficial accession by 2014, Mehmet Ögütçü, 24 March 2005, <http://www.turkishdailynews.com.tr/article.php?enewsid=8699>

restrictive budgetary policy, further reforms of Turkey's social security system, and little room for a policy of broad income redistribution. Turkey's masses could be faced with the real situation of considerable economic growth without new jobs for some years to come).

A key concern is whether Turkey's accession will trigger a flood of cheap Turkish labor, driving down labor costs or relocating European firms to Turkey to take advantage of cost advantage, resources, domestic market and access to EU and neighboring markets. Such a development, if it occurs, will not only boost Turkey's competitiveness but also allow current EU states to import the qualified Turkish workers it will desperately need as the population ages. Despite declining birth rates (since 1970 these have dropped from 3.5 to 2.5 children per woman), Turkey's population is expected to reach 80 million in 2015, with one in four Turks -- or about 18 million people -- aged 14 or less. Fears of a "Turkish invasion" should be tempered by the knowledge that any lifting of restrictions for Turkish workers is probably a generation away.

There are several good points regarding the health of the Turkish economy that should not go unnoticed (and be disseminated to the Turco-sceptics). Inflation has stabilized, coming down from more than 70 percent at the beginning of 2002 to less than 10 percent within a time span of about two years, thanks in part to the IMF program and could be as low as four percent in 2007. The new Turkish lira was introduced on Jan. 1, 2005, dropping six digits. Growth in 2007 is projected to be around six percent, a level the EU - - and certainly the sluggish economies of France and Germany -- can only dream of. The OECD has recently described Turkish growth performance as "stunning"⁶. The tourism industry is booming and revenues from visitors should more than double to \$21 billion in three years. Moreover, government spending is set to be frozen and a burdensome social security deficit is being tackled.

The customs union, which introduced free circulation of industrial goods and processed agricultural products in 1995, has demonstrated Turkey's ability to cope with Europe's competitive environment. Despite dire predictions before customs barriers were lifted, Turkish companies rose to the challenge and proved their competitiveness. The agreement also forced Turkey to harmonize its economic legislation with the EU. Hence, it would not be an exaggeration to say that a fast-growing, dynamic Turkey with a positive

⁶ This OECD report can be accessed at www.oecd.org/eco/surveys/turkey).

macroeconomic environment would be just what the EU needs to boost sluggish growth and inject vitality into its economy.

This is largely due to economic reasons, including high transaction costs of entry and operation for foreign investors, chronic high inflation, economic instability, lack of intellectual property rights protection, lack of internationally acceptable accounting standards, insufficient legal structure and physical infrastructure. If the government manages to create a more favorable bureaucratic and legal environment, these decisions could also lead to an influx of much-needed European investment that would help take the Turkish economy to the next level of development. The government has, among other measures, decided to cut income and corporate taxes in order to attract \$20 billion of foreign investment by the end of 2007⁷.

There are wildly differing estimates of what Turkish accession would cost the EU. In the initial stages of its accession, Turkey would weigh heavily on the EU budget, both in terms of regional aid and agricultural subsidies. But, none of the current members of the EU are willing to contribute more to the EU budget (particularly at these difficult times in EU economies) -- or alternatively, willing to give up from their net receipts -- so that the integration of the Turkish economy into the EU can be financed. Hence, the EU has a keen interest in ensuring that Turkey steps up its drive for rapid economic development. Indeed, Turkey can contribute almost 6 billion euros to the EU budget by 2014, according to a recent impact study by the country's State Planning Organization⁸.

As Turkey's GDP is set to grow by 6 percent per year on average, its contribution would rise to almost 9 billion euros by 2020. This runs contrary to the popular view that Turkey is to become a burden on EU taxpayers. Turkey's assertions are confirmed by the European Commission's own "impact assessment"⁹ in October 2004, which says that "the economic impact of Turkey's accession to the EU would be positive but relatively small".

⁷Turkey as an Asset, Mensur Akgün and Sylvia Tiryaki, EUOBSERVER, Dec. 14, 2004, <http://euobserver.com/?sid=7&aid=17979>).

⁸ Turkey turns on the economic charm, Jorn Madslie, <http://news.bbc.co.uk/1/hi/business/4063233.stm>.

⁹ www.deltur.cec.eu.int/english/cp-progress.html

EU accession remains complex

Regardless of our views on the justification or the feasibility of its EU accession, Turkey's integration into EU structures would represent a challenging task. It will change Turkey significantly. It will also change the EU. No one is talking about Turkey becoming a member today or tomorrow. Remember: It took eight years to negotiate Spain's entry into Europe. It could take longer for Turkey, but the process is itself a catalyst that will act as a spur to improvement not only in terms of democracy and human rights, but also with respect to the economy. It should also be seen as an increasingly valuable geopolitical asset for the EU if the intention is to become a global political/security power, commensurate with its economic clout.

Turkey represents one of the most telling examples of how the prospect of joining one of the world's largest economic clubs - with still fledging political and security wings - can motivate a country's leadership and society to better standards, liberalize sectors, reform public administration, upgrade democratic credentials, resolve internal disputes, and improve relations with neighbours¹⁰. It is also a good example of how things could turn sour if EU's "golden carrot", namely the attraction of its full membership, is used for extracting asymmetrical concessions from a prospective member country.

From the flurry of discussions prior to the 17 December 2005 decision, it appears that the real dividing line about Turkey in the EU was between those focusing on internal aspects of the EU and those giving greater priority to external issues, especially to the Union's role as a global actor. Those who want a more globally responsible EU to engage more actively in international relations, and especially in the Middle East peace process, argue in favour of Turkish membership¹¹.

Turkey's case for serious consideration by the EU has often rested on broader strategic and political rather than civilization-based factors. The real post-cold war strategic significance of Turkey to Europe lies in the problems

¹⁰ Collectively, the reform measures adopted since February 2002 have vastly liberalized the country's political system, facilitating Kurdish broadcasting and education, abolishing the death penalty, and subjecting Turkish courts to the European Court of Human Rights. The main reason why these packages passed through the Turkish parliament rather smoothly -- with the public offering strong support and the military voicing only a few quiet reservations -- is that democratization has become a political avalanche in the country, driven by many powerful catalysts, including the prospect of EU accession.

¹¹ Europe Could Become the First "Post-Modern" Superpower, Ulrike Guérot, in European Integration Fall 2004, http://www.europeanaffairs.org/current_issue/2004_fall/2004_fall_36.php4

that a less stable or more activist Turkey could create. Europe requires a stable, modernizing and democratic Turkey to (hopefully) keep radical Islam from Europe's borders. It needs a Turkey that is cautious in its regional policies towards the Caucasus, the Balkans, and the Middle East, and which seeks to avoid confrontation with Moscow and Tehran. The point is not so much what Turkey offers to Europe as what the 'loss' of it could entail. In a certain sense, what Europe needs from Turkey is that it be contained, controlled, and prudent¹².

This might not be exactly where Turkey is heading, however. The opening up of Turkic-speaking Central Asia and Azerbaijan as a consequence of the break-up of the Soviet Union in early 1990s at first seemed to offer more than just new economic opportunities. It generated a vision of Turkey as the focal point of a new, dynamic, culturally integrated Turkic world. Economic and political opportunities seemed to beckon elsewhere in the former Soviet Union, not least in Russia and Ukraine, but also in a Balkan region freed from communist rule.

Another important asset Turkey offers is its strategic location with respect to Europe's future energy supplies¹³ from the Middle East and, more importantly, from the Caspian region. The EU, facing the gradual depletion of North Sea oil and gas resources, recognises the strong need for a long-term common energy policy¹⁴. Although the Caspian region could not substitute OPEC imports, it surely could provide an alternative. With respect to energy, the role of Turkey (linking the Union with the Middle East and Caspian regions)¹⁵, is bound to grow because of the increasing volumes of

¹² Turkey's European Union Candidacy: From Luxembourg to Helsinki - to Ankara?, Bill Park, International Studies Association Working Paper, July 2000, <http://www.ciaonet.org/isa/pab01/>

¹³ Are we heading towards a new energy crisis?, Mehmet Ögütçü, *Dunya*, 18 August 2004, <http://www.dunya.com>. Turkey is a major player on a crowded Caspian chessboard, and, whatever current inadequacies are, the long-term prospects are promising for increased bilateral co-operation and a steady expansion of Turkish influence in its region. The goal is to make Turkey a regional hub for energy interconnections, trade, transportation, finance, and investment through increased interdependencies with its neighbours.

¹⁴ The EU imports about 90 percent of its total oil consumption, and 40 percent of gas consumption. Up to 40 percent of the EU's gas imports currently come and will continue to come from Russia. The EU candidate states have an oil dependence of 90–94 percent and a gas dependence of 60–90 percent. OPEC represents 45 percent of current EU oil imports. Both the launching of the EU-Russia strategic energy partnership on November 30th 2000 in Paris, as well as the vast energy potential of CEA have refocused the EU's attention on the necessity of diversifying its energy imports.

¹⁵ Turkey's strategic location makes it a natural "Energy Bridge" between major oil producing areas in the Middle East and Caspian Sea regions on the one hand, and consumer markets in Europe on the other. Turkey's port of Ceyhan is an important outlet both for current Iraqi oil exports as well as for potential

oil and gas that will transit through the country, from both the Persian Gulf producers, the Caspian Sea and Russia¹⁶.

Economic diplomacy: less geopolitics and more economics

Today's power struggle is waged on maximizing the economic interests and gaining advantage on innovative technologies in a highly competitive global environment. Geopolitics, though as powerful as it ever was due to what has transpired in Iraq, Afghanistan, Russia, China and other fragile areas of the world, often takes a back seat when confronted with the choice of advancing the business, commercial, energy and technological interests *vis-à-vis* the vaguely defined political interests.

It is critically important for young Turks, diplomats, bureaucrats, journalists and politicians to learn more and in-depth about economic, commercial and business diplomacy¹⁷ as it touches lives of citizens daily, especially in our "globalized" world. To differentiate terms, we follow established definitions as follows:

Economic diplomacy is concerned with economic policy issues, e.g. work of delegations at standard setting organisations such as WTO and BIS. Economic diplomats also monitor and report on economic policies in foreign countries and advise the home government on how to best influence them. Economic Diplomacy employs economic resources, either as rewards or sanctions, in pursuit of a particular foreign policy objective. This is sometimes called “economic statecraft”.¹⁸

Commercial diplomacy on the other hand describes the work of diplomatic missions in support of the home country's

future Caspian oil exports. Turkey's Bosphorus Straits are a major shipping "choke point" between the Black and Mediterranean Seas. Finally, Turkey is a rapidly growing energy consumer in its own right.

¹⁶ Study on Energy Supply Security and Geopolitics, Final Report, prepared by a consultant for the European Commission, January 2004, http://europa.eu.int/comm/energy_transport/doc/2004_lv_ciep_report_en.pdf

¹⁷ Business Diplomacy pertains to the use of diplomacy methods and tactics by enterprises when facing non-business partners such as local communities, NGOs, political parties, governments at local and national level. For more information see: “Business Diplomacy Management: A Core Competency for Global Companies” by Raymond Saner, Lichia Yiu, Mikael Sondergaard, *Academy of Management Executive*, Feb. 2000, vol. 14(1):80-92

¹⁸ For more details see G.R.Berridge, Alan James; “A Dictionary of Diplomacy”, Palgrave Publ. (formerly Macmillan Press Ltd), Hampshire, UK, 2001, pp.81.

business and finance sectors in their pursuit of economic success and the country's general objective of national development. It includes the promotion of inward and outward investment as well as trade. Important aspects of a commercial diplomats' work is the supplying of information about export and investment opportunities and organising and helping to act as hosts to trade missions from home¹⁹. In some cases, commercial diplomats could also promote economic ties through advising and support of both domestic and foreign companies for investment decisions.²⁰

Turkish state and non-State actors need to gain a better understanding of how our businessmen, financiers, industrialists, exporters, constructors, inventors are fighting their ways in this increasingly competitive global marketplace. Not only should they understand but also find ways and means for facilitating their drive for selling, acquiring products/services, investing, reducing risks, collecting strategic intelligence and transferring appropriate technologies at the most favourable terms.

Probably most, if not all, the goods and services we buy, sell and use are in some way influenced by economic diplomacy; and of course are the jobs of many of us. Electronics goods often have tags saying Made in China or cars Made in Germany, chocolates and watches Made in Switzerland. This is a result of decades of multilateral and bilateral trade diplomacy that has gradually lowered tariffs and eliminated quotas on imported goods – in exchange for the exporting countries lowering their barriers to goods and services.

As one can appreciate when one fills one's own car with gas, international petroleum markets continue to be tight. Growing demand in China and in other newly industrializing countries has permanently changed the international petroleum market. Europe works with other countries to increase the supply of oil by encouraging policies and regulations that promote additional investment in the sector. It also facilitates the

¹⁹ See footnote 2, pp 38-39

²⁰ See "International economic diplomacy: mutations in postmodern times" by Raymond Saner and Lichia Yiu, Netherlands Institute of International Relations "Clingendael", The Hague, Discussion Paper No. 84, January 2003, pp. 13-14

development and construction of new pipelines for new sources of petroleum, such as from the Caspian Sea basin. On the demand side, Europe works with other consuming countries in the International Energy Agency on ways to avoid major oil market disruptions.

In today's information age knowledge has become the gold standard. There has been a swift transition from the Industrial Age to the Knowledge Economy and Information Age. Economic activity is increasingly exposed to international competition shaped by how regions, countries and companies manage information, innovate and deploy science and new technologies, notably in the areas of information and communications.

The growing emphasis on economic diplomacy is sometimes explained in terms of a generational shift, as a result of an increased professionalism and even 'technocratisation' amongst the present generation of diplomats, replacing the generation of gentlemen-diplomats that left the diplomatic service in the beginning of the eighties. According to this explanation, 'old fashioned' diplomats and diplomacy only dealt with geopolitical aspects of military security and considered commercial diplomacy an inferior task. The new breed represents the "it's economy, stupid" generation.

'Towards a new economic and commercial diplomacy for Turkey'

It was during a bilateral meeting more than a dozen years ago between the then Economy Minister Aykon Dogan and the late U.S. Secretary of Commerce Ronald H. Brown -- on the margins of an Organization for Economic Cooperation and Development (OECD) ministerial conference in Paris -- when the first author (Ögütçü) was first exposed to what the "unrelenting focus on trade" and "advancing the interests of corporate America" in the Clinton foreign policy meant in the most down-to-earth terms.

Brown's blunt but skillful use of economic diplomacy had inspired the first author to plant the seeds of a similar strategic approach in Turkey, which culminated a few years later in the Turkish Industrialists and Businessmen's Association (TUSIAD) publishing his report titled "Towards a New Economic and Trade Diplomacy in Turkey" (2000) advocating the central role of economic interests in shaping our foreign affairs by using the slogan

“less geopolitics, more economics” and proposing concrete steps to institutionalize this strategy.

One of the Clinton administration's proudest achievements was its success at linking American foreign policy with the domestic economy and jobs. Clinton was the first president to really make trade the bridge between foreign and domestic policy. Job No. 1 of his foreign policy was using diplomatic power to open markets for American goods and services, helping to create jobs and lift the United States out of a recession. He was the “globalization president,” understanding sooner than many other leaders the profound changes that it brought upon domestic life in the United States.

Among academics the merit of being first at predicting this recent shift from geo-politics to geo-economics probably goes to some well-known authors such as Paul Kennedy, Jeffrey Garten, Edward Luttwak and Lester Thurow at the end of the '80s and the beginning of the '90s. The project “Europe 92” and the emergence of Japan and the Asian Tigers as economic powerhouses in those years contrasted sharply with the relative decline of American economic strength. With varying emphasis these authors were the first to claim that international relations would inevitably evolve into competing economic blocs. Power relations would no longer be determined by military might but by economic weight.

This shift is usually presented as a contemporary phenomenon whereas it is, in fact, merely a cyclical resurgence of the primacy of economic diplomacy. Today's economic diplomacy can easily be compared in intensity and in scope with the economic diplomacy of the European states during the 19th century or with the dollar diplomacy under U.S. President William Howard Taft. A majority of political scientists, but also diplomatic practitioners, tend to overlook such historical recurrences.

In short, economic diplomacy should not be seen as a brand-new contemporary phenomenon. Since the Italian Renaissance it has always been one of the twin tasks of diplomacy alongside the security dimension (maintaining the balance of power)²¹. In the international system economic diplomacy takes prominence when acceleration in globalization (or a suddenly increased degree of interdependence, together with the awareness of it) is accompanied by an absence of agreed rules of conduct. Companies

²¹ For more information see: “The Expert Negotiator”, (2nd edition) by Raymond Saner, Martinus Nijhoff Publishers, The Hague, 2005, chapter 2, Negotiation behaviour through the centuries, pp 17-29

then call upon “their” governments in order to enhance their own endeavors in the world market. Governments have no choice but to further their companies' interests, otherwise other firms would benefit.

This analysis helps to explain why today's economic diplomacy can indeed easily be compared in intensity and scope with the late 19th and early 20th centuries' commercial diplomacy of industrial states. It is not only the Anglo-Saxon world: Most foreign ministries the world over have been insisting on the importance of economic diplomacy. Their diplomats make no secret of the fact that their prime task now is to look after the commercial interests of the state they represent. Since the end of the Cold War, states, i.e., foreign ministries (together or in competition with other departments), have shown a remarkable aggressiveness with regard to bilateral commercial activities and multilateral economic interactions.

Regional and multilateral economic diplomacy

What is important is not only to deploy economic diplomacy at the bilateral level, but also at the regional and multilateral levels because increased globalization has led to the development of a multitude of standards that govern business behavior. It is no longer sufficient to know the business and legal conditions of a global company's headquarters country and of some of the countries where it operates foreign subsidiaries. Multilateral and intergovernmental organizations are increasingly defining industry standards that become mandatory for global companies. Business decisions have to comply with such international standards no matter whether a global company is Turkish, American, French or Japanese.

As an example of economic diplomacy, a Turkish company's price-dumping strategy might be illegal according to the trade rules of the World Trade Organization (WTO). Another company might get market access to foreign markets thanks to regulations agreed to by the International Telecommunications Union. Another might get help in protecting its patents thanks to multilateral agreements signed at the World Intellectual Property Organization. Still, another company might see its unfair industrial relations practices criticized by countries that signed the labor conventions of the International Labor Organization. Or the World Bank can be asked to intervene in favor of a Turkish company's rights in Egypt with regard to the construction of an airport in Cairo.

From a timid player to a robust 'doer' in economic diplomacy

With rapidly growing Turkish trade and investment (both inward and outward), tourism, intra-regional oil and gas flow via Turkey, new developments in the “greater Middle East” region and anticipated EU accession, Turkish diplomacy faces a unique opportunity to translate the decades-long economic diplomacy rhetoric into tangible achievements and should go through the necessary institutional and human resource adjustments to rise up to this challenge.

Indeed, the former President Turgut Ozal period witnessed a successful play of the “economics over geopolitics” strategy through the 1980s. He used to take hundreds of businessmen with him on official state visits abroad and lobby for their contracts and trade/investment deals. There were serious allegations of abuse and favoritism during this period. These efforts were also in large measure based on individual initiatives. Turkey has lacked an integrated, systematic and consistent framework for economic diplomacy and its effective management across government departments and private sector players.

Turkish public interest in the 1995 EU customs union negotiations was, for example, mostly related to the ultimate goal of whether Turkey would be included in the list of accession candidates rather than how such a trade pact will affect Turkey's industrial competitiveness in Eurozone, whether agricultural products and the services sector could also be fitted into the deal and what sort of additional compensations could have been extracted.

Despite its obvious benefits to the Turkish economy, the widespread belief is that a better customs union deal could have been concluded if Turkish negotiators were as hard-nosed and well prepared as their European counterparts. The task ahead for Turkish diplomats will be even more difficult today while negotiating one-by-one the 34 chapters of the *acquis communautaire* for EU accession, which started on Oct. 3, 2005.

Another example that springs to mind is the smooth acceptance by Turkey of China's 2001 WTO accession. It is not to suggest that Ankara could have blocked it but, just like Mexico did as the last country to negotiate its bilateral deal with China on WTO accession terms, Turkey could have used some of its bargaining chips in favor of its textile, clothing and iron-steel industries, which now suffer from the flood of cheap Chinese imports.

Another frustration occurred in Central Asia and the Caucasus, where high political and economic expectations were raised without any consideration of Turkey's ability to deliver. Strong government guidance and result-oriented support could have made a big difference. Similar stories can be cited for Turkey's less than successful economic diplomacy initiatives with the United States, Russia, Japan and others.

Turkish government and military have made it clear that they will send their army into northern Iraq if US and Iraqi forces do not take steps to combat the Kurdistan Workers Party (PKK) guerrillas, who stage “hit-and-run” attacks across the unprotected common border²². Turkey, a critical actor to reckon with in the region economically, militarily and as a former ruler of Iraq, has a long-standing problem with its restive -- and sizable -- Kurdish-origin population on the other side of the border. Ankara is seriously disturbed by the prospect of a politically and economically strong Kurdish entity emerging in Iraq, which could fuel Kurdish separatism throughout the region including in its southeast.

Iraqi Kurds' quest for greater self-rule is bound to run into regional opposition and hurt economic relations with Turkey. The Kurds suspect their neighbour could use its economic power to thwart the region's moves toward greater autonomy and punish Iraqi Kurdistan for harbouring PKK guerrillas and for making moves on Kirkuk, home not only to the Kurds, but also to Sunni Arabs and to Turkomans, who are ethnically linked to Turks²³.

Yet, almost \$2 billion in Turkish trade and investment is currently financing the construction of the Middle East's largest new conference center, a new international airport, hotels, parks, bridges, tunnels, overpasses, a refinery and an electrical plant in Northern Iraq. Two Turkish oil groups and several power plant investors operate. There are also some direct flights from Turkey to the region's two airports.

Turkey's economic interests would be put at risk by any significant military action against the region. The Turkish military has its “red-lines” not to be crossed as regards the country's territorial integrity and protection of the

²² Turkey threaten to invade Iraq, 19 July 2006, <http://www.breakingnews.ie/2006/07/19/story268433.html>

²³ Iraqi Kurdish official, British consul discuss normalization of Kirkuk, 4 November 2006, BBC Monitoring Middle East.

borders against the PKK terrorist infiltration. Otherwise, Kurdish aspirations for greater autonomy can hardly receive the essential Turkish acquiescence.

Turkey's geo-strategic location at the nexus of important source-rich energy countries and its national interests compel Turkey to develop a multi-dimensional energy strategy in the 21st century. Turkey's hydrocarbon strategy has to take into account its three roles –consumer, corridor and investor of energy- in the global energy markets. Turkey's ambition to become a major energy hub is parallel with the policies of EU and the U.S. That is why all these initiatives are generously backed by both of these actors. Indeed, the main components of the energy corridor are Istanbul Straits, the Baku-Tbilisi-Ceyhan (BTC) crude oil pipeline, the Shah-Deniz natural gas pipeline (Baku-Tbilisi-Erzurum) and the Trans-Caspian/Nabucco Gas Pipeline projects. It is anticipated that six to seven per cent of global oil supply will transit Turkey by 2012²⁴.

Much more needed

It would be unfair to discount the hard and diligent work performed by many Turkish diplomats in support of economic and commercial diplomacy initiatives, but the root problem has been that their efforts are not part of a well-defined and institutionalized strategy that strives to achieve synergies with other governmental departments and the private sector under strong political leadership.

It is true that, whichever way one looks at it, the geography of Turkey is unique. Turkey is the eastern frontier of Europe and the western frontier of Asia. It is at the same time a part of the Balkans, the Caucasus and the Middle East. The Balkans is its access to Western Europe. The Black Sea is a bond between Turkey, Russia and Ukraine. The Caucasus is its opening to China over the Central Asian republics. And finally, the Middle East and the Mediterranean link it with the Arab peninsula and Africa²⁵.

However, there is little evidence of the effective use that Turkey has made of such a wide international exposure, particularly for establishing or consolidating its market presence in these regions. In most of the foreign

²⁴ 17 “*EU-Turkey relations in the Field of Energy*”, Directorate General External Policies of the Union, Policy Department p.9

²⁵Please

see

http://www.setimes.com/cocoon/setimes/xhtml/en_GB/features/setimes/features/2006/04/14/feature-039

trade and investment statistics of Southeast Europe, Central Asia, Russia, Ukraine and Caucasus, Turkey trails behind many OECD countries.

There is certainly room for a wider, imaginative economic diplomacy in these regions, but not the types of the initiatives such as the Black Sea Economic Cooperation, the Economic Cooperation Organization, the D-8 or the Turkic Summit process, which were announced with great fanfare but have not (so far) progressed much due to the lack of clear leadership and a vigorous follow-up of their agenda. The need is strongly felt for Turkey to consider the relative importance and perceived benefits of such initiatives that it launched and come up with a realistic assessment of its priorities believed to serve the foremost economic (and foreign policy) interests.

There should be a clear vision of how all these elements can be transformed into Turkey's economic and trade interests in concrete terms, who should be in charge of their implementation and what the benchmarks would be by which to judge their performance. Otherwise, the rhetoric will continue to prevail.

Private sector: a new actor in foreign affairs:

Many Turks are increasingly uncomfortable with the traditional, dominant role of state institutions. The state still remains a leading actor in the Turkish economy and society as a whole. But the balance is steadily changing, with important implications for Turkey's economic and political diplomacy. The economic dimension of Turkey's external relations has grown enormously in importance over the past decade. Economic and “geo-economic” issues such as energy investment, Caspian oil/gas routes, water sharing, environmental standards, Balkan reconstruction, corruption, the broader Middle East initiative and cooperation on international crime are acquiring greater importance.

Private sector organizations, notably the Turkish Industrialists and Businessmen's Association (TUSIAD), the Turkish Union of Chambers of Commerce and Commodities Exchanges (TOBB) and the Turkish Exporters' Assembly (TIM) have begun to articulate policy interests in an institutionalized manner. At the same time, these organizations are emerging as more important and influential interlocutors on strategic issues ranging from Russia to EU accession. Turkish entrepreneurs have played a leading role in the burgeoning economic relationship between Turkey and Russia,

now one of Ankara's leading trade partners, and with Syria, Georgia, Iraq and Iran.

In the Arab Middle East, where Turkey's official relationships have often been difficult, the private sector has been an active player. Turkish influence in the Caucasus and Central Asia has been advanced considerably by the role of Turkish companies and foundations. In the Balkans, where economic reconstruction is high on the international agenda and closely linked to regional security, the Turkish private sector is involved. It is worth noting that leading actors on the Turkish commercial scene have been among the most active in attempts to improve Turkish-Greek relations, including joint ventures in the Balkans and elsewhere. The private sector thus has a considerable influence on the future shape of Turkey's economic and political diplomacy.

How to negotiate with the EU?

There have never before been accession negotiations that are so controversial among EU member states and so charged with uncertainties and serious political and economic impediments as Turkish accession are now. It is absolutely essential that both sides should agree on an imaginative, constructive problem-solving approach to produce a successful conclusion of this process. The economic diplomacy must complement the political considerations now at hand given that Turkey's economic powerhouse can well impress on the discussions in Brussels, which will for sure not be on the basis of a "business-as-usual" mandate²⁶.

Equally or even more important is to ensure that the negotiations will pave the ground for the EU governments at the end of the process to convince their public that Turkey does not enter the Union as an "alien" but as a truly "European" society and state, while at the same time respecting its culture, religion and priorities. This should be declared a priority from the very beginning, i.e. from the formulation of the negotiating mandate for the European Commission. It goes without saying that the process begun by Europe's leaders in Brussels will have to be completed by the politicians of the future – probably during the lifetime of at least three new governments in each country.

²⁶ Whither Turkey's EU Accession? Perspectives and Problems After December 2004, Heinz Kramer at http://www.aicgs.org/c/kramer_turkey.shtml

Given the high degree of domestic controversy that the Turkish dossier causes, the governments may not have any interest in keeping the Turkish accession issue visibly on the public agenda until such a time that positive public perception of Turkey could be generated. Most EU leaders would prefer to put the issue on the backburner by “leaving the concrete task of preparing and conducting the negotiations mainly to the European Commission”²⁷.

However, it is important that the EU governments commit a greater degree of political attention to the negotiations than they have done in past negotiations. And this attention should be constantly present throughout the accession process and not be restricted to so-called crucial dossiers or crucial moments, such as free movement of people, common agricultural policy, and financial and institutional issues. If it were left to the normal negotiations procedures, the process leading to its conclusion would likely encounter a serious risk of failure along the way. Therefore, accession negotiations are (and must be) aiming at full membership, avoiding the recurrence of discussions about alternatives to Turkish membership.

Considerations about the EU’s ability to function effectively are likely to be a regular feature of the negotiations with Turks. This can result in a slowing down of negotiations if the EU members fear that a premature Turkish accession would overload the Union²⁸. It is this concern that already now can be seen behind the almost unanimous declarations by leading EU politicians that Turkish accession would require a period of ten years or more before it could be accomplished. Also the rules for opening and closing each of the 31 chapters ensure the possibility of putting brakes onto the process. Another issue, which needs to be addressed by the EU and the Turkish diplomats, concerns the Cyprus conflict which in itself will demand creativity and professional competence on all sides to find a solution to this long lasting conflict. Without solving the Cyprus conflict, EU-Turkey negotiations will most likely face another major hurdle which could stall the whole accession process.²⁹

²⁷ Ibid. Heinz Kramer

²⁸ « Changing Parameters in U.S.-German-Turkish Relations: Future Scenarios”, held on September 20, 2004 in Berlin. AICGS Advisor, September 30,, 2004.

²⁹ For more information on the complexities of the Cyprus conflict see: “External Stakeholder Impacts on Official and Non-Official Third-Party Interventions to Resolve Malignant Conflicts: The case of a failed intervention in Cyprus” by Raymond Saner and Lichia Yiu, Center, International Negotiations”, 6,3, 2001 ed.
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Turkish negotiators will naturally react to what they might consider to be an unjustified special, discriminatory, treatment in comparison with other former and even future candidate countries, although they often characterise themselves as a special case in other areas. The Turks are also aware that accession negotiations are not a level playing field, unlike a “classical” negotiation between two states on an equal footing. Accession does not mean a negotiated merger of the Union with a respective candidate, but an intense and often painful process of mostly one-sided adaptation to the EU by a state accepting the Union’s demands for accession. This inherent imbalance in any accession process will likely become accentuated in the case of Turkey, given the fact that the basis of the process is not an invitation by the EU but a decade-long demand and pressure by Turkey.

However, it is important for the Euro-negotiators to take a hard look at Turkey’s particular circumstances. In the course of the negotiations Turks are likely to press for longer transition periods, derogations and financial/technical assistance for the necessary adjustments, as well as for a tactful approach from Brussels to win the hearts of the Turkish public at large.

Need for change in mindset and institutional structures

Professional boundaries between business and diplomacy have gradually become blurred. States champion economic development and trade relations in today's global economy, which is increasingly interconnected and interdependent. Foreign Service, government, business, and universities need each other's special expertise to be effective in the global market place. The Internet has also changed greatly the power relationship.

In this new era, European and Turkish diplomats should be geared towards better articulating and executing a sound, well-resourced and result-oriented economic/commercial diplomacy at bilateral, regional and multilateral levels. It would be unfair to discount the hard and diligent work performed by many Turkish diplomats in support of economic diplomacy initiatives; but the root problem has been that their efforts are not part of a well-defined and institutionalized strategy that strives to achieve synergies with other governmental departments and the private sector under strong political leadership.

Hence, energetic personal efforts or inclusion of hundreds of commercial diplomats and business diplomats in the entourage of the Prime Minister during foreign visits are not the solution if the groundwork has not been properly done. There is an acute need for a serious fine-tuning of the mindsets and institutional rigidities to reconcile the divergence of understanding and interests between those who pursue the maximization of private profits and those who seek to maximize the public good and benefits. The end-result that we all strive to achieve should be to enhance the country's competitiveness, prosperity in the global system while at the same time ensuring its security and foreign policy goals.

What else can be done?

We outline a few areas where action will be needed:

- ***Lead a renaissance of professionalism.*** Replacing outdated practices of workforce management, creating new professional opportunities, and making a commitment to sustained professional development are required to change the existing business/diplomacy culture. Therefore, there is need to reform personnel practices by recruiting regional and management specialists and creating a business diplomacy service to augment the career service with functional expertise, and create electronically-linked teams to take advantage of the expertise of area and functional specialists serving in far-flung locations.
- ***Upgrade information technology to corporate standards.*** The acquisition of new technologies must be geared to supporting the key priorities of diplomacy. To this end, an information strategy should be developed, supportive of democratization and transparency in international relations; and a state-of-the-art computers and electronic connectivity should be set up for the effective acquisition, management and dissemination of information.
- ***Move economic and commercial diplomacy from the sidelines to the core of diplomacy.*** Diplomacy must be proactive in promoting Turkish policies and values, and interactive in engaging domestic and foreign publics. For this purpose, it is essential to re-define public diplomacy to include education and early public engagement in the conduct of diplomacy, and amend legislation to improve communication with the Turkish public; and inaugurate a Global Affairs presence on the Internet to strengthen international cooperation and address global issues.

· *Focus greater attention and higher priority on economic diplomacy.* To ensure Turkish competitiveness in the global economy, Turkey must strengthen its ability to expand regional and global markets and assist Turkish business abroad. In this context, Turkish Business & Information Centers in the Big Emerging Markets should be established, to be managed by a public-private consortium; and an officer-exchange program between Turkish business and government should be initiated to strengthen commercial representation abroad.

· *Streamline government departments and foster greater stakeholder engagement in economic diplomacy.* The Ministry of Foreign Affairs, the Undersecretariat of Foreign Trade, the Undersecretariat of Treasury, the General Secretariat of European Union Affairs, the Ministry of Energy and Natural Resources are, *inter alia*, the key players for formulating and implementing Turkey's economic diplomacy. A UKTI³⁰-like interagency body is needed to pull together the relative strengths of these government departments while at the same time firmly engaging the private sector associations and individual firms where appropriate in this process.

Final word

The history of European integration is one of innovation in design and policy. Trans-national processes are continually being innovated - that is why the EU can take on enlargement. As a new member, Turkey will bring aspects that current members will also have to adapt to. Therefore, rather than focusing on the results of individual reforms, the 'accession process' should be geared towards assisting Turkey's transformation in a constructive way. The new Turkish politicians are more willing to change and are more receptive to influences from the outside than in the past³¹. It is now necessary to take advantage of this historic opportunity to influence Turkish politics and its economy through the process of accession negotiation.

³⁰ UKTI is an international organisation with headquarters in London and Glasgow. Across its network UK Trade & Investment employs around 2,300 staff and advisers, including overseas in UK embassies, high commissions, consulates and trade offices, and in the nine English regions. It brings together the work of the Foreign & Commonwealth Office and the Department for Business, Enterprise and Regulatory Reform. It draws staff and associated administration funding from both parent departments, but has its own stream of programme funding, for which the Chief Executive is directly responsible as accounting officer.

³¹ Turkey's New Politics and the European Union, Pieter Ott, December 2003, http://www.ceps.be/Article.php?article_id=172

Otherwise, the risk of Turkey becoming a non-cooperative and confrontational partner is not negligible.

More importantly, the EU leaders should judge Turkey on the basis of its potential economic and geo-strategic importance from today to 2023 and what the future holds for Europe by then - not on the narrow and short-term interests of today. With Turkey the EU will gain not only a rich cultural diversity, but also a considerable manufacturing capacity, entrepreneurship, energy gateway position for supply security and better foreign security policy outreach to the key regions of the world, i.e. Russia, the Balkans, the Middle East, the Caucasus and Central Asia.

Two terms of government may suffice to fundamentally change the face of Turkey for the better, while the EU will also be going through changes. One should recall that the founding father of modern Turkey, Kemal Ataturk, had accomplished the bulk of his revolutionary modernising vision for the country in a period of only 15 years (1923-1938) and did so between the two destructive world wars and in great deprivation. Even more can be achieved over the next two decades in the era of rapid globalisation. Then, it is not science-fiction to predict that both Turkey and the EU will be starkly different from what they are today and it is in their hands to shape their common future starting now, rather than speculating on the fears to come.