

The Role of Turkey in the New Middle Eastern Economic Architecture

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Turkey: A Developing Economic Power

Turkey has learned to remain stable and strong at times in its recent history in which its environment has been subject to profound geostrategic realignments. It proved this from 1989 to 1991, when the Soviet Bloc collapsed, producing a shock wave that dramatically altered all the regions to which Turkey in one way or another belonged: the Balkans, the Black Sea, the Caucasus, Central Asia and even the Middle East, as a result of the first Gulf War against Saddam Hussein's Iraq. Turkey emerged in that period as a multi-regional demographic, political and military power.

In 2001, Turkey and its AKP government responded to the worst economic crisis in the country's history by implementing structural reforms that would make it the world's 16th largest economy by 2010. According to the OECD's projections, Turkey will be the Member Country to experience most growth between 2011 and 2017, registering an average annual rate of 6.7%. In 2010, at a time of major international crisis, the Turkish economy grew 8.9%, the third highest growth rate in the world that year and the highest in Europe.

In the same vein, as early as 2008, the World Bank estimated that Turkey accounted for 50% of the GDP of the Middle East and North Africa (MENA) region, including Israel and Iran. This share has grown slightly since.

Different sources¹ rank Turkey among the main emerging economies of the coming decades, and its government has explicitly set the goal of becoming one of the 10 largest economies in the world by 2023, the centennial of the country's foundation.

This domestic economic dynamism has made Turkey a powerful trading state, in need of new markets to sustain its economic expansion. The AKP government's trade policy has pursued this goal since mid-2000, a decision that was bolstered by the appointment of Ahmet Davutoglu as the Turkish Foreign Minister on 1 May 2009.

These efforts have borne fruit as a result of an active and systematic Turkish campaign, at multiple levels, to strengthen the country's ties to other emerging markets, above and beyond the *classic*, more consolidated and mature markets of the United States and European Union.

As a result of this economic need, Turkey has reassessed the value of its neighbouring markets, especially those of the Middle East, in light of their demographic potential, considerable need for infrastructure investment, logistical accessibility, receptiveness to doing business with Turkey and growing public- and private-sector purchasing power.

Thus, whilst in 2002, EU markets received 56% of Turkish exports, this figure had fallen to less than 50% by 2009. At the same time, the share of Turkish exports going to Middle Eastern economies rose from 9% in 2002 to 12.5% in 2004 and to 19% in 2009. That same year, joint Turkish exports to Syria and Iran exceeded those to the United States.

The production diversification of the Turkish economy has gone hand in hand with a diversification of the provinces and cities in which this development

¹ Forecasts by Goldman Sachs and HSBC predict that Turkey will be one of the main emerging economies by 2050, whether or not it joins the EU.

has taken place. Thus, in recent years, the inland cities of Anatolia have witnessed the emergence of a dynamic, highly conservative middle class, especially active in the development of more traditional sectors, such as agriculture, food, the automobile industry and textiles. In keeping with their religious profile, the members of this new class find in work ethic and the generation and distribution of wealth a means of realising themselves as good believers. This phenomenon has been likened to a form of Islamic Calvinism.²

As a result of this more traditionalist sociological profile, and of its location in Turkey's inland cities, such as Gaziantep, Konya, Denizli, Adana, Mersin and Kayseri, the growing international economic relations of this entrepreneurial class are more often than not forged with sociologically and geographically close economies, such as those of the Middle East. This middle class has structured its economic interests in a series of organisations created in the early 1990s based on values related to dialogue, ethical responsibility, solidarity or awareness of the social responsibility of both companies and individual business owners.³

Members of this class likewise dominate the representative economic and political institutions of their regions, including governorships, town halls and chambers of commerce.

As a result of this process, according to the Turkish Exporters Association (TIM from the Turkish), in 2001, a total of nine Turkish economic sectors exported more than \$1 billion; this figure had risen to \$18 billion by 2009. Likewise, whereas in 2001 Turkey exported more than \$1 billion to just five countries, in 2009, it exported in excess of this amount to 25 countries. In 2001, only four Turkish provinces exported goods for a value of more than \$1 billion, but by 2009, 12 provinces did.

Indeed, in 2010, a total of 50,000 Turkish companies were regular exporters. Likewise, the number of registered companies in Turkey rose from 723,503 in 2001 to 1,170,248 in 2008.

Turkey's foreign trade volume stood at \$87.613 billion in 2002. This figure had nearly trebled by 2010, to \$299.423 billion.⁴

Turkey As a Hub and Engine for Economic Development in the Middle East

The socioeconomic benefits of Turkish development have stirred growing interest among the region's economies. To this end, Egypt, Syria, Jordan, Israel, Palestine, Morocco, Tunisia and others have all signed free trade agreements with Turkey, multiplying economic and social contacts at all levels.

In some cases, such as Libya, Iran, Syria, Jordan, Iraq or Lebanon, agreements have been signed for reciprocal visa waivers for nationals of the signatory countries. Such agreements have enabled the free movement of people between the signatory countries, which has intensified cultural, business, tourism-related, political and social contacts.

Between 2002 and 2008, the entry into Turkey of citizens from neighbouring countries increased 170%, with Syria registering the highest percentage growth (222%, with the number of entries rising from 126,428 to 407,000), followed by Russia (204%, with the number of entries rising from 946,500 to 2,879,000) and Iran (163%, with the number of entries rising from 432,280 to 1,135,000).⁵ This trend is likely to continue as a result of the efforts being made to strengthen regional cooperation dynamics, such as the recent entry into force of such a reciprocal visa waiver agreement between Turkey and Russia on 16 April 2011.

The political and economic authorities of several countries in the Middle East view the Turkish experience as a possible model to follow. This is especially true of the smaller states, which hope to benefit from a certain spillover effect by increasing the linkage of their economies to Turkey's. To this end, a growing number of political actors, especially economic ones, have implemented active policies to strengthen their countries' ties to Turkey and have found their Turkish counterparts to be quite receptive to their efforts.

Proof of the fluidity of the political relations between Turkish and Middle Eastern authorities can be found in the fact that, from 2003 to March 2011, the Prime Minister of Turkey, Recep Tayyip Erdogan, officially visited more countries in the Middle East (45) than, for example, in the EU (41).⁶

² For further information on this term, see EUROPEAN STABILITY INITIATIVE, "Islamic Calvinism: Change and Conservatism in Central Anatolia," www.esiweb.org/pdf/esi_document_id_69.pdf.

³ The most relevant cases are MÜSIAD (www.musiad.org.tr), TUSKON (www.tuskon.org/) and ASKON (www.askon.org.tr/default.asp).

⁴ Central Bank of the Republic of Turkey, www.tcmb.gov.tr.

⁵ T. C. Emniyet Genel Müdürlüğü (Turkish national police).

⁶ Compilation of data taken from the Turkish Ministry of Foreign Affairs.

In the same vein, the proliferation of Turkish stakeholders that have established, expanded or strengthened their economic, political and social contacts with countries in the region has increased to such an extent that the relations between these countries have gone from being a strictly bilateral affair handled by governments to being the sum of the interests and actions of a variety of non-state actors, especially economic ones.

One factor that has facilitated Turkey's acceptance in the region as an engine for these policies, in addition to the legitimacy afforded to it by the success of its development model, is the non-conditionality of its international proposals and agreements

The bilateral economic relations between Turkey and the countries of the Middle East, especially its neighbouring countries, have been transformed into a dense and increasingly solid network, comprised of public- and private-sector companies (especially small and medium-sized enterprises), chambers of commerce, business associations, municipalities, governors, think tanks, universities, NGOs, etc.

The explicit objective of the authorities, and the implicit objective of the other socioeconomic stakeholders, is to promote a growing and complex economic interdependence that enables shared development, prevents conflict through fluid dialogue at all levels, and allows for the development, by the region's states, of possible common futures.

One factor that has facilitated Turkey's acceptance in the region as an engine for these policies, in addition to the legitimacy afforded to it by the success of its development model, is the non-conditionality, to date, of its international proposals and agreements. Influential economic actors in the Middle East, such as the EU and the United States, have tied their economic agreements and relations in the region to the need for these countries to implement a wide range of reforms (economic liberalisation, respect for human rights, democratisation, etc.). Turkey, in contrast, has not assumed the role of explicit promoter

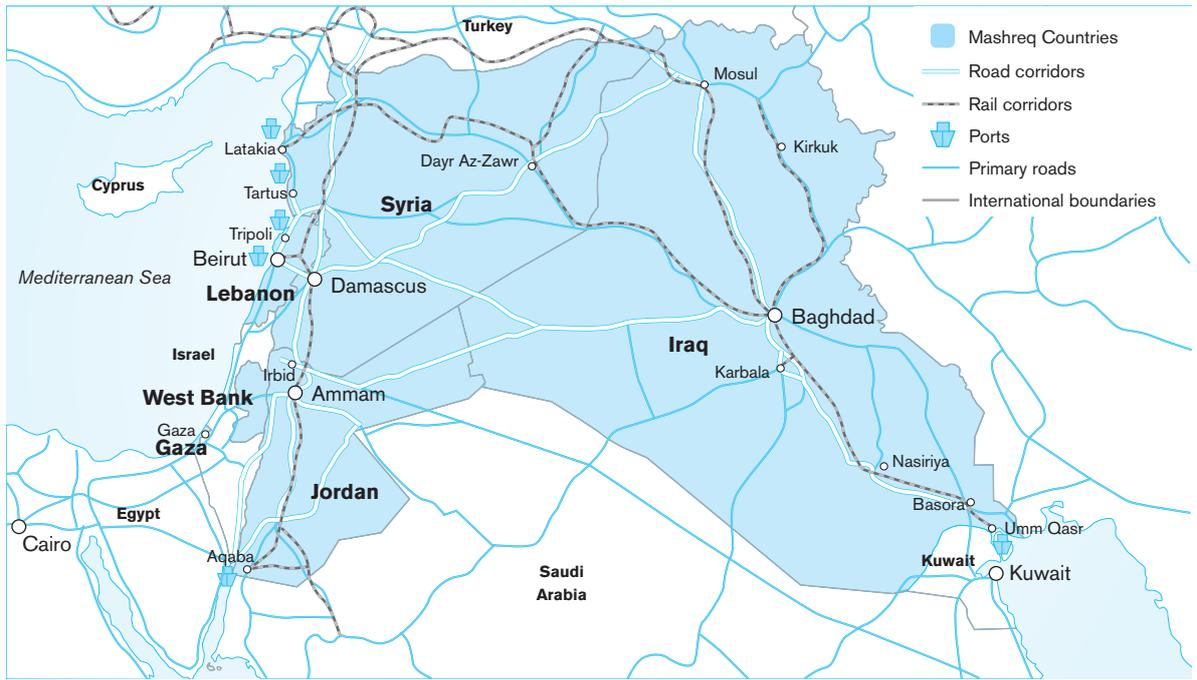
of economic and political reform with the region's countries, trusting instead that its influence in this sphere will grow as a result of the evidence of the success of its model (soft power).

Infrastructure: A Building Block for Regional Interdependence

In recent years, the growing *regionalisation* of Turkey's economic relations with the Middle East has been reinforced with infrastructure projects that explicitly and increasingly integrate and serve as a backbone for the region, strengthening its emerging interdependence in the medium term.

These regional projects require the active collaboration of the authorities of the countries where they are carried out, which find incentives to collaborate in the economic benefits and capacity for political influence that they entail. Some of the main regional infrastructure projects to date, completed or in progress, include:

- **Energy infrastructure:** Gas and oil pipeline networks linking Iraqi energy resources to Europe via Turkey and Egyptian resources to European markets via Jordan, Syria and Turkey (Euro-Arab Mashreq Gas Pipeline).
- **Passenger and freight rail infrastructure:** Links between Syria and Iran via Turkey; a link between Aleppo and Gaziantep; medium-term plans to link Turkey to northern Iraq and Baghdad; and a south-north corridor from Saudi Arabia and the Gulf Cooperation Council countries to Turkey and Europe. Some of these rail projects are already on the shortlist of priorities agreed by the Euro-Mediterranean countries within the framework of the regional cooperation of the Union for the Mediterranean (UfM).
- **Modernisation and construction of road and motorway networks,** especially from Turkey to Syria and northern Iraq.
- **Interconnection of electricity grids** between the Mashreq economies and Turkey.
- **Interconnection of advanced telecommunication infrastructure,** such as the JADI project, a major underground fibre optic network linking Jeddah, Amman, Damascus and Istanbul, or the Regional Cable Network (RCN), a \$500 million project spanning 7,750 km that will create a permanent fibre optic *highway* between



Source: World Bank, *Regional Cross-Border Trade Facilitation and Infrastructure Project for Mashreq*.

- Fujairah, in the United Arab Emirates, and Europe, via Turkey.
- **Opening and modernisation of new border crossings** for the purpose of facilitating regional trade, especially on the borders between Turkey and Syria and Turkey and Iraq. Likewise, Turkey and Iran have made provisions to open five new border crossings equipped for trade between April and June 2011, the first of which will be inaugurated on 16 April by the Ministers of Foreign Affairs of both countries. Additionally, several simplifications have been defined and implemented in the rules governing shipping to make transport between the countries in the region and between them and third countries faster and more flexible.

According to the 2010 World Bank technical study *Regional Cross-Border Trade Facilitation and Infrastructure Project for Mashreq Countries*,⁷ the Mashreq region's existing infrastructure is insufficient to accommodate the projected increase in transport needs arising from regional trade and population growth. The study identifies three key logistics corridors for the region, as shown in the following map:

- A north-south corridor linking the EU to Saudi Arabia and the Gulf states via Turkey, Syria and Jordan, with connecting links to Lebanon and Egypt;
- An east-west corridor linking the ports of Latakia, Tartus, Tripoli and Beirut to Iraq via Syria;
- A second east-west corridor linking the same ports, plus the Jordanian port of Aqaba, to Iraq.

The World Bank's projections for these corridors for 2020 are as follows:

- Daily transit in the north-south corridor with origin/destination in Turkey will be approximately 12,500 TEUs⁸ a day, equivalent to 2,500 lorries and 15 trains in each direction.
- The combined transit of the two east-west corridors will be approximately 11,000 TEUs per day, equivalent to 2,200 lorries and 12 trains in each direction.
- Such a volume of freight would completely overwhelm the capacity of the current road networks and border crossings. The rail corridors could attract between a third and half of all long-distance traffic. Therefore, plans exist to create new rail links for all three corridors.

⁷ www.euromedtransport.org/image.php?id=183

⁸ Twenty-foot equivalent unit or the volume of a 20-foot container.

To tackle these challenges, the World Bank has launched the Mashreq Corridor Programme (MCP), which aims to implement these projects gradually over a period of fifteen years, at a total estimated cost of about \$5.2 billion.

The economic and social impact of executing these projects, in terms of synergies and job creation, is a powerful incentive to multiply and strengthen the co-operation between the affected regional economies.

The Close Neighbours Economic and Trade Association Council (CNETAC): The Middle Eastern Common Market?

The emergence and recognition of Turkey as an economic power accepted by the states in the region and able to bring together international cooperation projects has allowed Turkish leaders to seize the moment to lead an open political and economic regionalism in the Middle East.

Several regional factors have enabled and encouraged the strengthening of the relationship between the states of the Eastern Mediterranean. The Turkish need for economic expansion has found an echo in the need of neighbouring economies to internationalise and find new means of development to address their socio-economic challenges (population growth, a bloated and inefficient public sector, etc.). This objective need is reinforced by the fact that the leaders of many of these countries have a similar understanding of the situation and share a certain vision of common goals.

In keeping with this shared vision of the need to create a sort of common future, on 31 July 2010, the governments of Turkey, Syria, Jordan and Lebanon signed a regional free trade agreement for the explicit purpose of creating a Middle Eastern common market.

This ambitious agreement, called the Close Neighbours Economic and Trade Association Council (CNETAC), establishes as a medium-term objective the free movement of capital, goods and people through the creation of what has been called the "Middle Eastern Shamgen Area."⁹ It likewise establishes a series of deadlines and multilateral follow-up mechanisms to guarantee the implementation of the necessary measures to achieve this area. To this end, a High-Level Strategic Cooperation Council between

the four countries has been set up to ensure and oversee the project, which shall meet regularly to study and sanction the progress.

Initially, the agreement emphasises the economic building blocks of trade, transport, tourism and energy, designating one country in each case to lead and coordinate progress in the field under its own responsibility.

The CNETAC is comprised of three pillars of cooperation: political, cultural and economic. The economic pillar is the one set out in the most rigorous detail and the one for which the most tangible and immediate objectives and deadlines have been established.

The three pillars, in turn, encompass fourteen objectives, which range from promoting SMEs to food security, by way of cooperation in third markets, the joint definition and implementation of new infrastructure, educational cooperation and cultural exchanges. Likewise, a road map has been drawn up for each objective to ensure that all cooperation is thoroughly and wholly conducted between the four countries, thereby turning it into a common *acquis*.

The four current member economies of this organisation believe that the project will lead to the development of positive synergies through the creation of the embryo of a Middle Eastern common market. To this end, all four countries hope to incorporate new members in the project by 2014 (as shown in Map 2) and to publish an initial comprehensive assessment of the CNETAC by 2015.

For now, the project envisages the incorporation of Egypt and Iraq in the near future, as these countries would give it greater demographic, economic and strategic heft. The authorities of both these countries are likely to take a positive view of membership in the organisation, as it could offer their countries economic benefits, political influence and the chance to become part of a regional bloc at a time of redefinition of economic roles and regionalisms around the world.

CNETAC and Regional Cooperation: Beyond the Current *Status Quo*?

CNETAC is an intergovernmental agreement, but one of the underlying factors of this attempt to foster closer relations is the manifest interest of the private sec-

⁹ The term is intended to underscore the parallel with the European Schengen agreement on the free movement of people and is based on the Turkish name for the Syrian capital, Sham.



Source: Foreign Economic Relations Board of Turkey (DEIK), Turkish coordinator of the Levant Business Forum.

tors of the member economies, which are more or less developed depending on the country. Their representative bodies offer grassroots support for strengthening these relations. To this end, the Levant Business Forum was set up to consolidate the project and audit its progress “from the outside.” This standing Forum, which meets once a year, is responsible, among other things, for preparing the White Book and Action Plan for the satisfactory establishment of the free trade agreement and the agreement for the free movement of all factors of production. Likewise, it is expressly tasked with lobbying each country’s government to ensure swift implementation of the necessary reforms to meet these objectives.

This aspect is particularly important at a time in which the instability of certain regimes in the region is growing. This is currently the case in Syria, although not exclusively so, as several countries in the region are also increasingly subject to political and social tensions. The fact that a considerable part of the effort to strengthen relations in the region is being made by a variety of non-state actors (companies of all sizes and sectors, universities, chambers of commerce, civic associations, research centres, town councils, individuals and, ultimately, civil society at large) makes it possible to believe that it will survive any possible changes in government, whether due to elections or the current uprisings. In short,

the increasingly positive view held by many national stakeholders of the socioeconomic benefits of sharing a certain economic destiny would seem to suggest that the current open regional cooperation will be relatively immune to any possible swings in the region’s political fortunes.

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