

**THE TURKISH PROJECT OF GLOBALIZATION AND NEW REGIONALISM\***

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The world is simultaneously globalizing and regionalizing. The double processes of globalization and regionalization appear to be paradoxical. This seemingly paradoxical phenomenon has raised the question of whether regionalism contradicts or complements globalization and whether it obstructs or reinforces globalization. The paradox of the resurgence of regionalism amidst globalization has attracted considerable scholarly attention.

In the literature on regionalism and globalization, one can identify three main perspectives on how regionalism relates to globalization. First, there is the view of regionalism as a project of resisting globalization. This view popularly articulates regionalism as a “stumbling block” to globalization. Regionalism is a project driven by the desire of governments and domestic private interests to defend national economic and social institutions and policy instruments against the homogenizing forces of accelerated globalization through regional-level cooperation. Defensive or resistance regionalism may also be an attempt by governments to counter the negative effects of globalization, such as greater inequality and environmental degradation, through collective action on a regional scale. The second perspective conceptualizes regionalism as complementary to globalization. In this view, regionalist schemes are “stepping stones” or “building blocks” to economic globalization. They seek to facilitate better or more advantageous engagement of member countries with the processes of globalization. They serve as a platform that enables member economies to participate in the growing global flows of trade, finance and FDI as well as to improve their competitiveness in markets outside the respective region. Thus regionalism promotes or facilitates rather than obstructs globalization. One can identify a third, though less influential, perspective in the literature while the main debate has been between the first

and second perspectives. The third alternative perspective attributes a more pro-active agency role to national governments than do the former perspectives that conceive of regionalism as either a defensive reaction to globalization or an adaptive response to the requirements of globalizing capitalism. In the third perspective, in the contemporary era of globalization, a regionalist project can be aimed at selective, strategic integration with global markets. This type of controlled-globalizing regionalism is based on the strategy of active state role on a regional scale in order to promote member countries' development or other politico-strategic goals in the broader world order. Whereas controlled-globalizing regionalist projects are not aimed at insulating national/regional economies from global market forces, their mode of engagement with economic globalization departs from the currently dominant neoliberal model of limited economic role for the state and open markets. Controlled-globalizing regionalism can involve a regional industrial policy, selective incentives and/or protections for local industries and a strategic trade policy.<sup>1</sup>

In the scholarly debate on regionalism and globalization, the second perspective has emerged as the dominant conception of the regionalism-globalization debate.<sup>2</sup> This is not necessarily due to its superior theory but its better correspondence with the current empirical reality. Although the other two forms of regionalism as depicted by the first and third perspectives remain both theoretical and historical possibilities, there are hardly any important cases of resistance regionalism or controlled-globalizing regionalism in the world today. In contrast to the dominant form of regionalism of the 1960s-70s, which emphasized regional self-sufficiency and insulation from the world economy, the most common form of regionalist schemes that have come into existence from the mid-1980s onwards is based on economic liberalism; it is aimed at maintaining or strengthening a region's participation in global capitalism in terms of both trade and capital flows (Stubbs and Reed, 2006: 290). It typically involves neoliberal policy changes in respective national economies. Hence the term new regionalism is often used to distinguish contemporary regionalism of the past two decades from the inward-oriented and trade protectionist (*vis-à-vis* non-members) regionalist arrangements of the 1960s-70s. New regionalism often functions to embed neoliberal globalization in particular regions of the world.

The perspective of new regionalism better reflects the actual regionalist projects in the contemporary era. However, since it puts the emphasis on the conceptualization of new regionalism as a means of riding on economic globalization, it often overlooks the aspect of globalization as *facilitator* of the new regionalism. This paper shows that the Turkish economy's unilateral (as opposed to regional agreements) opening to the global market and its

increased integration into the global capitalism through neoliberal reforms in the 1980s prepared the groundwork for the Turkish state and private business actors to initiate or pursue new regionalist projects in the 1990s and 2000s.

Two major dynamics explain the Turkish state's pursuance of new regionalist projects: 1) the end of the cold war and the collapse of the Soviet system; 2) neoliberal economic globalization. First, the end of the cold war completely transformed the world security structure that had decisively influenced the character of regionalist schemes in many parts of the world. The geopolitical context of the cold war was the primary ordering principle behind Turkey's joining regional institutions during the cold war period. The breakdown of the cold war security overlay forced Turkish officials to reevaluate Turkey's place in the new world order. It also opened up new possibilities with respect to the redefining of old regional identities or building of new regions. Second, Turkey's state interventionist and highly trade protectionist development strategy of import substitution industrialization had set important limits on the Turkish state's engagement with regional economic arrangements.<sup>3</sup> The neoliberal restructuring of the Turkish political economy in the 1980s and its subsequent neoliberal integration into the global flows of trade and capital facilitated the Turkish government and private business actors' turn to the new regionalism as a means of augmenting business investment opportunities and improving the national economy's attractiveness to transnational capital and competitiveness in global markets. As a result, as we shall see, the Turkish economy has both globalized and regionalized in the past two decades.

Before we analyze the Turkish case, it is important to clarify the meanings of the two related but distinct concepts of regionalism and regionalization. This paper uses the word regionalism in the sense of a set of purposeful actions, a program or project that seeks to promote regional cooperation or integration among a grouping of countries in a more or less definable geographical area. Defined in this way, regionalism is typically based on state-led projects, which normally lead to formal regional institutions. However, coalitions of domestic and transnational private interests usually exercise a major influence in determining the nature and evolution of regionalist schemes. Regionalization is the process of the growth and deepening of regional patterns of interaction and transaction among countries in a definable area. It does not necessarily involve a conscious policy; it can be driven primarily by private trade, capital and migration flows and investment strategies of firms. That regionalization can occur without a regionalist project does not mean that it is non-political and autonomous from

geopolitics. Where and how regionalization takes place are affected by and affect state policies, as well as international and regional politics and security relations.

### **THE GLOBALIZATION OF THE TURKISH ECONOMY**

In the 1980s, through a series of drastic neoliberal reforms adopted by the government, the Turkish political economy was fundamentally transformed from an inward-oriented and state-interventionist model of ISI to an open market economy that is closely integrated into global capitalism. An important part of this transformation was the withdrawal of the state from production activities and the redefinition of its primary economic role as the protector of private capital accumulation and the facilitator of the free market mechanism. All this involved dismantling or restricting those aspects of the state's institutional capacity and its policy autonomy that could enable it to frame and pursue an alternative economic project. Besides the IMF and the World Bank, the neoliberal agenda was supported by a strong bloc of transnational and domestic social forces, which included internationally-oriented Turkish corporations, institutional financial investors and MNCs with investment in Turkey. The Turkish state's acceptance of various economic liberalization and deregulation obligations under international economic agreements helped to lock-in the neoliberal reforms. Such agreements, which were either regional or multilateral, included the multilateral trade agreements of the World Trade Organization (WTO) and the 1995 customs union agreement with the European Union (EU).

Both the external and internal neoliberal reforms led to the globalization of the Turkish economy; and this globalization took a neoliberal form. It involved trade liberalization, removal of restrictions on the cross-border flows of capital and closer integration into the transnational networks of production through FDI and various partnerships between Turkish companies and MNCs. While the Turkish economy was opened to the global markets, regional economic projects also gained new momentum and significance for the Turkish political economy from the early 1990s on. The Turkish state played a major role in the creation or further development of several regional economic institutions in the 1990s; it also started directing a great deal of effort towards the goal of Turkey's EU membership. For the Turkish state and business community, the new regionalist projects were to serve as an important means of improving Turkey's position in the global networks of trade and production.

## **Globalization through Trade Liberalization**

A major dimension of Turkey's participation in the processes of economic globalization is trade openness. Turkish trade liberalization initially took place through unilateral measures in the 1980s. Such measures included replacement of quantitative import controls by tariffs and subsequent reduction of tariff rates. After the Turkish government applied for full EU membership in 1987, preparing the Turkish industry for EU membership became an important part of Turkish trade liberalization (Senses 1994: 57). This was followed by a customs union agreement with the EU in 1995. Together with the EU-oriented trade liberalization, Turkey carried out multilateral tariff cuts and removal of other trade barriers following the conclusion of the GATT-Uruguay trade round and the creation of the WTO in 1994. Besides the removal of restrictions on imports, export-promotion played a major role in Turkey's further integration into the global economy. At the initial stages of the Turkish structural adjustment, in order to reorient the Turkish industry from import substitution to exportation, the Turkish state provided generous incentives for exports, such as tax rebates, tax breaks and low-interest credits (see Önis 1993; Barlow and Senses 1995; Boratav et al. 1995). Such incentives were in addition to the state policy of wage suppression. The export-promotion policy was effective in encouraging the Turkish industry to open up to international markets.

Trade liberalization and export-focused growth led to a phenomenal increase in the share of international trade in the Turkish economy over the past couple of decades. In other words, Turkey's trade interdependence grew significantly. Turkey's international trade in goods and services grew from the annual average of 6.9% of GDP in 1975-79 to 16.8% in 1990-94 and further to 30.2% during the period of 2000-04. To put these figures in a comparative context, the OECD annual average was 28.8% during 1975-79. It rose to 43.7% in 2000-04. Although the OECD average is still higher than the Turkish trade-to-GDP ratio, the same figures also show that Turkey's international trade integration grew faster than many other OECD countries' trade integration as measured in terms of the share of trade in GDP.<sup>4</sup> The neoliberal reforms were also successful in shifting the pattern of accumulation from ISI to an export-led growth. The share of exports (excluding services trade) in GNP was only 4.2% in 1980. It consistently grew to reach 20.5% annually on average in 2001-04. Also important is the drastic increase in the share of manufacturing in the country's exports during the 1980s and 90s. Manufactures accounted for only 36% of Turkish exports in 1980. The percentage rose to 79.9% in 1990 and 94.3% by 2004 (DPT 2006a: Tbs 3.2, 3.3).

However, behind such achievements lie major weaknesses. First, almost half of Turkish manufacturing exports are low technology goods.<sup>5</sup> As of 2003, low technology goods, such as

textiles and apparels, made up 45% of total manufacturing exports, although their share declined from 58.7% on average during 1991-95.<sup>6</sup> Despite recent improvements in the shares of medium-high and high technology goods in Turkish exports, a much higher portion of Turkish manufacturing exports is composed of low technology goods than are the exports of such comparable countries as Mexico and South Korea.<sup>7</sup> It is important to point out that unlike in the case of the original Asian Newly Industrialized Countries (NICs), the export-orientation of the Turkish economy took place simultaneously with trade liberalization and other neoliberal reforms. As a result, unlike the South Korean and Taiwanese states, the Turkish state was not able to develop and pursue a consistent strategy of promoting high-tech industries. Turkey's commitments under the WTO's ever more intrusive agreements following the Uruguay trade round, as well as under the EU customs union agreement, also restricted the Turkish state's ability to provide direct support to high-tech exports. Furthermore, investment in the manufacturing sector, including R&D, was negatively affected by financial market deregulation, as we shall see later.

The second major structural weakness of Turkish economic globalization is large trade deficit. While Turkish exports considerably grew both in absolute terms and relative to GNP, imports increased even faster in recent years. As a result, the country faced a growing trade deficit. Although it fluctuated from year to year and was sharply affected by economic crises, the import coverage of exports declined significantly in the late 90s and early 2000s compared to the earlier years. It fell from 72.9% on average in 1985-89 to 58.4% in 1995-99. Although it improved to 65.9% on average in 2000-04, it dropped slightly to 62.5% in 2005-06 (DPT 2008).<sup>8</sup> The result of large trade deficit is bigger foreign debt.

Turkey's revenues from services exports have grown considerably over the last decade. This is in line with the substantial expansion of world trade in services. During the last two decades, world trade in services has grown faster than trade in goods. Turkish services exports totaled US\$8bn in 1990. They increased to US\$24bn and reached almost 8% of GDP by 2004.<sup>9</sup> The Turkish balance of payments regularly recorded significant surpluses in services trade unlike goods trade. This helped somewhat narrow the current account deficit resulting from big deficit in goods trade. However, compared to OECD countries, Turkey had the lowest growth in exports of services during 1997-2004 (OECD 2006a: 243). Turkey could not enter the world export markets for information technology and business services. Most of the increase in Turkey's services exports in recent years was due to huge increases in tourism revenues. The fastest growing sectors of world services trade are now insurance, computer and information services (OECD 2006a: 240). Turkey has not been able to take advantage of

the fast growth of world trade in these high value added services. This situation constitutes another weakness of Turkey's mode of participation in economic globalization.

The Turkish economy has experienced a significant degree of regionalization as it has also opened to global markets. The Turkish economy has become closely integrated with the EU even without full membership. The EU is the most important destination for Turkish exports. It received roughly between 49% and 55% of Turkish exports excluding services trade during the period of 1996-2006 (TÜİK 2006).<sup>10</sup> With respect to the major destinations, the Turkish export sector has not seen any important changes in the past decade. In contrast to the EU concentration of Turkish exports, Turkish imports have become more diversified in terms of their regional origin since the mid-1990s. The most significant has been the consistent rise in both the non-EU Europe's and Asia's shares in Turkish imports.<sup>11</sup> Non-EU Europe increased its share of Turkish imports from 11% in 1996 to 20.4% in 2005. Russia was responsible for most of this increase.<sup>12</sup> Economic relations between Russia and Turkey have rapidly expanded in recent years. In 2005, the trade volume between the two countries reached over \$15bn, and Russia became Turkey's second biggest trade partner after Germany mainly due to Turkey's increased gas imports from Russia. Asia excluding the Near and Middle East has also captured a bigger share of Turkish imports market in recent years. China was mainly responsible for this increase in Asia's share. Cheaper Chinese textile exports became formidable competitor for the Turkish textile industry not only in other markets but also at home.<sup>13</sup> Thus, trade plays a major role in Turkey's engagement with the globalization processes. At the same time, the Turkish trade patterns show a significant degree of regionalization with the EU as the biggest trade partner.

### **Integration into the Global Networks of Production**

Foreign direct investment (FDI) has been a major engine of contemporary globalization. There have been enormous increases in the volume of FDI over the past two decades.<sup>14</sup> The reasons for this huge growth included many states' removal of earlier restrictions or requirements on FDI; increased international competition for FDI; shift from the Fordist mode of production to flexible production and MNCs' adoption of more global investment strategies. As we have seen, increased trade openness played a major role in Turkey's neoliberal globalization. The role of FDI, however, remained relatively limited. As part of the neoliberal restructuring of the economy, the Turkish state progressively replaced the highly restrictive FDI regulations of the earlier era by a liberal FDI regime during the 1980s (Erdilek 1988; Önis 1994). Consequently, compared to the era of protectionist ISI when FDI was

almost absent, Turkey started to receive more FDI from the mid-1980s on (DPT 2006a: Tb 3.9). However, compared to other countries at a similar level of socio-economic development, Turkey received a much smaller amount of FDI. For example, for the period of 2000-04, total FDI flows in Turkey amounted to \$9.8bn. In comparison, new EU member Poland attracted \$29.5bn in FDI during the same period. FDI flows into Mexico were much higher than Turkey's share. Mexico received total \$87.5bn during 2000-04. When compared to the relatively large Middle Eastern countries, which are less liberal and open to the global economy than is Turkey, Turkey fared better as a host for FDI. For example, during the 2000-04 period, Iran received only \$1.6bn worth FDI (UNCTAD 2005).

The sources of FDI flows into Turkey show a similar regional pattern to the country's main trade partners. The EU is the predominant source of FDI in Turkey. The EU accounted for 81.8% of FDI flows in 2003 and 79.5% in 2004 (DPT 2006b: 40). Thus Turkey's integration with the EU economy is not only through trade but also FDI. However, Turkey has not been able to increase its share of FDI from the EU. There was the expectation that the customs union with the EU, which entered into force in 1996, would encourage European companies to invest in Turkey. The EU's declaration of Turkey as a candidate for membership at its 1999 Helsinki summit raised further hopes in this regard. However, these expectations did not realize. There are both political and economic reasons on the one hand, and international and domestic reasons, on the other hand, for Turkey's relatively poor FDI performance. First, the former communist countries of Eastern and Central Europe became very attractive locations for EU-based capital following their capitalist transformation and admittance into the EU. Thus, European capital that could potentially be attracted to Turkey was instead diverted to the EU's new members from Eastern and Central Europe. Furthermore, while the customs union provided some new incentives for EU businesses to invest in Turkey, it removed one of the important motives for FDI. The motive of overcoming trade barriers through investing in the local market has historically been an important motive for companies to engage in FDI. By removing trade barriers between Turkey and the EU without Turkey becoming a full member of the organization eliminated this motive. Whereas such international factors played an important role in Turkey's inability to take advantage of the very fast growth of global FDI, a number of domestic and economic factors also acted as barriers to inward FDI. The main economic reasons are frequent economic crises and erratic economic growth, which accompanied the neoliberal restructuring of the Turkish economy and more particularly and somewhat ironically, Turkey's removal of restrictions on cross-border financial flows. Another source of discouragement for FDI at least until the last several

years was chronic high inflation and the lack of inflation accounting (Erdilek 2003: 80). A major political reason has been the political instability caused by the Kurdish ethnic conflict and armed insurgency and terrorism by the pro-independence Kurdish Workers' Party (better known as the PKK) and its later incarnations under various names. Another major political deterrent to FDI was the political and economic uncertainty caused by unstable multiparty coalition governments and frequent changes in government during the 1990s and the early 2000s.

In the recent years, the Turkish government has taken new initiatives to attract FDI. The renewed efforts started in 1999 with a constitutional amendment. The amendment recognized foreign investors' right to international arbitration. Whereas the coalition government, which included two nationalist-oriented parties, one on the left and one on the right, was reluctant to allow international arbitration, it agreed in response to intense pressure from MNCs with business dealings in Turkey and the international financial institutions (IFIs). The country's increased need for external funds also put pressure on the government to improve the business environment for foreign capital. Such international pressure further increased following the back-to-back financial crises in November 2000 and February 2001. According to both the IMF and the World Bank Turkey needed to attract more FDI in order to improve its economy, and to do that the Turkish government had to remove any remaining administrative, bureaucratic and legal obstacles to FDI. In the wake of the crises, when the Turkish government applied for financial assistance, part of the IMF conditionality was the Turkish government's commitment to improve Turkey's FDI environment (Erdilek 2003: 90-1). After the moderately Islamist Justice and Development Party formed a majority government following the November 2002 election, it implemented some important pro-FDI reforms. The reforms were part of the letters of intent the JDP government presented to the IMF in April 2003 and again in April 2005. The letters were for two consecutive three-year stand-by agreements.<sup>15</sup> The JDP government's pro-FDI reforms were not only as a result of external pressure. They were also in conformity with its neoliberal economic perspective. The JDP's program also gives importance to the role of FDI in Turkey's economic development (Erdilek 2003: 92-3). The JDP government's pro-FDI reforms included the enactment of a new FDI Law in June 2003. The new law eliminated most remaining restrictions and requirements for FDI, such as the prior permission and minimum capital requirements. It also provided further guarantees for the property rights of foreign capital. It seems that the further pro-FDI policy reforms as well as the country's relative political and economic stability in the last several years started to give fruits. There was a huge jump in FDI in both 2005 and 2006. FDI

increased nearly eight times in 2005 compared to the previous year, and doubled in 2006 compared to 2005.<sup>16</sup> The FDI amounts in the last several years thus far surpassed the amounts in any previous years. But it is too early to predict whether this momentum will continue.

A new dimension of Turkey's globalization is the rapidly growing investments by Turkish companies in other countries. Before the mid-1990s, outward FDI from Turkey was almost non-existent. But since the mid-1990s, it has constantly increased. For the period of 2000-04, outward FDI flows from Turkey totaled \$2.9bn (UNCTAD 2005). They have grown very rapidly relative to the rest of the world in recent years (see Erdilek 2003). The main motives for Turkish companies to invest abroad include taking advantage of bigger or new markets and economies of scale. The instability of the Turkish economy has also led Turkish companies to look for investment opportunities abroad. The main destinations for Turkish FDI are the EU countries, the former communist countries in Southern Europe, especially Romania and Bulgaria, and Russia (Erdilek 2003). Thus Turkish FDI outflows follow the same regional pattern as trade and FDI inflows.

To sum up, compared to many other countries with similar level of economic development, the role of inward FDI has remained limited in Turkey's participation in economic globalization. In the meantime, Turkish big companies started to invest abroad, and as a result, Turkish outward FDI have surged in recent years. It can be hypothesized that direct investment by Turkish companies in other countries is likely to play an increasingly more significant role in Turkey's globalization as well as regionalization as many Turkish companies adopt more global and/or regional strategies.

### **Turkey's Opening to Global Financial Markets**

The most dramatic dimension of the Turkish economy's globalization is its full integration into the liberalized global financial markets from the late 1980s onward. Following the complete liberalization of its capital account in 1989, Turkey became a major attraction for short-term international financial capital. Whereas it was mostly shunned by FDI, which is a more stable and long-term form of international capital flow, Turkey became highly vulnerable to the vagaries of short-term, mostly speculative, cross-border financial flows. Thus, a key feature of Turkey's engagement with economic globalization is increased exposure to highly volatile short-term global financial flows. Such global financial flows determined to a large extent the Turkish pattern of capital accumulation and economic growth in the past one and a half decades.<sup>17</sup> Short-term inflows of capital fuelled high economic growth for a certain period of time; and then major economic crises caused by capital flight

suddenly halted such episodes of high economic growth. Such severe economic crises occurred in 1994, 2000 and 2001; and each crisis caused severe economic hardships.

The Turkish state's removal of controls on cross-border financial flows in the late 1980s decisively influenced the form of Turkey's participation in the globalization processes. The external liberalization of the Turkish capital account followed the episode of competitive financial deregulation by the advanced capitalist states in the early 1980s. In the late 1980s, many developing countries embarked on financial deregulation and removed many earlier restrictions on international financial flows. The Turkish decision of full capital account liberalization partly reflected the desire of the Turkish government and the business community to benefit from financial globalization and to attract some of the foreign capital that was released as a result international financial deregulation. The fact that the G7 governments and the IFIs had started championing the cause of financial liberalization in developing countries also influenced the Turkish decision to liberalize the capital account.<sup>18</sup>

Turkey's capital account liberalization led to a surge in short-term financial inflows. The country became an attractive destination for short-term and mainly speculative type of international capital that constantly searches for opportunities to make fast, large returns and that rushes to the exit at the first perceived sign of trouble.<sup>19</sup> Private firms became heavily involved in financial arbitrage. While banks have been the main players in speculative arbitrage, non-financial firms, including manufacturing companies, have also been involved. In the 1990s and early 2000s, they borrowed short-term in international financial markets and invested their borrowed foreign funds mostly in high yield government securities. They often made huge gains as arbitrage rates remained very high during the same period. The rates were at times as high as over 100% (Cizre and Yeldan 2005: 394-5).<sup>20</sup>

Turkey's financial globalization has resulted in a substantial diversion of resources from fixed investment in the real economy to financial transactions. This means that the real economy of production became increasingly subordinated to speculative financial activities. One piece of evidence is the dramatic increase in the financial revenues of manufacturing companies relative to their total profits. For the top 500 manufacturing firms, the ratio of financial revenues relative to net profit before tax rose from 24% in 1985 to 219% in 1999 (Demir 2004: 855). The Turkish economy's increased dependence on short-term inflows of international capital was the main cause of recurrent economic crises in the past decade. The policy result of the crises was the Turkish government's acquiescence to a wide range of intrusive loan conditions of the IMF.<sup>21</sup> In an economy that is fully exposed to the unstable global flows of financial capital, the government became overly concerned about gaining or

maintaining credibility with global financial markets. Thus the state's accountability further shifted from its citizens to transnational financial investors and the IFIs.

### **TURKEY'S NEW REGIONALISM AMIDST GLOBALIZATION**

Over the past two decades, the Turkish political economy became closely integrated into the global economy. The Turkish mode of global economic integration was based on neoliberalism; and it involved increased international trade dependence; opening to global financial markets; increased role of FDI in the Turkish economy; and increased investment by Turkish firms in other countries. As the preceding analysis shows, Turkey's external economic transactions have acquired a clear regional pattern. In other words, while the Turkish economy has opened to the global markets, it has simultaneously regionalized. The EU is clearly the dominant partner in the regionalization of the Turkish economy. The Turkish state's policy of regionalism has had a determining influence in this process of regionalization. It has reinforced the Turkish economy's EU-oriented regionalization. The Turkish state's international policy has long placed a major emphasis on Turkey's relations with the EU since it signed an associate membership agreement in 1963. This agreement was to prepare Turkey for full membership in the future. As will be explained later, in the 1990s, the Turkish government intensified its efforts for EU membership. At the same time, however, it started to pursue new regionalist projects. It either initiated or actively participated in several new regional schemes outside the EU. Two determining factors behind the Turkish state's pursuit of new regionalist projects were accelerated globalization and the breakdown of the cold war security structure.

Several important features and motives characterized the Turkish policy of new regionalism. First, for the Turkish state, its leadership or participation in several new regional cooperation schemes was not an alternative to its political, economic and military relations with the USA and the EU. But an important motive was to strengthen Turkey's bargaining position in its relations with these allies. Second, while the Turkish state continued to pursue full membership in the EU, it also wanted to expand the range of available options in its international relations in the post-cold war world. As it became clear that it would be very difficult to secure EU membership, the Turkish government sought to diversify Turkey's international economic and political relations by increasing its engagement with other regions. Finally, Turkey's prior neoliberal opening to the global economy facilitated the Turkish state's participation in new regionalist projects underpinned by the ideas of economic liberalism. Furthermore, Turkey's membership in multiple regional economic arrangements

was expected to generate economic benefits, including new markets for Turkish exports and new business opportunities for Turkish companies. Thus the new regional economic projects would help the Turkish industry better cope with the challenges of globalization.

### **New Regionalist Projects**

The international and regional geopolitical structure of which Turkey was part suddenly and dramatically changed with the disintegration of the Soviet Union and the collapse of the communist systems in Eastern Europe. While the East-West division of Europe ended, new independent states sprung up in Turkey's neighborhood. These momentous changes also meant the redrawing of regional boundaries and the construction of new regional identities. Turkey stood at an advantageous location to expand its diplomatic and economic engagement in several important regions in the post-cold war era thanks to the fact that it is geographically and historically part of several major regions. In seeking to take advantage of new regional economic and political opportunities, it adopted a more pro-active and assertive foreign policy compared to the earlier reactive and cautious foreign policy (Sayari 2000; Kramer 2000; Larrabee and Lesser 2003).

The emergence of five independent Turkic Republics from the Soviet wreckage in the Caucasus and Central Asia was a dramatic event for Turkey. Turkey's interaction with the Turkic states was almost non-existent during the Soviet era. But common linguistic and cultural ties as well as historical memory and myths relating to the origin of the Turkish people provided a strong incentive for the Turkish state and public to cultivate relations with the new Turkic Republics. Turkey rapidly established diplomatic relations and increased economic and cultural cooperation. According to Turkish policy makers, Muslim but secular Turkey with a democratic political regime and an open market economy could be a model for the Turkic Republics. Turkey received the USA's support in this endeavor. By backing Turkey's involvement in Central Asia and the Caucasus, the American government tried to reduce Russia's influence and prevent Iran from expanding its influence in the region (Larrabee and Lesser 2003:115-16). Turkish officials expected that closer ties with the Turkic Republics would help maintain Turkey's geostrategic importance in the post-cold war international system. Economic considerations also played a role in Turkey's policy towards the Turkic Republics. The transformation of these former communist countries to a private market economy and Turkish assistance in their transition would create opportunities for Turkish businesses (Sayari 2000: 173). But a very enticing economic opportunity arose when it became known that the Caspian Sea holds large oil reserves. Intent on making Turkey a key

energy transit route in the world, the Turkish government led an active international campaign for the construction of pipelines to transport Caspian oil to Turkey and then to Europe. Besides economic benefits, Turkey's role as a central energy conduit between Europe and Asia would enhance its strategic and political influence in the world. Furthermore, Turkey's easier access to the Caspian energy would reduce its dependence on Russia for gas and the Arab Middle East for oil. Turkey emerged triumphant in the intense international competition over the pipeline route for the transportation of the Azeri oil from the Caspian Sea. The USA government's support for the Turkish project of Baku-Ceyhan pipeline was critical for the Turkish victory in the murky waters of oil politics. A decade after the start of its construction, the Baku-Ceyhan pipeline began to operate in May 2006.

Turkey's economic and cultural relations with the Turkic Republics have grown considerably since the early 1990s. In addition to the Turkish state's promotion of closer relations, Turkish firms rapidly entered into various business transactions in these countries. Thus, Turkish business activities reinforced the Turkish state's Central Asian policy. However, Turkish officials had to scale the earlier elevated expectations to a more modest level when faced with a number of important impediments. First, Turkey's limited resources have hindered its leadership role. Second, Russia's continued influence in the former Soviet lands has posed major challenges for Turkish policy. Third, rather than moving towards a more democratic system, many of the Turkic states have remained under the rule of 'personalist' authoritarian regimes. In recent years, this political situation has created a real dilemma for Turkish foreign policy because one of its major stated aims in Central Asia has been to promote democratization (Economist 3 June 2006, p. 48). Fourth, in tandem with the Turkish state's increased ties with the Turkic Republics, Turkish private companies rapidly entered almost all branches of the Central Asian economies via direct investment, trade and big construction projects (Kramer 2000: 112). Thus the economic relations between Turkey and Central Asia have grown significantly. However, they have remained at low levels relative to the Turkey's economy and its economic exchanges with the rest of the world.<sup>22</sup> The main reasons for this are the low level of economic development, poor material and institutional infrastructure and incomplete transition to a capitalist market economy in Central Asia.

As Turkey's relations with the Central Asian countries grew, the Turkish state pursued a formal regional economic scheme extending from the Middle East to South Asia and Central Asia. The Economic Cooperation Organization (ECO) was created in 1985 but it became fully functional in 1991.<sup>23</sup> The organization initially included only three states; Iran, Pakistan and

Turkey. Soon after the disintegration of the Soviet Union, the organization admitted in 1992 the five newly independent Central Asian states, Azerbaijan and Afghanistan. On the initiative of Turkey, the ECO also welcomed the participation of the Turkish Republic of Northern Cyprus without full membership.

At the time when the ECO was created, the Turkish state had major security and political concerns with regard to the post-Revolutionary Iran's ambition of spreading the Islamic revolution. The security concerns also included the Iranian support for the Kurdish PKK fighting for an independent Kurdish state within the borders of Turkey, as well as the Iranian Islamist regime's support for Islamist political groups throughout the Middle East. In spite of these major security and political concerns, the Turkish government adopted a policy of improving economic relations with Iran within both bilateral and multilateral frameworks. The ECO was a product of the policy of cooperation in the economic area in spite of mutual political distrust and rivalry for influence in the post-Soviet Caucasus and Central Asia. The ECO served as an important avenue for integrating the Central Asian states in the post-cold war international economic and political system.

The declared objectives of the ECO reflect the main features of the new regionalism. They are based on the principles of economic liberalism and emphasize removal of trade barriers and promotion of trade among member countries as well as the integration of member economies with the world economy. The organization's principles of cooperation commit member states to make joint efforts to gain better access to global markets for their exports.<sup>24</sup> In practice too, its work has given priority to the promotion and facilitation of intra-region trade and the integration of member economies with global markets. It created a Trade and Development Bank in Istanbul and a Re-Insurance Institution in Pakistan (DPT 2001: 53-4). Other priority areas to date have been improvement of transport infrastructure linking member countries, regional cooperation in agriculture, energy and minerals sectors, drug control and tourism (Herzig, 2004: 513). The ECO's emphasis on trade liberalization and integration with the global economy is puzzling given the predominantly illiberal political economy of one of its major members, namely Iran and its limited engagement with economic globalization. However, the ECO is a regionalist economic scheme that can facilitate Iran's participation in economic globalization and promote economic liberalization in the respective region. The ECO's accomplishments to date have been limited compared to its declared objectives. This is not surprising in view of the great political and economic diversity of its membership and the member states' pursuance of divergent foreign policies in the international system. Its main

achievement has thus far been in the area of transportation infrastructure, which is necessary for the growth of trade, and oil/gas pipelines and electricity grids (Herzig, 2004: 513-14).

Over the past two decades, Turkey has also increased its participation in the economic activities of the Organization of Islamic Conference and more particularly the Economic and Commercial Cooperation Permanent Committee of the same organization (Ataman 2002: 7). Thus, the secular Turkish state gradually increased its economic and diplomatic interaction with the states of Muslim countries, including the ones ruled by Islamist regimes, in the last two decades. The government of the moderately Islamist JDP, which won the election in 2002 and again in 2007, sought to further improve Turkey's relations with the Muslim countries while it also pursued the goal of EU membership. The JDP government's this policy was articulated by Ahmet Davutoglu, the chief adviser on foreign policy to the prime minister, Recep Tayyip Erdogan, in the following words: "Turkey can be European in Europe and eastern in the East, because we are both" (Economist, 17 November 2007, p. 42).

The end of the cold war and of the communist systems in Turkey's neighborhood created an opportunity for the Turkish state to play a leadership role in the development of another major regional project. This project involved the construction of a new Black Sea region which did not exist earlier in social and political terms. The Black Sea Economic Cooperation (BSEC) zone came into existence in 1992. The BSEC includes not only the littoral states of the Black Sea (Turkey, Bulgaria, Romania, Georgia, Russia and Ukraine) but also three Balkan states (Albania, Greece and Moldova), and the Caucasian states of Armenia and Azerbaijan. The BSEC owes its origin to the initiative and vision of the late Turkish President Turgut Özal. The Turkish state also provided financial support for the organization in its early years. In 1999, the BSCE was transformed into a formal regional economic organization with a legal identity. The principal purpose of the organization is to promote closer economic and technological cooperation and to encourage private sector activity and freer movement of goods and services among member countries. The BSEC states agreed to establish a free trade zone by 2010. To facilitate the achievement of its goals, the BSCE opened a Trade and Investment Bank in Thessalonica in 1999. The BSCE is a clear example of a new regionalist scheme that is aimed at the liberalization of trade and promotion of private business entrepreneurialism. If the planned free trade zone comes into existence, the BSCE can serve as a platform for at least some of the former communist countries through which to enhance their participation in the global economy.

However, the organization has been slow in achieving its stated goals. The reasons include the geographical heterogeneity of its membership, distrust between members due to

past grievances, lack of a shared regional identity, long-standing bilateral disputes, and insufficient commitment of many members as a result of their attachment of greater importance to other regional or international organizations such as the EU (Aral 2002; Larrabee and Lesser 2003: 122). Thus, despite its further institutionalization in recent years, the BSEC has so far showed only modest success with respect to fostering regional cooperation. As a result, the Turkish state no longer dedicates the same level of attention and priority to the organization compared to its earlier years.

Whereas the Turkish government has lost at least some interest in the BSEC as an official regionalist project, Turkey's private business relations with many of the BSEC countries continue to flourish. As explained earlier, Turkish firms have growing direct investments and trade relations in the BSEC region. Turkey's economic integration with the BSEC countries is currently driven more by private business activities and firms' investment strategies than the formal regionalist scheme of the BSEC.

### **Troubled Relationship: Turkey and the EU**

Currently, the focus of the Turkish regionalist policy is on the EU.<sup>25</sup> Turkey formally applied for EU membership in 1987 following the relative democratization of the Turkish political regime after the military rule of 1980-82 as well as major neoliberal reforms in the Turkish economy. The European Commission announced its decision on the Turkish application in December 1989. It recommended against opening accession negotiations right away on the grounds that Turkey was not ready both economically and politically for full membership (Eralp 1993: 37). When the Turkish government realized that Turkey's chance of membership was quite slim in the near future, it directed its efforts at establishing a fully-fledged customs union. The EU also urged the Turkish government to follow the path of a customs union first. From the Turkish viewpoint, the customs union was not an end but an important step on the road to full membership. The Turkey-EU customs union came into force in 1996.

The end of the cold war and the collapse of the communist systems in Eastern Europe diverted the attention of the EU away from Turkey. During most of the 1990s, the EU was preoccupied with the economic and monetary union as agreed by the 1992 Maastricht Treaty as well as the expansion of its membership to include the former communist countries of Eastern Europe. As a result, Turkey was relegated to a less significant place in the EU policy. Partly in response to its exclusion from the EU expansion and partly as a result of the rise of new regional opportunities, the Turkish state pursued several new regional projects. But these regional projects were not an alternative to or a substitute for the EU.

There was a revival of Turkish interest in EU membership at the end of the 1990s. That the achievements of Turkey's new regionalist initiatives in Central Asia and the Black Sea region were limited compared to the initial high expectations contributed to the refocusing of the Turkish government's attention on the EU again. Furthermore, the occurrence of frequent financial-market crises in the Turkish economy following the deregulation of cross-border financial flows increased the attractiveness of EU membership for both the Turkish state and private business sector. They came to see EU membership as crucial for Turkey's economic stability in the age of neoliberal globalization. There was also the expectation that Turkey's graduation to full membership and the economic and political reforms it would have to implement before allowed into the EU would improve Turkey's credibility with global financial markets and thus reduce the risk of financial crises (Öniş 2003: 17-18, 23-5; Wood and Quaisser 2005: 162). At the end of the 1990s, the Turkish government intensified efforts aimed at securing the EU's recognition of Turkey as a candidate for membership, including pro-democracy political and legal reforms and lobbying EU governments and influential private and official institutions in EU countries. The campaign was effective. The 1999 EU Summit in Helsinki declared Turkey as a candidate but without announcing a start date for accession negotiations. The candidacy status was a major catalyst for a series of significant pro-democracy reforms in the Turkish political and legal system in the early 2000s. The democracy reforms were geared towards meeting the Copenhagen political criteria for EU candidates. At the December 2004 meeting, the EU leaders finally agreed to begin entry negotiations with Turkey starting on 3 October 2005.

Despite the start of entry negotiations, Turkey faces major obstacles on the road to membership. The obstacles are primarily political rather than economic. An important obstacle is the widespread and strong doubt among the EU's publics and officials regarding the 'Europeanness' and cultural compatibility of Muslim Turkey. The heightened sense of a clash of civilizations in the post-September 11 era has magnified such doubts. According to various polls, public opinion in many EU countries is mostly hostile to Turkish membership. The coming to power of the Christian Democratic government led by Angela Merkel in Germany in 2006 and the election of Nicolas Sarkozy as French President in 2007 shifted the balance of power within the EU significantly against Turkish membership. Sarkozy is an outspoken opponent of the admission of Turkey into the EU. As an alternative to membership, he advocates the idea of "privileged partnership" for Turkey. German Chancellor Merkel also favors privileged partnership instead of full membership. In response, Turkish officials called upon the EU to respect its obligations, emphasizing that Turkey would not agree to any type

of arrangement short of full membership. The proposal of privileged partnership clearly goes against the EU's earlier decision to recognize Turkey as a candidate for membership and to start accession negotiations. From the Turkish official perspective, the proposal is by no means negotiable. The outspokenly unfavorable stance of the current conservative governments of two major EU countries has seriously strained Turkey-EU relations.

The Turkish state's inability to fully meet the Copenhagen political criteria to date also provides ammunition for the European opponents of Turkish membership. The major political and social forces in the country support joining the EU. They include the political parties of the center right and center left, the business community, and the military. But they disagree over how far the Turkish state should and could go in political and legal reforms in order to meet the EU political criteria. This disagreement partly results from a fear of national disintegration. This fear is exacerbated by the EU's push for the recognition of various ethnic rights for the country's minority groups, more specifically the Kurds. The military in particular has some important reservations in this respect (Kösebalaban 2002). The opponents of Turkey's EU membership include 'traditional' and extremist Islamist groups as well as Turkish nationalists. The Nationalist Action Party, which is currently the main opposition party in the Parliament, is strongly nationalist in its ideological orientation. The Justice and Development Party is moderately Islamist; but it supports Turkey's full membership in the EU. The electorate's withdrawal of support from the more conservative Islamist parties in favor of the JDP in the 2002 and 2007 elections weakened the Islamist-based opposition to Turkey's EU membership. After it came to power following a major victory in the November 2002 election, the first JDP government carried out a series of political and legal reforms geared towards meeting the Copenhagen political criteria. However, the pro-democracy reform has lost momentum. That is because the attention of the second JDP government, which was formed following the 2007 elections, is currently focused on some legal changes the primary purpose of which is to please its support base, such as a constitutional amendment to allow the wearing of headscarf on university campuses.

Another obstacle to Turkey's EU membership is the problem of divided Cyprus. The Greek Cypriot government's ever present threat of veto, and the Turkish state's efforts not to recognize the Greek Cypriot state while signing EU agreements to which the Greek Cypriot government is a party, remain a major source of friction in the Turkish-EU relations. The row over the EU's demand that Turkey open its ports and airports to Greek-Cypriot ships and aircrafts brought the accession talks to a halt in late 2006. Although the talks were soon

resumed, this incident demonstrated that the Cyprus problem would continue to impair Turkey-EU relations.

Turkish public support for EU membership has eroded significantly in the last several years. Turkish public opinion is turning against Turkey's pursuit of EU membership due to frequent crises in Turkey-EU relations; calls from some EU leaders to offer Turkey special partnership instead of full membership; the EU's continuing economic embargo on Turkish Cyprus despite Turkish Cypriots' overwhelming support for the UN-sponsored plan for the island's reunification; and constant new political demands from EU Parliamentarians as a condition for Turkish membership. According to a Turkish opinion poll, the percentage of those who said "Turkey must join the EU" dropped from a high of 67.5% in 2004 to 32.2% in 2006. The percentage was 56.5% in 2002. At the same time, the percentage of those who said "Turkey must not join the EU" rose from 8.7% to 25.6%. The corresponding figure for 2002 was 17.9%.<sup>26</sup> According to the same survey, 78.1% of those surveyed did not trust the EU. This means that it will be difficult to mobilize the support of the Turkish public in meeting the EU's entry criteria unlike in the earlier years.

## **Conclusion**

The literature on the new regionalism that emphasizes the compatibility of contemporary regionalism with globalization conceptualizes regionalist projects primarily as a means of enhancing participation in the global economy. This conceptualization does not adequately account for the relationship between globalization and the new regionalism. It does not capture the dimension of globalization as facilitator of the new regionalism. This paper has emphasized the dual aspect of the globalization-regionalism relationship focusing on the Turkish case. The analysis of the Turkish case in this paper has shown that the Turkey's globalization and regionalism are mutually reinforcing and supporting each other. The Turkish political economy's opening to the global economy via neoliberalism preceded the Turkish state's pursuit of new regionalist projects in multiple regions. Turkey's neoliberal mode of participation in the economic globalization process prepared the economic and political ground for the Turkish state's active pursuit of new regionalist projects based on the principle of open market economy and private-sector led economic growth. While the prior adjustment of the Turkish political economy to the neoliberal form of globalization facilitated the active participation of the Turkish government and business actors in multiple regionalist initiatives, the new regionalist arrangements were in turn expected to improve the Turkish economy's position in the global economy in terms of global market competitiveness, global

trade and capital flows. Thus as the neoliberal globalization of the Turkish economy facilitated the Turkish state's project of new regionalism, the Turkish state and business community conceived of the new regionalist arrangements as a means of more successful participation in the globalization processes.

## NOTES

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<sup>1</sup> Nesadurai (2002) uses the term "developmental regionalism" to refer to what I more broadly call controlled-globalizing regionalism.

<sup>2</sup> The related but narrower debate over whether regional economic schemes are trade diverting or trade creating has not entirely been settled, however. Those who consider regional trade agreements as obstructing economic globalization often emphasize their trade diverting character.

<sup>3</sup> When Turkey became an associate member of the European Economic Community in 1963, it was recognized by the both parties that full membership would be a long gradual process.

<sup>4</sup> The ratios used are from OECD (2006a). They correspond to the *average* of exports and imports as a percentage of GDP. If we use the total amount of imports plus exports in calculating the trade-to-GDP ratio, the annual rate for Turkey was 60.4 as a percentage of GDP in 2000-04 (OECD Macro Trade Indicators Data extracted on 9 June 2006).

<sup>5</sup> OECD classifies manufacturing exports into four categories according to their technology content: high, medium-high, medium-low and low technology. The cited statistics regarding the technology content of exports are from (OECD 2006a: 244-7).

<sup>6</sup> Textile and apparel accounted for 25.4 of Turkey's total exports (calculated from TÜİK 2006).

<sup>7</sup> The share of low technology goods was 15.3% for Mexico and 11.4% for South Korea in 2003. Turkey scored better than only two of the OECD members, Iceland and New Zealand and only slightly worse than Portugal and Greece (OECD 2006a: 247).

<sup>8</sup> The rates correspond to trade in goods. They do not include trade in services. In the area of trade in services, Turkey fared better and scored surpluses in recent years, as will be explained.

<sup>9</sup> GDP data are from OECD (2006b: 267)

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<sup>10</sup> The EU includes the ten countries that joined in 2004. Whether the EU 10 are included or excluded makes only 2-3% difference with respect to Turkish exports. The cited statistics do not however include Bulgaria and Romania which joined the EU in January 2007.

<sup>11</sup> The Statistics Institute of Turkey (TÜİK)'s trade statistics categorize Turkey's trade partners into several large regional groups. They are the EU, non-EU Europe, North Africa, North America, Central America and the Caribbean, Near and Middle East, other Asia, Australia and New Zealand, and other Oceania. The statistics for the destination and origin of Turkey's exports and imports are calculated from the TÜİK's trade statistics.

<sup>12</sup> Russia increased its share of Turkish imports from 4.4% in 1996 to 11% in 2005. One important reason was Turkey's increased purchase of Russian natural gas.

<sup>13</sup> Imports from China constituted only 1.3% of total Turkish imports. This figure rose to 2.65% in 2002 and further to 5.9% by 2005 after China joined the WTO in 2001.

<sup>14</sup> According to UNCTAD's World Investment Report as quoted in Rugman (2005: 264), the total stock of FDI in the world has increased more than threefold since 1990. It grew from US\$1.9 trillion in 1990 to US\$7.1 trillion in 2002. Annual world FDI flows grew from US\$55.1bn in 1980 to US\$1,397bn in 2000, though afterwards it declined to \$648bn in 2004 (UNCTAD 2005).

<sup>15</sup> The letters of Intent dated 5 April 2003 and 26 April 2005 are provided on the IMF's website ([www.imf.org](http://www.imf.org)).

<sup>16</sup> The FDI amount was \$8.2bn in 2005 and \$16.8bn in 2006 (DPT 2008: Tb. 3.9).

<sup>17</sup> For the relationship between financial flows and real output growth in Turkey, see Alper (2002).

<sup>18</sup> For more details on Turkish capital account liberalization, see Ekinçi (1997); Esen (2000); and Alper and Öniş (2002).

<sup>19</sup> Just prior to the 2000-01 crises, net inward debt flows from private sources amounted to \$11bn in 1999 and \$13.8bn in 2000; Most of these debt inflows were for short-term. In the crisis year of 2001, as international creditors called in their loans, the country faced a net inward debt flow in the amount of minus (-) \$14.9bn (World Bank 2005: 152). The relative magnitude of such volatile financial flows becomes clearer, when it is compared to the amount of FDI in the country. As cited earlier, during the five-year period of 2000-04, total FDI flows in Turkey amounted to \$9bn.

<sup>20</sup> Financial arbitrage return is a function of the difference between the domestic interest rates and the rate of the depreciation of the exchange rate.

<sup>21</sup> Some of the literature on the Turkish crises include Onder (1997); Alper and Öniş (2002); Akyüz and Boratav (2003); Öniş (2003); and Ozkan (2005).

<sup>22</sup> The volume of trade between Turkey and the Turkic Republics rose from \$1.6bn in 1996 to \$2.2bn in 2005. This represents a substantial increase. However, as a percentage of Turkey's total trade with the rest of the world, it was no more than 1.5% as of 2005 (calculated from TÜİK 2006).

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<sup>23</sup> The ECO succeeded the organization of Regional Cooperation for Development, which operated from 1964 to 1979.

<sup>24</sup> See [http://www.ecosecretariat.org/Detail\\_info/About\\_ECO\\_D.htm](http://www.ecosecretariat.org/Detail_info/About_ECO_D.htm)

<sup>25</sup> There is a sizeable amount of literature on recent Turkish-EU relations. Some of the more current publications in English are Üçer (2006); Tekin (2005); Bonner (2005); Öniş and Yilmaz (2005); Gates (2005); and Wood and Quaisser (2005).

<sup>26</sup> The results of the survey are cited in the Turkish daily *Milliyet* 24 October 2006.

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