

EU – Turkey Relations: Time for contemplation? Time for reality check?

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Age of globalisation = Age of competition

- Rising Asian Competition → Declining European Competitiveness
- All the countries are aware of adverse effect of global competition trends.
 - Some countries have been adjusting (TR-1996; USA-early 90s; UK-late 80s).
 - Only old-EU asks the world to stop rotating.

EU: Losing Competitiveness

- Aging Population
- Inflexibility of the Labor Market
 - ➔ Difficulty of Hiring and Firing
 - ➔ Rigidity of hours and employment

Country	Manufacturing value added per worker (2)	Labor cost per worker (1)	Manufacturing value added per labor cost (2/1)
UK	55.888	29.335	1,91
France	54.859	25.957	2,11
Italy	46.830	18.524	2,53
Germany	50.728	18.485	2,74
USA	117.446	35.910	3,27
India	5.061	1.356	3,73
Korea	67.092	14.971	4,48
Malaysia	17.884	4.404	4,06
China	5.662	1.068	5,30

Why do both sides need each other?

■ For Turkey:

→ EU as a mechanism to transform the country to adjust global competitive trends.

■ For EU:

→ Enlargement (young and dynamic Europeans) as a mechanism to adjust to global competitive trends.

→ Does European countries have a B Plan other than EU enlargement? NO.

■ For EU and Turkey:

→ Joint transformation → least costly way

→ Strong and able leadership needed at the both sides

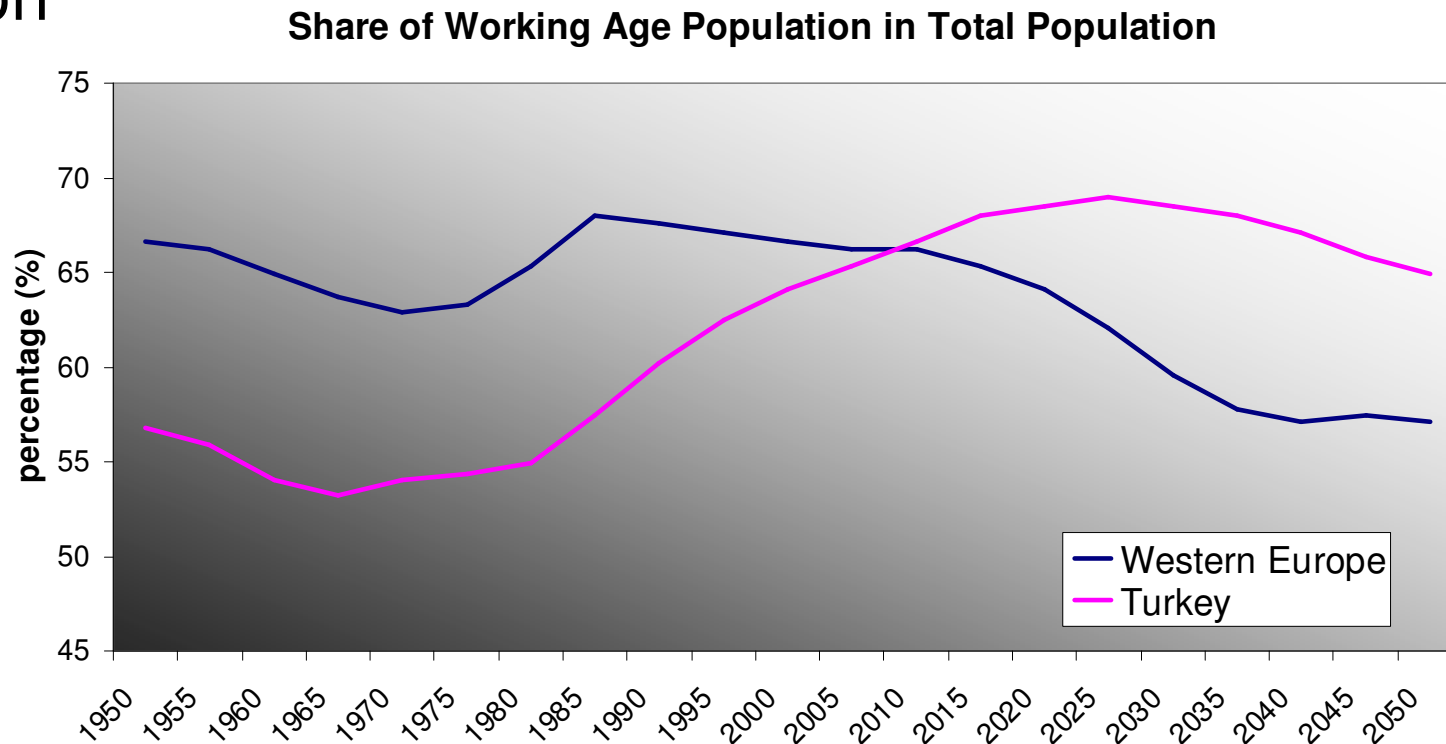
It is not true!!

- “Turkey alone represents the equivalent of the entry of the ten new Eastern European countries combined—that’s quite something. Turkey means 71 million inhabitants—looking ahead to 2050, it will be 100 million...”

—Nicolas Sarkozy, BBC, September 27, 2004

Why Turkey? *Demographics (1)*

- Expanding labor force in Turkey, aging population in Western Europe
- Birth rate is going down – will not be a country of 100 million



Why Turkey? *Demographics (2)*

- Skilled key personnel – in better situation than its competitors.

	Turkey	Hungary	Ireland	Greece	Poland	Czech Rep	Russia
Flexible labor regulations	11	5	15	32	17	19	23
Competent senior managers	8	31	11	33	40	46	47
Intl.experience of management	12	30	7	28	40	46	37
Qualified engineers	13	1	21	16	26	33	43
Qualified IT employees	12	2	21	25	16	31	36
Average score	11,2	13,8	15	26,8	27,8	35	37,2

Source: Loewendahl (2001). (Derived from IMD, 2000. The IMD surveyed 3,263 senior managers in 47 countries. Rank 1 is the best in the world. Rank 47 is the worst.)

Why Turkey? *Demographics (3)*

- It is not only relatively SKILLED but also relatively CHEAP

Country	Labor cost per worker (1)	Value added per worker (2)	Value added per labor cost (2)/(1)
Turkey	7478	46014	6.15
Hungary	3889	11436	2,94
Czech Rep	4127	9758	2,36
Poland	485	11582	2,39
Romania	1133	5204	4.59
Ireland	25107	183479	7,31
Slovenia	18269	12209	1,50

Source: UNIDO (2000)

Challenges: *Demography*

■ Challenges for EU:

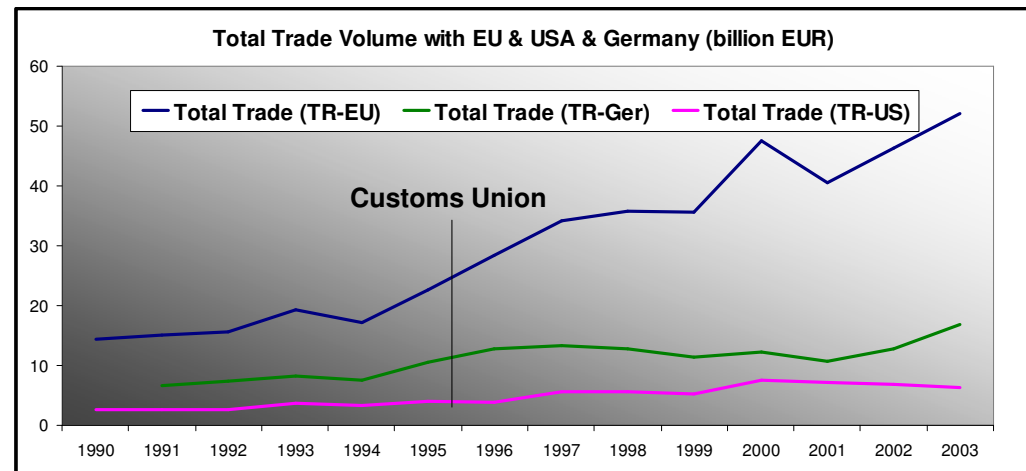
- EU's population problem could not be solved by traditional migration problems
- Turkey could be a solution (NOT a burden) IF new skills for young population

■ Challenges for Turkey:

- Need to provide skills for young population
 - Health care
 - Education
- } EU Framework and Funds

Why Turkey? *Integration (1)*

- We are already integrated with EU
 - ➔ More than with USA
- Increasing trade volume after Customs Union (doubled in the last 5 years)
- European companies have a growing share in TR's market



	year	# of firms	Total FDI (mil. \$)
EU	1980	58	43
	2003	2999	3994
Germ	1980	23	12,3
	2003	1084	793
USA	1980	13	21
	2003	393	448

Source: Eurostat, FID-TR

Why Turkey? *Integration (2)*

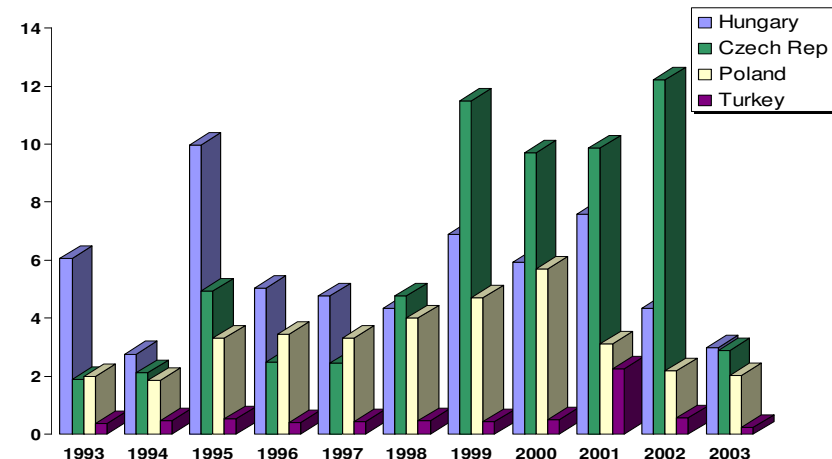
- ... but it is not enough
- Annual FDI inflows is low compared to new EU members



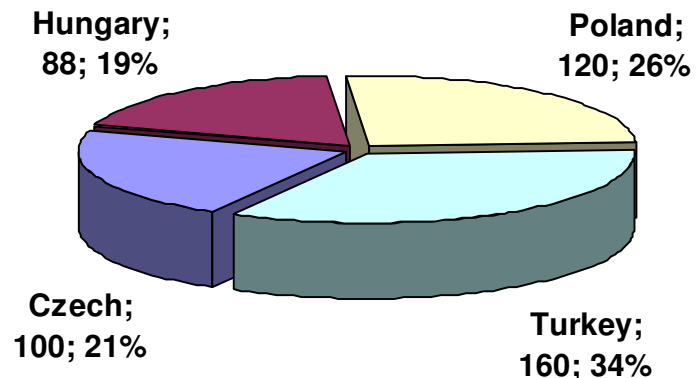
EU perspective is a must

- More integration and competition will mean a higher trade volume between EU&TR

Annual FDI Inflows as Share of GDP (%)



Total Trade Volume (billion USD)



It is not true!!

- “Europe has nothing to gain from having to apply the solidarity clause to Turkey that is far from having resolved its disputes with its neighbors. It will gain nothing from moving its borders to the limits of Asia.”
—*Robert Badinter (PS senator), Le Monde, October 12, 2004 (translation by FBIS)*

Why Turkey? *Outlet to Other Markets (1)*

- Growing young population, energy resources, potential for the future

	GDP,PPP in bill .\$ (2003)	Population in mill. (2003)		GDP,PPP in bill. \$ (2003)	Population in mill. (2003)
Central Asia and Caucasia	1,892	274.8	MENA	1,986	326.5
Armenia	11.2	3.1	Algeria	194.4	31.8
Azerbaijan	29.8	8.2	Bahrain	13.0	0.7
Georgia	13.3	5.1	Djibouti	1.5	0.7
Kazakhstan	99.3	14.9	Egypt	266.9	67.6
Kyrgyz Republic	8.8	5.1	Iran	464.4	66.4
Tajikistan	7.0	6.3	Iraq	89.8	24.7
Turkmenistan	28.9	4.9	Israel	134.0	6.7
Uzbekistan	44.6	25.6	Jordan	22.9	5.3
Russian Federation	1,323.8	143.4	Kuwait	43.2	2.4
Ukraine	265.5	48.4	Lebanon	22.8	4.5
Belarus	59.8	9.9	Libya	34.5	5.6
Non-EU Balkans	354	55.7	Malta	7.0	0.4
Albania	14.5	3.2	Morocco	120.6	30.1
Bosnia and Herzegovina	24.7	4.1	Oman	38.1	2.6
Bulgaria	60.5	7.8	Qatar	19.5	0.6
Croatia	49.2	4.4	Saudi Arabia	298.0	22.5
Macedonia, FYR	13.9	2.0	Syria	62.2	17.4
Moldova	6.4	4.2	Tunisia	70.9	9.9
Romania	158.2	21.7	UAE	63.5	4.0
Serbia and Montenegro	26.3	8.1	West Bank & Gaza	1.8	3.4
			Yemen, Rep.	17.0	19.2

Why Turkey? *Outlet to Other Markets (2)*

- Turkey: the only country in the region with the relevant institutional structure for integrating the region to the world economy.
- Turkey: the only CURRENTLY available country to work closely for the economic transformation of the region
 - Through business association networks (TOBB's role)
 - Through business partnerships: Erez and Gaza Industrial Zones
- Turkey: Outlet in the region not because it is a MUSLIM country but because it has the only country in the region with the INSTITUTIONAL CAPACITY to act as a source of transformation.

Turkey's Recovery since 2001 (1)

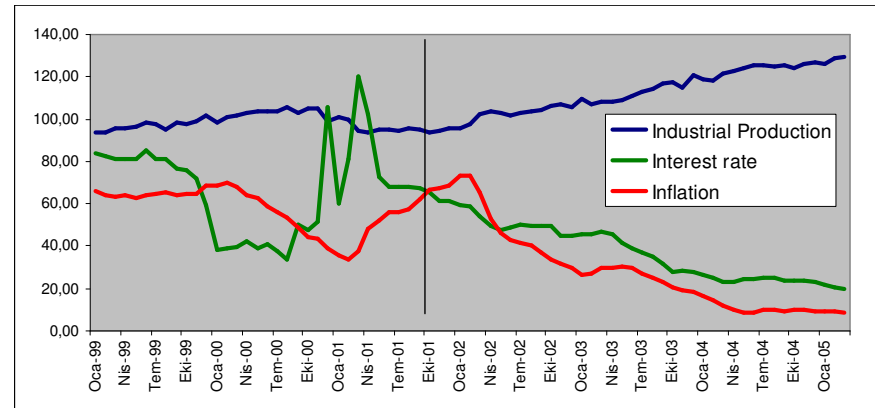
■ Process of transformation → Relative Stability

	2001	2004
GNP (billion \$)	150	300
Growth (%)	-9,4	9,9
Inflation (CPI%)	70	10
Public debt (% of GNP)	95%	65%
Budget Deficit (% of GNP)	17	10
Exports (billion \$)	31	60
Foreign Reserves (billion \$)	19	35

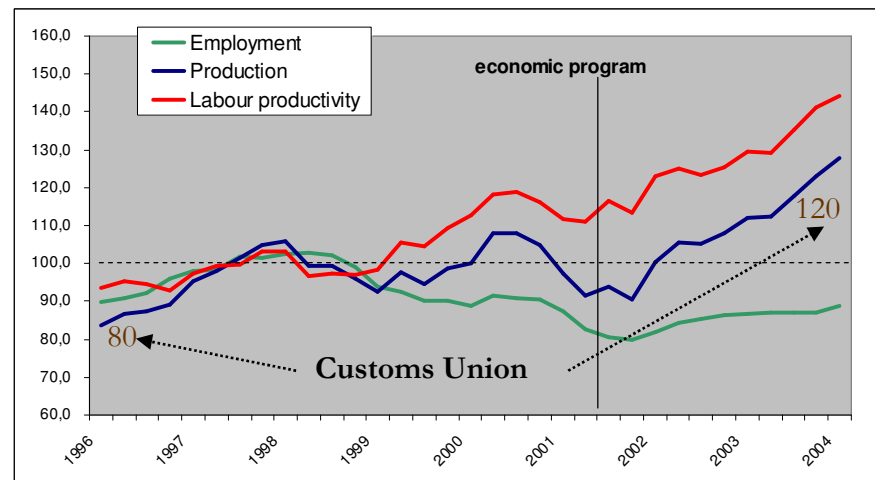
Turkey's Recovery since 2001 (2)

- Stabilisation and Healthy Growth
 - Structural Transformation at the corporate sector
- ↓
- Rising Productivity and Competitiveness

Non-inflationary growth



Productivity Increases



Unique nature of TR-EU relationship

- We already have a privilged relationship: Ankara Treaty (1963) & Customs Union (1996)

Macroeconomic and political stability



New momentum



Time for Turkey to be in the decision-making process

EU as an anchor for policy credibility

- Sustainability of the transformation process depends on the pace of reform.
- Meaning of EU:
 - Opening up markets to competition
 - Public Administration Reform, State Aids, etc.
 - Infrastructure reforms
 - Better institutional and investment climate



Pave the way for FDI inflows

	Ireland	Hungary	Greece	Poland	Turkey	Czech Rep.	Russia
Institutional environment	10,25	26,5	32,5	43,6	35,4	35,7	37
FDI enabling environment	7,8	15,4	17	35,2	18,2	28	44,3

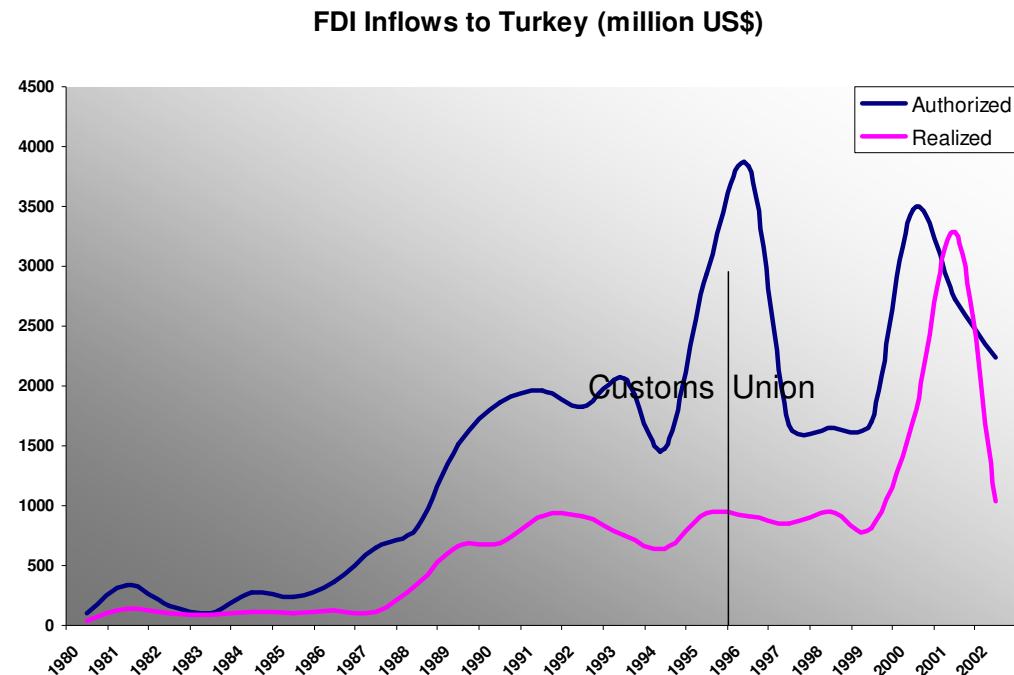
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Need for a Commitment (from EU to TR)

- After Customs Union (1996), investors showed commitment
- But due to macroeconomic instability, commitment did not turn into investment

■ EU commitment is a must for a smooth integration process.

■ Stronger the commitment, swifter the pace.



Need for a commitment (TR to EU)

- Administrative capacity building for implementing legislation is the issue of the day.
- The issue is directly related with the FDI absorption capacity of Turkey; hence it is a requirement for the sustainability of the current stable environment.
- Turkey has to turn the EU into a stronger, IMF-like anchor by turning the steps in the accession process into a check list.

Where are we now?

- There is plenty of time to make decisions. So why the rush now?
- Turkey could get ready to win referenda conducted fifteen years from now, because the country has the capacity to be totally different in fifteen years.
- But this could not be done without the support of EU governments ready to tell the truth to their voters.
- It is time for self confidence and contemplation.