

EU-Turkey-Monitor

Vol. 4 No. 3

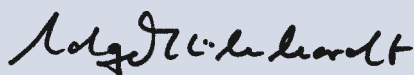
December 2008

Editorial

In our last *ZEI EU-Turkey-Monitor*, we suggested to reflect about an EU Stability Pact for the Caucasus. The future of the “fringes” of integrated Europe remains thoroughly tied to Europe’s security. With the initiative of an Eastern Partnership, the European Commission has pushed the need for a more coherent EU policy vis-à-vis its Eastern and South Eastern neighbours.

The related issues are complex and deserve intensive reflection and subtle leadership. Whatever the European Union will do, its neighbourhood policies towards South Eastern and Eastern Europe should make the best possible use of the potential of the EU candidate country Turkey. Likewise, Turkey should use the evolving neighbourhood policies and partnership concepts of the EU as a tool to demonstrate its value-added as an EU partner. It is in this policy area that EU interests and the interests of Turkey can intersect, thus advancing the realization that both, that is the EU and Turkey, belong together – not as EU and Turkey, but as Turkey in EU.

We offer some insights and thoughts, but also new questions and prospects with this edition of the *ZEI EU-Turkey-Monitor*. We appreciate the comments of our readers and thank them for their friendly reception of our work.



Prof. Dr. Ludger Kühnhardt
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José Manuel Barroso, President of the European Commission, and Nicolas Sarkozy, President of the French Republic and current President of the Council of the EU, at a meeting in Moscow with Russian President Dmitri Medvedev. © European Communities

A STABILITY PACT FOR THE CAUCASUS REGION?

Geert Ahrens

In August 2008, during the armed conflict between Russia and Georgia, Turkish Prime Minister Erdoğan visited Moscow, Tiflis, and Baku, where he proposed a regional pact that should, above all, create a mechanism for the solution and prevention of conflict, in order to enhance security and stability in the region. Since there existed, between 1999 and 2008, a largely successful Stability Pact in another notorious region of conflict, the Balkans, the question arises whether and to what extent experiences from that Pact could be used in order to create a similar structure for the Caucasus region.¹

To recapitulate: The Stability Pact for South Eastern Europe was created in June 1999 with the aim of stabilizing, in a sustainable way, the entire region. Participants were the regional entities (9 countries and Kosovo), the European Union and its member states, other international organizations such as NATO, the OSCE, the Council of Europe, and the international finance institutions, furthermore, the U.S., the

Russian Federation, and others. There was a Secretariat in Brussels, a Special Coordinator (first the German Hombach, then the Austrian Busek), and three so-called Working Tables for democracy, economics, and security. These Tables would delegate certain subjects to specialized working groups and initiatives. The central organ of the Pact was the Regional Table. In February 2008, in Sofia, this Table had its final meeting. Simultaneously, the Regional Co-operation Council (RCC) was inaugurated. The RCC, led by a Secretary General from the region (the Croat Bišćević), took over the tasks of the Stability Pact, thus regionalizing the effort.

There are a number of features that both regions, the Caucasus and the Balkans, have in common. They are both characterized by a high degree of ethnic, religious, and cultural diversity, although the Caucasus region belongs to only four states: Russia, Azerbaijan, Georgia, and Armenia, and has a considerably smaller population. All entities in the Caucasus and most in the Balkans are the product of the disintegration of federal states, the

▶ Soviet Union and the Socialist Federal Republic of Yugoslavia. Both have experienced brutal warfare and ethnic cleansing, and are confronted with serious refugee problems. The outbreak of renewed warfare is still possible. When the Balkans Stability Pact was created in June 1999, fighting in Kosovo had just ended, and more was to come in southern Serbia in 2000 and in Macedonia in 2001. Although by now, in 2008, further fighting in the area is improbable, serious problems continue to exist, particularly in Kosovo and Bosnia and Herzegovina. In the Caucasus, the situation is even worse, with insecure areas, mere cease-fire lines, and closed borders still existing. This summer, Russia and Georgia fought a short war in connection with the unresolved conflict regarding the two Georgian break-away regions of South Ossetia and Abkhazia; and there is still a possibility that Azerbaijan and Armenia might go to war again over the Nagorno-Karabakh conflict.

Also common to both areas is the communist heritage although, in the Caucasus, it has lasted almost one generation longer than in the Balkans. This heritage has led to democratic deficits, which are stronger in the Caucasus than in the Balkans, as, e.g., a comparison of election monitoring reports by the OSCE regarding the different countries clearly show. Economic decline, which was strong in both areas and has led to widespread corruption and organized crime, is, at present, more dramatic in the Caucasus than in the Balkans. Finally, both areas have been the object of various international mediation efforts that have led to containment only, and not to the solution of very serious problems that still exist. In addition, in the Balkans, a certain fatigue with these efforts is growing, particularly in Kosovo.

In spite of these features that both regions have largely in common, there are four fundamental differences between them.

First, whereas the Balkans consist entirely of independent states of mutually comparable size, the Caucasus is divided into two parts: in the south, the three relatively small independent states of Armenia, Azerbaijan and Georgia, and in the north, six even smaller entities with together around six million inhabitants that form part of the huge Russian Federation: Dagestan, Ingushetia, Chechnia, North Ossetia, Kabardino Balkaria, and Karachai Cherkessia. The picture is further complicated by the recent Russian recognition of the independence of

two break-away regions that are part of Georgia: South Ossetia and Abkhazia.

Second, the international environment is different. Whereas the Balkans region is surrounded by like-minded neighbors that are members of the EU or want to become such members (Turkey, Ukraine), the three neighbors of the Caucasus region could hardly be more different. The Russian Federation seeks to reassert Moscow's traditional hegemonic role in the region. The Islamic Republic of Iran, aware of the even older hegemonic role that Persia had played particularly in Shiite Azerbaijan, seeks to enlarge its influence. Turkey is a candidate for EU membership, a close ally of the U.S. and member of NATO; it is, at the same time, ethnically and linguistically very close to the Azeris (not with regard to religion, Turks are Sunni Muslims); it has no official relations with Yerevan, despite some recent signs of détente. The relations between Moscow, Teheran, and Ankara are mostly cool, if not tense, and it is difficult to see how these three countries could develop between them an unconflictual relationship with regard to the Caucasus region or, at least, its southern part, that would allow for the close co-operation that a Stability Pact on the Balkans model would require.

Third, the Balkan states have had a different relationship with the EU than the Caucasus countries. When Yugoslavia disintegrated, the newly emerging states early on expressed the wish to join the EC/EU², but showed little interest in co-operation with their neighbors from whom they had just broken away. However, European politicians, who were, in principle, sympathetic to the accession wishes of the new states, insisted on a co-operative relationship between the candidates for membership. The wish to join the EU thus became the strongest incentive for the kind of co-operation asked for by the Stability Pact. This incentive is missing in the Caucasus. On the one hand, the EU offers the Caucasus countries close co-operation, but not membership, and would have to define the incentives it would offer for participation in a Caucasus Stability Pact. On the other hand, only one of the three states in the southern Caucasus, Georgia, has shown an interest in joining the EU. Oil-rich Azerbaijan positions itself differently, and even Armenians would stress their country's intermediate position between Europe and the Orient, and the necessity of its strategic relationship with Russia.

Fourth, the geostrategic importance of the Caucasus is larger than that of the Balkans. The Caspian Basin is rich in petrol and gas. Azerbaijan is a major producer, and the entire region is important for oil and gas transport. The future of the Caucasus is, therefore, vital for the U.S., who would wish to play an important role in efforts to stabilize the area but might conduct a policy that differs partly from the EU's or that of some of the EU member states. Without being able to go into detail here, the relationship with Iran and the wish to have a pipeline system that circumvents Russia come to mind.

Conclusion: The proposal by Prime Minister Erdoğan will not lead to a Caucasus Stability Pact that could imitate the Balkans model in the foreseeable future. Nevertheless, the proposal deserves full support insofar as it suggests a regional approach rather than mediation efforts dealing with conflicts in an isolated way. There are some encouraging signs that might prepare the ground for the Turkish proposal, such as the cautious rapprochement between Ankara and Yerevan and the recent Russian-mediated joint declaration by the presidents of Armenia and Azerbaijan regarding Nagorno-Karabakh. Unfortunately, there was also a large step backward, when Russia invaded Georgia and created a new and difficult problem by recognizing the regimes in South Ossetia and Abkhazia as independent. One can only hope that all participants will come to the conclusion that their own well-understood interests call for a stabilized Caucasus region, and that diplomatic skill in connection with some political wisdom will lead to a step-by-step implementation of the useful and timely Turkish proposal. Success will, however, not be easily attained.

1) Constantin Grund, *Der Stabilitätspakt für Südosteuropa* (Universität Trier, Lehrstuhl für internationale Beziehungen und Außenpolitik), <<http://www.politik.uni-trier.de/liba/Projekt/Pub/kaucasus.PDF>> (accessed on 25 November 2008).

2) The European Community (EC) became the European Union (EU) on 1 November 1993.

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A 'NEW CAUCASIAN' CHALK CIRCLE?

Why Georgia's Neighbours and Georgia Must Work Together to Talk with Russia

Tedo Japaridze

The Five Day War in Georgia may well have been, as many have suggested, "a disaster waiting to happen," but its outcome is even worse than many expected. On the one hand, Georgia not only was defeated but has also been dismembered with little or no chance of recovering nearly a third of what is still its internationally recognized territory. And on the other hand, the conflict has depressed relations between Moscow and the West to a new low, poisoning the atmosphere and making any new initiatives extremely difficult to launch, albeit it

should be acknowledged that those military activities have not provoked even a slight hint of a "new cold war", as some pundits and experts rushed to proclaim. This Five Day War affirmed the view that Russia had become "the world's foremost revisionist power" but with the limited capacity to project its resurrected power mainly on the former-Soviet space, thus bringing back some remnants of "Realpolitik" or "power politics" to the regional strategic landscape.

Some regional experts admit that the recent financial crisis outweighed the Five Day War in Georgia. I would just partially agree with that

assumption. The international financial crisis that came on the heels of the Georgian war has complicated the assessments of the latter. But as serious as the financial crisis is for the region and the world as a whole, the Georgian war, by undermining the taboo on the use of force and by showing the real nature of power relations in the Caucasus, is ultimately going to have a more serious impact in that region.

Naturally, as a Georgian, my primary concerns focus on my country's prospects not only internally but as a member of the broader Black Sea/Caspian region. The situation inside ▶

▶ Georgia gives both cause for concern and reason for optimism. The government has tried to push the line that Tbilisi won the war, but it has failed. And now there is a vibrant debate within Georgia about what should be done to rebuild the country's democracy, to consolidate the disenchanted and misinformed segments of the society, to rebalance the country back to normalcy and realistic thinking, to secure Georgia's borders and reopen ties with Russia and build them with others as well.

Much has been said about the disproportionate aggression of Russia and its brutal use of force. That has been proved and acknowledged by the international community, which has also noted the recklessness of the Georgian authorities. So, let us talk about my own country and the recent political sentiments inside it. Not surprisingly, the main target of popular criticism is President Saakashvili, whose mismanagement, authoritarianism, and recklessness led to a war that has set Georgia back years. And consequently, ever more people in the political class are now convinced that they must come together in an alliance committed to putting Georgia back on the path to peaceful democratic development and integration with Europe.

But there is another aspect to the current situation that I want to call attention to: Georgia must find the political courage and will to restart a political dialogue with the Russian Federation. Diplomatic relations have been severed, and people in both countries are spending more time attacking those in the other than thinking about how to talk our way through together toward a more stable arrangement. At some point, both Tbilisi and Moscow need to find ways to talk, informally at first and then at increasingly higher and more formal levels. This will not be easy, but it is essential not only for Georgia but for the

region and the world. Unfortunately, the current rise in tensions between Russia and the West in the wake of the war makes it more difficult for Georgia's Western friends to help in this regard. That means that Georgia's friends closer by in the Black Sea/Caspian Basin region have to play a larger role. Not only do they have the opportunity to do so but they have a compelling and even selfish reason as well: if Moscow and Tbilisi do not find a way out of the current impasse of silence, then these countries too will find that they will have more problems in the future as well.

And consequently, Georgians need to work even more closely with their regional partners than they have up to now because unless they do, the future of their country remains bleak as well. Will Georgia remain a major pathway for

trade or will it become a bottleneck that will impact the perspectives of inclusive and sustainable economic developments within the entire Black Sea/Caspian area and prevent the realization of the European Neighbourhood Policy as well as of the "Black Sea Synergy"? If we address these questions, we may be in a better position to draw what lessons we can from the recent crisis and thus be in a position to limit its impact on the future.

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Javier Solana, Bernard Kouchner, Nicolas Sarkozy, Georgian President Mikhail Saakashvili and José Manuel Barroso at a meeting in Tbilisi in September 2008. © European Communities

THE GEORGIAN CRISIS: NEW REALITIES AND RULES OF THE GAME

Sergey Markedonov

In August 2008, the years-long Georgian-Ossetian conflict reached a new climax in the "five-day war". This outbreak of fighting was the third armed conflict between Georgia and the unrecognized republic of South Ossetia (*de jure* a part of the Georgian state) during the last 17 years. The sides fought for the first time in 1991-92 and again in August 2004. However, the military conflict of August 2008 qualitatively differed from the two previous ones since the Russian military participated directly in it. In contrast to the actions of separate Russian soldiers and units during the Georgian-Abkhaz war of 1992-93, the Kremlin not only supported what was happening on the ground, but named the exercise "Forcing Georgia to Peace", in an effort to save the Ossetian people from a large-scale humanitarian catastrophe. Also, in contrast to the previous Georgian-Ossetian battles, the West was actively involved in the conflict between Tbilisi and Tskhinvali (and also between Moscow and Tbilisi) this time. Accordingly, in August 2008, the events in and around South Ossetia were on top of the international agenda. Unsurprisingly, during the first days of the conflict, the UN Security Council met to discuss the situation in the Caucasus three times.

After 7 August 2008, the *status quo* in Southern Ossetia and to a lesser degree in Abkhazia was

broken. There are no more *frozen conflicts*. This reality from the 1990s now disappeared together with the "Yeltsin generation". After the collapse of the Soviet Union, the first redrawing of borders had taken place, but the project to build up a Commonwealth of Independent States has now finally collapsed. This is one of the key results of the "five-day war". The crux of the matter is not simply Georgia's exit from the group and Ukraine's willingness to leave. The real issue is the way its members view this institution. Most members of the CIS have their own separatist "skeletons in the closet" and therefore are afraid of Russia gaining too much power since it appears as a threat to their own unity. Therefore, the CIS is no longer an appropriate instrument for developing common approaches and methodologies for solving conflicts.

Likewise, the alter ego of CIS, GUAM (Georgia, Ukraine, Azerbaijan, and Moldova) also did not prove very effective or unified in its positions. In contrast to Georgia, Azerbaijan has not built its foreign policy on the basis of confrontation. Baku sees in Moscow a counterweight to the West, with which Azerbaijan's relations are not as close as Georgia's. Moldova was also acting cautiously since it wants to reintegrate the unrecognized Pridnestrovian Moldavian Republic (PMR) and is willing to accept important Russian conditions such as not joining NATO, neutrality, and the recognition of Russian property on its territory. Accordingly, within GUAM there

were various positions with regard to the Russian actions and varying degrees of willingness to enter into conflict with Moscow.

The main issue raised by the "five-day war" is the self-determination of unrecognized republics. In "freezing" the conflicts at the beginning of the 1990s, Russia gave its agreement to the existence of such unrecognized republics as the main result of the conflicts. The frozen status meant that the resolution of the conflict would be put off to a later and more suitable time, in more encouraging political circumstances and on the basis of compromise among the various sides involved. Accordingly, pre-determining the status of the disputed territories would not have been rational. Thus, the unresolved status of the *de facto* states defined the political reality of the 1990s. This reality included preserving the *status quo* and the absence of significant military activity (in Abkhazia, there were attempts to change the republic's status in 1998 and 2001, but they were nowhere near the scale of Tskhinvali in 2008). The relative peace gave hope that in some form the sides would be able to agree. Now, the question of self-determination of so far unrecognized states will be another instrument of influence for Russia in the region.

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TURKEY'S CONTRIBUTION TO CAUCASUS STABILITY

Suat Kınıklioğlu

The Caucasus has always figured prominently in Turkish foreign policy thinking. Despite the relative calm of the Cold War years, the Caucasus has traditionally been an area of intense geopolitical rivalry, warfare and conquest for centuries. The disintegration of the Soviet Union produced the conflicts in Karabakh, Abkhazia, South Ossetia and Chechnya and thus has brought the Caucasus back into Turkey's area of interest. Unfortunately, the 1990s were wasted with the notion of geopolitical rivalry between the Russian Federation, Turkey and to some extent Iran. Yet, since 2002 Turkey's outlook to its immediate neighborhood, including the South Caucasus, has dramatically changed. Gone is the paradigm of confrontation and rivalry with Moscow. Instead, Turkey's drive to normalize its relations with its neighbors has become the dominant view when dealing with the Caucasus.

Turkey's neighborhood policy sheds light on Turkey's policy objectives in the Caucasus: Turkey feels that its security is most strengthened by reintegrating into its immediate neighborhood, be it in the direction of the Balkans, the Black Sea, the Caucasus or the Middle East. The current government's foreign policy is informed by an intellectual outlook that views the Cold War years as an anomaly and urges Turkey to exercise its strategic depth with a multi-dimensional foreign policy approach.

Turkey's Interests

Turkey views the Caucasus as a region with which it has comprehensive relations, as Turkey's population includes millions of people who claim origin in the North and South Caucasus. Hence, there is a web of intricate links and

interaction with the region. Secondly, the Caucasus is an important route for hydrocarbon resources to reach Turkey and Europe. Thirdly, the South Caucasus provides critical land access to Turkic nations such as Azerbaijan and Central Asia. Fourthly, the South Caucasus is a natural buffer between Turkey and Russia. Last but not least, the Caucasus constitutes the edge of Wider Europe and thus is part and parcel of a distinctly geopolitical and geostrategic European space.

Turkey's Contribution

The recent crisis between Georgia and Russia has rudely reminded the international community that sustaining the *status quo* on the frozen conflicts in the region is rather risky business and necessitates new tools and mechanisms. Turkey initiated a quick and flexible diplomatic offensive that would help the warring parties and other actors in the region convene in a fresh format, namely the Caucasus Stability and Cooperation Platform (CSCP). The primary idea behind the CSCP is that regional actors themselves should have the responsibility to solve the region's problems. Hence, Turkey, Russia, Georgia, Azerbaijan and Armenia should work toward solving their problems on a regional format. The EU, the US and other interested parties are welcome to support and assist the process but the key actors should be the parties themselves. Also, Turkey feels that 17 years of the Minsk Process have produced little other than perpetuating the *status quo* and thus breeding the very instability it was supposed to circumvent. The Russia-Georgia war this summer demonstrated that we cannot leave these conflicts to fester anymore. Turkey not only has the responsibility to act and influence the events in the Caucasus, it also has the capacity to bring the parties together be-

cause it enjoys exceptionally cordial relations with both Moscow and Tbilisi. Refreshingly, Turkey has extended a friendly hand to Armenia within the CSCP and responded favorably to President Sarkissian's invitation to Yerevan. Again, Ankara is now in a position to encourage both Baku and Yerevan to move on the Karabakh issue and take steps in solving this regional cancer. Simultaneously, Turkey and Armenia are discussing the establishment of diplomatic relations and the opening of the land border between the two countries. Turkey views the normalization of its relations with Armenia as an important complement to its overall neighborhood policy. Should the CSCP succeed in finding a solution to the Karabagh conflict and help the normalization of relations between Turkey and Armenia, the South Caucasus will quickly prosper and grow in eminence as it will become a secure transit corridor for gas and oil from the Caspian region. There is little doubt that a stable Caucasus would inevitably further integrate with the European Union and become gradually part and parcel of the European geopolitical space.

Turkey's unique interaction with the Caucasus was little noticed in the past but it is a significant dimension in understanding why Turkey is fit to play the role of a trusted partner. Starting from the Crimea to Abkhazia, from Ossetia to Meshketia, from Ajaria to Karabakh, Nakhichevan and Baku to Yerevan, Turkey is present and related to these regions via its formal and informal relations on the ground. These are at the political, economic, social and cultural level and are increasingly complemented by a growing recognition of Turkey as a legitimate regional power in whom there is confidence. After all, Turkey is the world's 15th largest economy, negotiating with the EU, implementing a proactive foreign policy, and extending development aid to the region. Only a brief look at the statistics of the last seven years is illuminating: Turkey's trade volume with the 11 neighbouring states increased ten fold from 2000 to 2007. Exports to these countries rose from USD 2.8 billion to USD 28 billion. Furthermore, the weight of neighbouring countries within overall trade figures increased from 8 percent to 30 percent.

Conclusion

Turkey is reintegrating into its immediate neighborhood and is thus remedying a stark anomaly of the Cold War era. The Caucasus is no exception. Turkey wants to contribute to the stability of the Caucasus and secure an important axis of its neighborhood. Ankara understands that doing so will not only stabilize this region but will further advance Turkey's strategic depth. As a Southeast European state aspiring to complete its accession negotiations by 2014, Turkey is destined to be an indispensable partner in the Caucasus. We should not forget that the Caucasus is not only one of the most intriguing ethno-political regions on this planet but also constitutes part of a European space that should be dear to all of us.

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CHRONOLOGY

compiled by Deniz Özgür

6 September 2008: Attending a 2010 World Cup qualifying football match between Turkey and Armenia in Yerevan, Turkish President Abdullah Gül is the first Turkish head of state to visit Armenia.

18 September 2008: EU Enlargement Commissioner Olli Rehn officially states that the Irish rejection of the Lisbon Treaty and its uncertain future should not block progress on enlargement.

8 October 2008: The 2007 parliamentary motion to engage in cross-border operations on PKK targets in Kurdish-controlled northern Iraq is extended for another year by a large majority in the Turkish Grand National Assembly.

20 October 2008: The trial of 86 suspects involved in the "Ergenekon" case starts at the Silivri court near Istanbul.

5 November 2008: The European Commission publishes its annual report on Turkey's reform progress towards fulfilling the accession criteria. Turkey is granted the status of a "functioning market economy" but is confronted with

major critique regarding the political criteria.

10 November 2008: For the first time in Turkish history, the Alevi community gathers for a major protest march drawing approximately 50,000 people to the streets of Ankara demanding full respect of religious freedoms.

24 November 2008: Turkish Foreign Minister Ali Babacan and Armenia's Foreign Minister Eduard Nalbandian meet in Istanbul to discuss the normalization of bilateral relations.

27 November 2008: The European Parliament publishes its annual report on Turkey's progress towards EU membership strongly criticizing a continued slowdown in the reform progress.

4-5 December 2008: An OSCE meeting in Helsinki brings together Turkish, Azeri and Armenian ministers to discuss the settlement of the Armenia-Azerbaijan conflict.

Sources: www.euobserver.com, www.euractiv.com, www.hurriyetdailynews.com, www.todayszaman.com, www.economist.com

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THE CYPRUS CONFLICT

An Historical Approach

Christoph Ramm

Since the new checkpoint at the highly symbolic Ledra Street was opened in April 2008 with the global press watching closely, it has become less troublesome to move between the Greek and Turkish parts of the city of Nicosia. But queuing up at the checkpoint in the midst of rusty barbed wire, concrete barricades and run-down buildings still creates a rather surreal impression of the demarcation-line that portrays well the absurdity of the separation of Cyprus. Surprisingly, the Cypriots on both sides of the island appear to have accommodated themselves with the conflict, which the European Union has turned into one of its own following the accession of the Republic of Cyprus in 2004. Now the conflict even plays a major role in the slowdown of EU membership negotiations with Turkey. The article seeks to explain the perseverance of the conflict alluding to internal dynamics as the major driving force behind continuing discord. Indeed, recently resumed peace talks focusing on the details of possible power sharing mechanisms will not get around the basic challenge of dealing with the relevance of historical experiences.

Why has the Cyprus problem not been solved yet? The traumata of the violence of 1963/64 and 1974 have to be considered in the first place, as they have led to the expulsion and displacement of people and culminated in the separation of the island. But in order to account for the duration of the conflict over three decades, it is paramount to have a closer look at the historical heritage of two different forms of nationalism that effectively still shape the political culture of Cyprus.

Greek Cypriots: From the Ideal of Union with Greece (*enosis*) to Legalistic Nationalism

After the founding of the Greek nation-state at the beginning of the 19th century, the objective of achieving a union with Greece (*enosis*) spread already in Ottoman times among the Greek Orthodox inhabitants of Cyprus. In the course of the 20th century, this aspiration turned into a mass phenomenon against British colonial rule, which became manifest in the slogan “*enosis*, and only *enosis*” and showed little consideration for the interests of the Turkish Muslim minority.

The independent Republic of Cyprus was founded in 1960 as a compromise between the international actors involved, namely Great Britain, Greece and Turkey, who were to retain guarantor rights for the continuance of the bi-communal structure of Cyprus. However, troubles soon began to surface in the unwanted Republic, which Greek Cypriot nationalists only regarded as an intermediate step towards their ultimate goal of *enosis*. It was in this period that Greek Cypriot nationalist policy increasingly shifted towards a “legalistic nationalism”, instrumentalizing the legal structure of the state as a means to serve the interests of the Greek Cypriot majority only.

In 1963/64, a constitutional crisis eventually evolved into civil war-like hostilities resulting in the partial retreat of the militarily inferior Turk-

ish Cypriot community to isolated enclaves scattered all over the island. Up to this day, Greek Cypriot nationalists blame only the Turkish Cypriot leadership for the establishment of these enclaves as part of its strategy of partition, thereby ignoring the terror of Greek Cypriot militias against the Turkish Cypriot community during the 1960's.

In the eyes of many Greek Cypriots the actual conflict began with the invasion of Turkish troops in 1974, after Greek Cypriot extremists, sponsored by the junta in Athens, staged a coup against the legitimate government of the Republic of Cyprus. Until today the official Greek Cypriot perspective has focused on the subsequent Turkish occupation of the north and the simultaneous expulsion of Greek inhabitants from the region in denouncing these violations of international law. The legalistic form of nationalism thus widely disregards the developments leading to the events of 1974 and turns a blind eye on the Greek Cypriots' share in the conflict. It thereby contributed to the long tradition of missed opportunities in finding a peace settlement between the two Cypriot communities.

But with reference to the tradition of missed opportunities, the present account would be extremely one-sided if it ended here. The above-mentioned Greek Cypriot nationalism has always had an equivalent on the Turkish Cypriot side that was equally responsible for the conflict.

Turkish Cypriots: Separatist nationalism and the incomplete objective of partition (*taksim*)

Nationalist ideas began to circulate among the Turkish minority already from the beginning of the 20th century onwards. To a certain extent, Turkish Cypriot nationalism constituted a reaction to the *enosis* movement that gained force among the Greek Cypriots, yet such tendencies were also influenced by the ideology of the Young Turks and at a later stage by the founding of the Kemalist Republic of Turkey. Being in a minority position and feeling threatened by their neighbours' *enosis* ambitions, the Turkish Cypriot approach was characterized by a high degree of inflexibility towards the Greek Cypriot point of view. Later the idea of a partition of the island (*taksim*) developed into the central demand of the Turkish Cypriot side.

After the foundation of the Republic of Cyprus Turkish Cypriot nationalists, among them Rauf Denktas as their emerging new leader, continued to follow the objective of a separate Turkish administration on the island. Their uncompromising stance in the constitutional debate contributed to the outbreak of violence in 1963/64. In the aftermath of the civil war the nationalist leadership used the Turkish enclaves to build up parallel state structures.

In 1974, Turkish Cypriots generally perceived the arrival of the Turkish troops as a liberation from Greek Cypriot oppression. For the nationalists themselves their objective of partition seemed to be realized in the end. However,

the official justification that the intervention of the Turkish army was a “peace operation” must be considered as a fundamental (self-)delusion inherent in the founding myth of Northern Cyprus. The first phase of the military operation would have been only legally justified if Turkey had used its role as guarantor power, as was stipulated by the Treaty of Establishment of the Republic of Cyprus, to restore the rightfully elected Cypriot government. The second phase of the Turkish operation, though, amounted to a previously planned occupation of the northern part of Cyprus including the deliberate displacement of its local Greek inhabitants

However, the envisaged foundation of an independent state in the north, promoted in particular by Rauf Denktas, did not materialize. When the Turkish Republic of Northern Cyprus (TRNC) was founded in 1983 only Turkey officially recognized it. Moreover, from the beginning the situation in the TRNC was characterized by international isolation, overall dependence on Turkey, and a lack of economic prospects in general. Nonetheless, peace negotiations over the following two decades failed not least because Denktas blocked any prospective agreement with maximum demands aiming increasingly at the creation of a confederation instead of a federation. In the end, however, the nationalist leadership had not lived up to its promise of a prosperous future for the Turkish Cypriots in an independent state, and the turn of the century witnessed more and more Cypriots turning their backs on Denktas and nationalist political parties.

Why did the Annan-Plan fail?

At this point, nationalism in the north lost force and developed in a substantially different direction than nationalism in the south. Among other factors, this is one of the fundamental reasons for the failure of the UN-brokered peace plan of former UN-Secretary General Kofi Annan, which was accepted by two-thirds of Turkish Cypriots but refused by three-fourths of Greek Cypriots in two separate referenda in 2004.

The erosion of uncompromising official nationalism in the Turkish Cypriot community culminated when Denktas was finally replaced by pro-European and pro-solution left-wing politician Mehmet Ali Talat. Yet a similarly dynamic development did not occur on the Greek Cypriot side. Tassos Papadopoulos, the new Greek Cypriot president, consciously appealed to the deep-rooted legalistic nationalism among his fellow citizens. Papadopoulos intended to use his country's EU membership to force concessions from Turkey in the accession process.

But the Annan-Plan did not only fail because Papadopoulos deceived the EU institutions by revoking his predecessor Klerides' formal consent to support a solution in either case. Also Denktas was responsible as he was constantly undermining the plan. In addition, Greece was putting a considerable amount of pressure on the Union threatening that in the case of Cyprus' non-accession it would block eastern enlargement. By the time the newly elected Turkish government under the

▶ leadership of Recep Tayyip Erdogan had established itself and pushed Denktaş to accept the Annan-Plan at the beginning of 2004, Cyprus' EU membership was already a settled matter and did not serve as leverage to convince the Greek Cypriot side to agree to the settlement plan. Finally, the obstructive vote of Papadopoulos' coalition party, the left-wing AKEL, played a central role, mainly motivated by political opportunism.

However, the actual motivation accounting for the Greek Cypriots' discontent with the plan may be attributed to the fact that – in contrast to the political changes that took place in the TRNC – the south had not engaged in a similar public debate on the meaning of unification before the referendum. A large-scale debate was not launched before the presidential elections in the Republic of Cyprus in early 2008.

Papadopoulos eventually lost the elections and was replaced by the head of AKEL, Dimitris Christofias, who had won over the electorate on a pro-settlement platform. Hence, the present

situation of having two left-wing presidents on both parts of the island, who do not originate from an explicitly nationalist tradition, is a potentially powerful break with the past.

New perspectives for a solution?

Based on the new situation described above, the question of a future solution to the conflict comes up again. In 2004 three matters of dispute between the two communities had been of particular importance, and were identified as major reasons for Greek Cypriots to dismiss the Annan Plan. One of the most delicate problems is the property issue since it concerns the rights of displaced persons and their progeny. Another controversial aspect is the influx of immigrants from the Turkish mainland after 1974 and its demographic consequences. Last but not least, the presence of Turkish troops deployed on the island remains a major issue in obstructing the rapprochement between the north and the south.

The current peace talks that have been resumed in September need to address these three issues in a satisfactory manner in order to overcome the division of Cyprus. In addition, external actors' stakes in the conflict play a major role. Greece and Turkey are called upon to act moderately and in a moderating way to support the process of unification. The same applies to the European Union who, caught in its own structure, has become the instrumental organ of one of the conflicting parties. Sooner or later, the EU member states will have to reflect on their current strategy of constantly reinventing and reinterpreting the accession criteria for Turkey. Only when the Union will be ready to transform negotiations into an active process that has the power to stimulate a far-reaching reform process in the candidate country will the Turkish government be in a position to make substantial concessions with regard to the Cyprus issue.

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PROGRESS REPORT OR REPORT ON NON-PROGRESS?

Deniz Özgür

The Commission's presentation on 5 November of its annual report on Turkey's progress towards fulfilment of the EU accession criteria has stimulated a fierce debate among officials who advocate a clear membership perspective for Turkey and MEP's who pinpoint the mandate of open-ended negotiations. Questioning the Turkish government's political will to continue with the process of membership negotiations, the EP Rapporteur on Turkey, Dutch EPP-ED member Ria Oomen-Ruijten argues that Turkey needs to give "a clear signal [...] that it wishes to continue with the integration process" at all, while Enlargement Commissioner Olli Rehn calls for "Turkey's path towards EU membership to be made irreversible" as the necessary means on part of the Union to encourage concrete and far-reaching reforms in the candidate country.¹

The argument with reference to the negotiation framework is not a novelty but resurfaces on the grounds of an increasingly perceived "mutual unwillingness" in EU-Turkish relations, which is illustrated well by the 2008 report on "non-progress" of Turkey's alignment with EU norms and principles.² In fact, no particularly harsh criticism was expected from and delivered by the Commission on the grounds of this year's severe political crisis, although Commissioner Rehn stressed that another valuable year has been lost and suggested that 2009 should stand in the name of renewed reform efforts.³ In other words, the Union has clearly raised expectations for Turkey to make significant progress on key shortcomings in the course of the upcoming year. Before discussing the current outlook, or feasibility, of such expectations under the given conditions, this article recapitulates the major issues, outlined in the recent Progress Report, that are due to be tackled by the Turkish authorities.

The current "state of play"

Turkey has made only marginal progress in moving towards the political criteria ensuring the stability of its democratic institutions, the rule of law, human rights and the respect for and protection of minorities. The only considerable and unambiguously achieved progress was made on

the economic side, as Turkey was granted for the first time the status of a "functioning market economy [capable of coping with] competitive pressures and market forces within the Union"⁴. On the regional and international agenda, the Commission recognizes Turkey's measures towards rapprochement with Armenia in an effort to establish good neighbourly relations. Moreover, the Commission – also for the first time – refers to Turkey's geopolitical importance for Europe in addition to Turkey's well-noted proactive foreign policy in general, and its mediation efforts in areas of conflict in particular. Needless to say, however, that as long as no break-through is achieved in the Cyprus conflict, Turkey will not be in a position to fulfil its obligations in terms of EU accession. The basic principle of EU enlargement policy is that "the pace of negotiations depends on progress in legal and democratic reforms [and their] implementation"⁵. But not only are eight negotiation chapters relevant to Turkey's Cyprus policy suspended; moreover, no chapter will be provisionally closed until Turkey normalizes bilateral relations. The decision will be reviewed at the end of 2009 and would be lifted automatically with the successful conclusion of peace talks between the two Cypriot leaders. Only one negotiation chapter has been provisionally closed so far and eight chapters have been opened to negotiation.

Political criteria

Above all, the Commission regrets in its Progress Report that the government has not used its strong political mandate to realize the intended revision of the 1982 military constitution in line with international standards on fundamental rights. Instead, the aspect of lifting the headscarf ban in universities has been singled out in a blunt political move that occupied the political agenda for the most part of 2008 causing a political rift that polarized Turkish society and had a negative impact on the functioning of political institutions. Another issue of major concern is the still unsatisfactory civilian oversight over the security forces. The Progress Report underlines that senior officers of the armed forces have expressed their opinion on non-military policy developments, clearly going "beyond their remit"⁶. This

year's crisis also showed the urgency of Turkey to undertake judicial reform. In this context, the Commission recognizes that Turkey's judicial reform strategy, presented in spring 2008, represents an important step forward in strengthening the independence and impartiality of the judiciary. Further efforts leading to the adoption of the strategy are expected. In addition, corruption is still a "widespread issue" and only limited progress on anti-corruption measures has been made in 2008.⁷ A last-minute reference to the Deniz Feneri fraud case in Germany, which has captured Turkish politics in many ways this fall, has been added to the Progress Report.

Moreover, human rights issues are a wide category of major concern on Turkey's path towards membership. First of all, the structural framework for human rights protection is not considered adequate. Commissioner Rehn has been underlining the Ottoman origin of the Ombudsman system, outstanding since 2006, to encourage the establishment of this institution as an alternative "scrutiny mechanism [to help] defuse tensions between different sections of society by strengthening the rule of law and the protection of individual rights"⁸.

With regard to civil and political rights, there have been limited efforts to prevent torture and ill treatment in custody. In addition, shortcomings with regard to "restrictions on prisoner's conditions, [especially] on solidarity confinement" need to be tackled.⁹ The Commission also notes that the phrasing of the controversial Article 301 of the penal code, amended in April 2008 upon considerable pressures, remains "largely the same"¹⁰. What is more, the authorisation requirement to be obtained by the Justice Minister creates the "possibility that the article will become subject to political consideration"¹¹. The report concludes that "some progress has been made", but only "a consistent track record of implementation will show whether or not the revised article is adequate"¹². Frequent website bans and pressures on the press by senior figures are also included in the section on shortcomings in the area of freedom of expression. The legal framework on freedom of association improved with the modification of the Law on Foundations in February 2008, although "implementation and the resolution of the outstanding property-

related issues regarding non-Muslim minorities remains a challenge¹³. In light of the recurrent closure cases, laws on political parties should urgently be brought in line with the practices of the ECHR and the Council of Europe's Venice criteria. Freedom of religion is still not sufficiently guaranteed, especially for the Alevi community concerning problems of education and places of worship.

With regard to economic and social rights, laws on gender equality and women's rights are generally in effect, although further efforts in the areas of employment opportunities, access to healthcare, education and politics are needed. Similarly, there has been some progress in all areas related to children's rights, but "efforts need to continue including administrative capacity, education, the juvenile justice system and child labour"¹⁴. More progress needs to be made with regard to labour rights and trade union legislation in line with European standards and the relevant conventions of the International Labour Organization (ILO). Cultural rights and the respect for and protection of minorities including the Kurds, Greeks, Roma, as well as refugees and internally displaced persons remain insufficient.

Will 2009 be the "year of reform"?

The recent Progress Report asserts the state of Turkish democracy still being far from realizing the Copenhagen criteria. The Third National Program for EU Harmonization, presented to parliament and NGO's in September 2008, comprehensively addresses some crucial aspects of civil-military relations, judicial and public administration reform, the fight against corruption, as well as human rights issues including further measures to promote women's rights and freedom of expression. But the programme is not uncontested in domestic political cycles that are a long way from generating "constructive dialogue and a spirit of compromise" in the aftermath of the recent crises.¹⁵ A civil constitution remains the top priority in the context of EU reforms, but the current climate of suspicion and mistrust does hardly seem favourable to generate the necessary social consensus to tackle the issue in the near future. Moreover, the upcoming local elections in March 2009 will occupy the political agenda for the first half of 2009. With public support for EU membership barely reaching 50 percent these days and "slightly more than a quarter of the Turkish population believing that the country can make it into the Union one day", EU related reforms do not constitute a major election platform at the moment.¹⁶

The accession process builds upon both the EU and Turkey "keeping their side of the bargain"¹⁷. The EU maintains to "stick to its word [being] committed to a common destiny with Turkey", while it awaits Turkey to "transform itself into a more European state and a more open society" to fulfil its part of the deal.¹⁸ "Credible and firm commitment is particularly important for both sides" indeed.¹⁹ But the fading force of democratisation depicts all too well that the EU's policy of conditionality does not function effectively at the moment and that Turkey's reform process is not sustainable in the current context of persistent query on the viability of Turkey's accession process on the basis of the open-ended negotiation mandate. Turkey has been "sliding back to traditional political reflexes both in domestic politics and foreign policy", with negative impetus stemming from the EU's failure to take action on the isolation of Northern Cyprus, as well as the prominence among EU leaders of the notion of a privileged partnership rather than full membership.²⁰ The EU's "ambivalent strategy" for Turkey

CURRENT NEGOTIATING STATUS

No.	Title of Chapter	Status
1	Free movement of goods	●
2	Freedom of movement for workers	●
3	Right of establishment and freedom to provide services	●
4	Free movement of capital	●
5	Public procurement	●
6	Company law	●
7	Intellectual property law	●
8	Competition policy	●
9	Financial services	●
10	Information society and media	●
11	Agriculture and rural development	●
12	Food safety, veterinary and phytosanitary policy	●
13	Fisheries	●
14	Transport policy	●
15	Energy	●
16	Taxation	●
17	Economic and monetary policy	●
18	Statistics	●
19	Social policy and employment	●
20	Enterprise and industrial policy	●
21	Trans-European networks	●
22	Regional policy and coordination of structural instruments	●
23	Judiciary and fundamental rights	●
24	Justice, freedom and security	●
25	Science and research	●
26	Education and culture	●
27	Environment	●
28	Consumer and health protection	●
29	Customs union	●
30	External relations	●
31	Foreign, security and defence policy	●
32	Financial control	●
33	Financial and budgetary provisions	●
34	Institutions	●
35	Other issues	●

Legend: ● not yet opened ● suspended
 ● opened
 ● provisionally closed

Data as of November 2008

does not provide the necessary "carrots", the instruments of the policy of conditionality, substantially weakening the domestic vigour of pro-reform forces to push through those kinds of reforms that challenge the "core of state power"²¹. At the current juncture, the only development to disrupt the current stalemate of relations appears to be a break-through in the Cyprus peace talks. Apart from that, the most likely prognosis for 2009 is a "loose agenda of gradual reforms that fall considerably short of deep commitment to full membership, [but are] perfectly consistent with the [European] vision of a privileged partnership"²², which has recently resurfaced with the EU's emphasis on the possibility of permanent restrictions on the free movement of people in the case of Turkey's EU accession.²³ At the end of the day, also the EU has its elections coming up in 2009.

1) See, among others, "EU grants Turkey 'market economy' status," in: EurActiv, 6 Nov. 2008, available at <http://www.euractiv.com> (7 Nov. 2008).
 2) Cengiz Aktar, "Hectic fall before EU publishes progress report," in: Turkish Daily News, 18. Oct. 2008, available at http://www.turkishdailynews.com.tr/editorial.php?ed=cengiz_aktar (20 Oct. 2008).
 3) See, among others, Olli Rehn, "Turkey and the EU: a win-win game," opening speech of the Bosphorus Conference: Istanbul 10 Oct. 2008, available at <http://www.turkishdailynews.com.tr/article.php?enewsid=117292> (14 Oct. 2008).
 4) Commission of the European Communities: Turkey

2008 Progress Report, SEC(2008) 2699.
 5) See, among others, Olli Rehn: "Article for Turkish Newspaper Milliyet, 25.8.2008. Time to revitalise Turkey's EU progress," available at <http://ec.europa.eu> (30 Nov. 2008).
 6) Commission of the European Communities: Turkey 2008 Progress Report, SEC(2008) 2699.
 7) Ibid. 8) Ibid. 9) Ibid. 10) Ibid. 11) Ibid. 12) Ibid. 13) Ibid. 14) Ibid.
 15) Olli Rehn, "Article for Turkish Newspaper Milliyet, 25.8.2008. Time to revitalize Turkey's EU progress," available at <http://ec.europa.eu> (30 Nov. 2008).
 16) Yusuf Kanlı: "Progress report, what?," in: Hurriyet Daily News & Economic Review, 7 Nov.2008, available at <http://www.hurriyet.com.tr/english/opinion/10302361.asp?yazarid=311&gid=260> (7 Nov. 2008).
 17) Olli Rehn, "Article for Turkish Newspaper Milliyet, 25.8.2008. Time to revitalize Turkey's EU progress," available at <http://ec.europa.eu> (30 Nov. 2008).
 18) Ibid.
 19) Kivanç Ulusoy, "Turkey and the EU: Democratization, Civil-Military Relations and the Cyprus Issue," Insight Turkey, Vol. 10, No. 4 (2008).
 20) Ibid. 21) Ibid.
 22) Ziya Önis, "Turkey-EU Relations: Beyond the Current Stalemate," Insight Turkey, Vol. 10, No. 4 (2008).
 23) See, among others, "Interview with Commissioner Rehn: EU considers 'safeguards' for Turkish workers," in: EurActiv, 21 Nov. 2008, available at <http://www.euractiv.com> (25 Nov. 2008).
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EFFECTS OF THE INTERNATIONAL FINANCIAL CRISIS ON TURKEY

Dirk Tröndle

In its first comments following the initial shock waves of the international financial crisis, the Turkish government had declared that no particular repercussions were expected for the national economy. In the meantime, such optimism has proven quite unrealistic, since the effects of the crisis are not only beginning to be felt in the financial sector but also spreading to the real economy. In fact, the business cycle was already experiencing a downturn and the global crisis is especially harmful for those sectors of the Turkish economy where urgent structural reform has been put off too long. Based on fears that the financial crisis may turn into a severe recession, more and more analysts have been calling for a plan to stimulate the economy together with a new standby agreement with the International Monetary Fund (IMF).

Still, the financial system does appear relatively unaffected by the current turmoil. Neither did Turkish banks bear the extraordinary losses of US or EU banks, nor did a relief package have to be drawn up by the government. Turkey has learned its lesson from the economic and financial crisis of 2000/2001, when the collapse of the banking system had resulted in a corrective market adjustment, with two dozen of a total of 79 Turkish banks declaring bankruptcy and being passed on to the Savings Deposit and Insurance Fund (SDIF). The overall cost of the crisis approximated fifty billion USD. As of today, there are fifty banks operating in Turkey: three are public, 43 are corporate and investment banks and four are "Islamic" financial institutes, working with capital contribution certificates.

Within the framework of the IMF consolidation program, a comprehensive re-organization of the financial sector was launched and included the closer tying of Turkish banks to the Banking Regulation and Supervision Agency (BRSA) and the SDIF. Both of these public institutions, as well as the Turkish Central Bank (T.C. Merkez Bankası), obtained their independence in the process of reforming the banking sector – a paradigm shift in the Turkish concept of administration. Banks were obliged to comply with procedures of risk assessment and to adhere to higher capital requirements. Ever since, a bank's liquidity status is strictly monitored. In addition, banking law article 160 has been tightened, making it easier to subject bank employees to criminal proceedings for dishonored credits. Furthermore, minimum currency reserves were raised to 6% and even to 11% for the Turkish Lira, while the government guarantee for bank account balances was limited to 50.000 YTL (approx. 25.000 Euros). Another advantage in the current crisis is that Turkish banks began to issue mortgage bonds only a few years ago, so in 2007 such bonds amounted to only 1% of total loans.¹ Due to strict risk assessment, credit rating has been high on average and sub-prime credits were barely issued. Because Turkish banks did not speculate in international property funds, they were outside of the bubble when the market exploded. Nevertheless, the international crisis has effects on Turkish banks that have already adjusted their

profit expectations downwards. Finance experts forecast some minor mergers in the banking sector over the next year. The third largest AK Bank has already fired 1,000 employees. During the past weeks Prime Minister Erdoğan has been appearing in the media demanding that banks uphold their credit offers and do not call in loans prior to their maturity. Bank managers including Ersin Özince, head of the Banks Association of Turkey (BAT) and the second biggest bank Türkiye İş Bankası, resist such accusations responding that individual cases are not applicable to the whole sector. However, it is a fact that the cost of refinancing Turkish Banks on the international stock markets has risen considerably. On the national market, banks traditionally acquire only short-term debt with over 90% of private deposits maturing after a maximum period of three months.

The interest rates of consumer credits have meanwhile settled at the level of four years ago and about 75% of car and real estate loan applications are already being turned down by banks that, until recently, have offered non-guaranteed credit with a maturity of 180 months. This cutback in the credit volume will, however, have an additional braking effect on the business cycle. A first step of remedial action by the Banking Regulation and Supervision Agency (BRSA) has been coming forth in the form of the suggestion to banks to retain profits in order to increase their capital resources. Furthermore, some banks have become less accommodating, seeking faster legal prosecution of debtors. The number of non-performing credits is apparently on the rise, because banks increasingly put off for sale real estate and cars. Similarly to the US situation, credit card debt has accrued in Turkey. 41 million credit cards are in circulation and the retail industry grants long-term installment payments up to 18 months on credit card purchases, thereby boosting a creeping debt accumulation. Credit card debt currently accounts for 16 billion Euros, while the total debt level of private persons is said to have reached 115.3 billion YTL (approx. 60 billion Euros) in October.

Especially in many real economy sectors the crisis is setting in by now. Whole markets of the export-dependent Turkish economy have been falling out of business, notably in the automotive, electronics, textiles, chemicals and steel manufacturing sectors. Industrial production has fallen by 5.5% in September and low capacity utilization has forced many automotive producers, such as Fiat, Renault, Ford or Hyundai to further curtail production activity or to shut down entire plants. The new unemployment figures are alarming: The Turkish Statistical Institute (Turkstat) announced an unemployment rate of 9.8% for the period between July and September 2008, and with 143,400 people on unemployment benefits, there has been an increase of 49% in compensation payments compared to the reference months in 2007. But only half of Turkey's working population is captured in these statistics, while the other half earns a livelihood in the informal sector without any recourse to the means of social protection. Real unemployment, as well as the disposition for social unrest, is much higher. Academics and economic experts have been de-

manding the conclusion of a new standby agreement with the IMF for weeks, while the government has delayed negotiations for some time. However, during the G-20 Summit in Washington in late November, first talks were held between IMF chief Strauss-Kahn and Prime Minister Erdoğan. At this point, the imminent deal is presented as a mere question of time, although the volume of 19-25 billion USD lies far below Turkish expectations.

The Turkish parliament has adopted a contentious law targeting "capital gains for the national economy". The decree intends to funnel Turkish citizens' capital from abroad, an estimate of 150 billion USD, back into the country. Persons who transfer capital in YTL to a Turkish account within a timeframe of three months are thereby exempted from the burden of proof with a one-time tax of 2-5% being raised. Allowing tax evasive or illegally acquired money into the country, Turkey seeks to counter its chronic foreign trade deficit, which currently amounts to 45 billion USD. In another move, the government has transferred the authority of determining the upper limit for deposit guarantees from the BDDK to the cabinet for a 2-year period. At least the minimum currency reserves for foreign currency were reduced from 6% to 3%. The international credit rating agency Standard's and Poor's has nonetheless lowered Turkey's creditworthiness, anticipating difficulties with external debt financing and pressure on the exchange rate due to an increase in demand for loans in the national economy.

The central question if Turkey will weather through the international financial crisis without entering into large-scale recession depends on various factors. In addition to a new standby agreement to be agreed upon as soon as possible, a government package to address the current financial situation is expected to be released soon. The media leaked some information of deposit guarantees of at least 100,000 YTL (approx. 50,000 Euros), or even the full amount as an incentive to attract Turkish capital from abroad. Another proposal considers an exemption from the fifteen-percentage withholding tax on interest earning of bank accounts with a one-year minimum. The stimulus package is due to be released in early December. Trade and Industry Minister Zafer Çağlayan has already announced an interest-free loan package of 350 million YTL (approx. 175 million Euro) for SME. The Union of Chambers and Commodity Exchanges of Turkey (TOBB), in cooperation with the public Halkbank added an interest-reduced package for SME and the industry for 1.5 billion YTL (approx. 740 million Euro). However, the original OECD growth forecast of 2-3 % for 2009 has been adjusted to 1.9% in the meantime and indicates a difficult year ahead for the Turkish economy. Likewise, it remains to be seen if the global financial crisis may also bear chances for Turkey.

1) Annual report of the Union of Chambers and Commodity Exchanges of Turkey TOBB: www.tobb.org.tr.

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IMPRINT

ISSN 1817-1729
Center for European Integration Studies
Walter-Flex-Str. 3
53113 Bonn, Germany

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The ZEI *EU-Turkey-Monitor* is published three times a year. Authors are responsible for the views expressed in their contributions.