

An Update On Europe's Mediterranean Policy and the Prospects of the One-Year Old Customs Union Between Turkey and the European Union*

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A little over a year ago when I was asked to talk in this forum about the Euro-Mediterranean partnership, it was a time when Turkey was not at all mentioning a theme of such geo-political dimensions, because Turkey was very much wrapped up, involved, in the Customs Union issue and whether the European Parliament would, yes or no, ratify the famous Customs Union Agreement.

In fact, the Customs Union Agreement was ratified, but this old story overshadowed what I tend to believe was, and still is, a major geopolitical issue which then was in preparation. Because the Barcelona Conference and Declaration took place on the 27 and 28 November 1995, only a few weeks after our seminar at that time, we will talk about it as an update of what happened since. But this is not going to be the only topic. I want to give everybody here a chance to ask me about Turkey-EU relations.

First, perhaps we recall some facts : meeting of 27 Foreign Ministers (15 from the European Union and 12 of Mediterranean countries) assembled in Barcelona to create the concept of Euro-Mediterranean area of peace, stability and prosperity. That Declaration was contained in a 30-page document, which is subdivided roughly into three major chapters : one on political security, one on economic and financial issues, and one on social and cultural issues.

If properly implemented, this Barcelona initiative could very well be seen by historians as one of the fundamental milestones of European foreign policy during the early part of next century. First, because it underscores the aptitude of the European Union to speak with one voice for the whole of Europe, because these European countries which are still outside the Union have practically no choice but to go along with the line agreed upon within the European Union. Second, because the Euro-Mediterranean Declaration underlines unequivocally the European Union's determination to care equally much about its eastern flank.

And seen from that geo-political perspective, which I alluded to earlier, the Barcelona Declaration may one day be recognized as part of a structured effort

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by Europe, prepared for the next century's global economy; which, otherwise risks being dominated by East Asian and Pacific equities. The Euro-Mediterranean partnership concept and vision has to be assessed in this long-term perspective.

If observed in that context, I do not want at all to belittle the importance of Turkey-European relations or Turkey's role in the implementation of that Euro-Mediterranean partnership. The term I used here a year ago was that in the minds of Europeans who think in this context, Turkey is the economic giant in the eastern Mediterranean and therefore has the major shared responsibility in the success or failure of this Euro-Mediterranean policy.

I say "shared" responsibility, because as an economic giant in this part of the world, Turkey is in some respects more than the problem child in the Mediterranean policy. Turkey is the country that has at its disposal the agricultural and industrial tools and which has already a considerable population of 65 million or will have reached 100 million in the first half of the next century.

In other words, conditions for Turkey to make a successful entry into the 21st century look alright. And hence, I underline that this Euro-Mediterranean partnership is one which is in part primarily conceived in function as part of the European-Turkish relations, which anywhere has already much more than the partnership of free trade that we have envisaged with Maghreb and Mashrek countries. We have a customs union among ourselves which is a much closer relationship than a kind of free trade.

What characterizes the European Union's new Mediterranean policy as it emerged from the Barcelona Conference : What does it aim to achieve? What are the chances of success and risks of the new policy approach? The objectives are of course non-controversial.

The objectives are accepted both on the European and on the the Mediterranean sides. These are subject to the following fact : the Mediterranean has to be developed into a zone of peace, stability and prosperity. Expressed in somewhat less solemn terms, Europe wishes to see at its southern rim a group of countries which, first of all, will not be at war with each other; then, will not be destabilized by socio-political conflicts, nor should they export terrorism or drugs to Europe, nor should they threaten Europe's own social stability by continued sharply-increased flows of illegal immigration.

Europe believes that the way to achieve these ambitious goals consists essentially in reducing the welfare and prosperity gap existing today across the Mediterranean and which amounts today to a more or less one to ten in ratio in terms of nominal per capita (GNP). If relative purchasing power is taken into account, this ratio is still one to five. In other words, Europe believes that socio-

political tensions are more likely to be reduced across the Mediterranean and within the Mediterranean countries if socio-economic tensions are reduced.

This is an overall sort of quasi-dogma within the European Union. Reducing the existing prosperity gap implies that for the next two decades, Europe will see the economic growth of its Mediterranean partners substantially outpace its own economic growth.

The European Union's policy is based on some sort of a political deal between Europe offering its political advice and experience, on the one hand, plus its financial cooperation, to those partners determined to tackle their problems effectively; that is to say, engaged in a very necessary reform. The European Union has committed a 4.7 billion ECUs for the five-year period ranging between 1995-1999, as the overall round assistance in support of Mediterranean countries' economic and social reforms.

Compared to the gigantic overall investment needs in the Mediterranean region, these 4.7 billion ECUs are a drop in the bucket and probably represent less than 2 % of the overall needs. Yet, whatever modest these amounts may be, the 4.7 billion ECU grant has more than doubled the previously allocated funds through the famous, or sometimes infamous, financial protocols.

Furthermore, it is believed that here is sort of leverage effect of this kind of help; such an effect will be and has already been quite considerable. That is to say that the European Union has consciously refrained from making country by country allocations of these funds, allowing those who promptly and courageously undertake reforms, to be rewarded with higher allocations than others. For example, tiny Tunisia got last year about as much in terms of funds as enormous country like Egypt.

Major part of the funding is earmarked to be directed to programs of administrative reform, improvement of primary education, vocational training, family planning, privatization, improving competitiveness of the industrial sector. The European Union has responded only half-heartedly to Mediterranean countries' insistence of a need for an emergency balance of payments support system.

There is another very important effect of the European Union to stimulate, and that is foreign direct investments. Foreign investments have been extremely cautious, one could say mediocre, in the Mediterranean in general. In particular, foreign investors have largely ignored the Maghreb (the north African) and Mashrek (east Mediterranean) countries over the last 20 years. Markets in this area were deemed politically and economically unattractive and too narrow for rapid development.

The prospects of a large Euro-Mediterranean Free Trade Area and of the European Union becoming active in the Mediterranean is likely to change this poor investment climate in as much as reforms are implemented. Economic growth can be expected to develop, as we have seen in the examples of Tunisia, Jordan, Malta and to a certain degree, Cyprus. Cyprus has been one of the outstanding examples of rapid economic growth, linked to economic reform.

Perhaps more importantly, in the long run, the small domestic markets should be merged and linked with one huge free trade area comprising the whole of Europe. That is to say, not just the European Union but also the remaining of EFTA countries and the central and east European countries. That is the attraction of further investments for the investors of the world. To give an example, a foreign investor making investments in Turkey, will have access also to the European Union countries.

How much of this ambitious proclamation has actually materialized over the last year? By the 1st of January 1996, free trade has fully come into force between the European Union and its two biggest economic partners in the Mediterranean. Turkey and Israel together, those two, account for half of the total trade of manufactured products of the European Union with that part of the world. Secondly, another important development is to see how Turkey and Israel act in this regional dimension that we mentioned earlier, by pursuing their negotiations on a mutual free trade agreement, which is actually an example to be developed by the Maghreb and Mashrek countries.

As the reality of this Euro-Mediterranean free trade area with some 600-800 million people, that is to say consumers, begins to take shape also in the minds of the private investors, these investors should start taking a fresh look at the area. Major conditions for this to happen are of course that the peace and stability finally return to the entire region.

Looking ahead towards the horizon of 2010, there appears to be a fair chance of realizing the Euro-Mediterranean Free Trade Area; this fast and highly diversified geo-political entity will carry a few features that we might look into.

First of all, this part of the world will be a highly diversified place which cannot afford to be inward looking. It has no choice but to be open and compete with other regions of the world. It will probably be one of the future sub-regions of the 21st century world. It will certainly not be a homogeneous group with its more than 40-country members. It will continue to differ in geographic sides. These countries will obviously not be the same size, neither population wise, neither in economic wealth, nor in natural resources, nor even in political systems, but their economic and political setups or systems will inevitably and gradually converge.

There will be, as we already suggested, a growth of foreign direct investments in this region; moreover, transport linkages across the Mediterranean and around the Mediterranean will be much more intensive than they are today. Some important prosperity gap will however persist and that is I think natural even within the European Union today.

Such prosperity gaps persist, but prosperity gaps become more acceptable when people realize that high nominal per capita income figures are not always identical with well being when the perspective, the opportunity, of an improvement in well-being and job opportunities is perceived.

The balance sheet of a first year of Customs Union :

I have a feeling among my Turkish friends that there is a bit of disillusionment with the Customs Union. And I have a feeling among my European friends that they simply do not realize how beneficial this first year has been on both sides. There are figures to be observed and these figures say that the total volume of trade between the European Union and Turkey has grown to 33 billion Dollars, which is a phenomenal increase when you compare it with another figure that I have in mind, because it was a round figure, of 1993, when volume of trade amounted to 20 billion Dollars.

So in these three years, the perspective of a Customs Union, and the Customs Union itself, have created a dynamic effect which benefited largely the two sides. Of course, and it is true, the trade balance has swung more strongly in favor of the European Union.

This was expected, because Turkey delayed shipped imports until the Customs Union was completed. In other words, a lot of businessmen wanted to buy equipment, ordered already in 1993-95, wanted delivery after 1996 when the Customs Union was applied. That created an enormous flow of goods and imports into Turkey, of European equipment goods flows that were delayed and caused an imbalance in trade balance in favor of the European Union.

Although all the trade figures are not available for the year 1996, it is estimated that Turkey has moved to the fourth place of the European Union's world wide markets. Only the US and Japan and previous EFTA countries as major gigantic world powers are ahead of Turkey.

So Turkey is the fourth in line of European Union export market. If you think of what that represents in terms of jobs (this is a factor which Europeans are not aware of) and Turkey perhaps is not pressing enough to make clear in the minds of Europeans how relevant the Turkish market is to European businesses and therefore European jobs. Everyone knows that unemployment is the major issue in Europe.

Why do I perceive those as not totally happy reactions on the part of my Turkish friends? In the Customs Union implementation, in the first place, there is some worry, panic, about the trade gap. The panic is over the fact that Turkish exports towards the European Union have not held pace with the European Union imports. My personal view on this is that it is a temporary phenomenon. In the first year of the Customs Union, a lot of goods were imported into Turkey and actually were investments of productive machinery which comes on stream this year and coming years, and will produce export goods that will gradually correct and rebalance the trade deficit of Turkey vis a vis the European Union.

Another point that was extremely worrying people the year before was, the expectation of waves of bankruptcies in the Turkish business community due to the massive impact of European Union industries and businesses. This has not happened. Therefore I understand to a point the preoccupation and uneasiness of Turkey, but cannot totally share that pessimistic view.

The point of irritation as I perceive is directly related to a specific issue which is simply the implementation of a financial chapter of our Customs Union and that is the possibility of Turkey to draw on financial resources. These resources have sadly been blocked at the two levels of the European Union's Budgetary Authority, which is the Council of Ministers and the European Parliament. And in both those instances of Budgetary Authority, there has been reluctance to approve the resources to Turkey on account of one of the members of the Council that is not known to be a friend of Turkey. However, what we think is that one should not lose the perspective of relevance of the amounts stated.

When we talk about a volume of trade of 33 billion Dollars, that is a relevant thing! We have to learn to sail around irritating obstacles in order to achieve the Turkish integration.