

NEAR EAST UNIVERSITY

FACULTY OF ADMINISTRATIVE SCIENCES AND ECONOMICS
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**EUROPEAN UNION – IS IT ONLY A DREAM FOR
TURKEY?**

**CAN SHE EVER BECOME AND ACCEPTED AS A
EUROPEAN NATION?**

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Terms of Reference

- To evaluate Turkey's role in Europe.
- To recognise and analyse political and economical obstacles on her path to a full membership of EU.
- To describe issues outside the scope of politics and economy effecting full EU membership: Social trends and culture.
- To provide an overview of European perspectives about Turkey and her future in Europe, and the possibility of full EU membership.

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Preface

Turkey applied to join the European Economic Community in 1958. It was rejected, but an association agreement was signed in 1963.

In 1987, then Prime Minister, late president of Turkey, Turgut Özal applied for full membership. The increasing economic links between Turkey and the European Union – more than half of Turkey's trade was with the EU in the 1990's – gave the application a stronger economic justification.

However, doubts persist in the EU, where Turkish policy on human rights, particularly in Kurdish and on Cyprus was criticised. They also persist in Turkey itself, where the Islamists oppose membership.

Nevertheless, in 1996 a customs union between Turkey and the EU was inaugurated, establishing the closest trade and political relationship the EU maintains with any non-member country, after Malta and Cyprus.

Methodology

Discussions with Mr. Jouni Suistola of the Near East University, International Relations Department.

Study of the Turkish Economy Report, Turkey and the EU Reports and Turkey & Customs Union Reports.

The study of the appropriate articles and publications written on Turkey, Turkish Economy and Turkish Social Trends.

The research of appropriate articles published in leading Turkish newspapers, The Economist magazine and Financial Times newspaper.

CHAPTER 1

HISTORY OF MODERN TURKEY

World War II and the Post-War Era, 1938-50

¹Atatürk's autocratic, dominating and inspiring personality have directed and shaped the Turkish Republic, even after his death at 1938. With the approach of war, foreign affairs assumed greater importance. An alliance with Britain and France (19 October 1939) was not implemented because of Germany's early victories. After Germany's invasion of Russia (22 June 1941), there was popular support for alliance with Germany, which seems to offer prospects of realising old Pan-Turkish aims. However, neutrality was maintained until 23 February 1945, when Turkey joined in with the Allies.

The great expansion of Soviet power exposed Turkey, in June 1945, to demands that control of the Straits be given back to Black Sea powers and for the cession of territory in eastern Asia Minor. It was also suggested that a large area of northeastern Anatolia be ceded to Soviet Georgia and a more democratic government established in Turkey. This caused Turkey to seek US assistance; it received US military aid beginning in 1947 (providing the bases for a large and continuing flow of military aid) and economic assistance beginning in 1948.

¹ Mustafa Kemal Atatürk, founder of Modern Turkey

The war also brought changes in domestic policy. The army had been kept small throughout the Atatürk period. The army was rapidly expanded in 1939, and defence expenditures rose to between 50% and 60% of the budget for the duration of the war. Substantial deficits were incurred, imposing a severe economic strain, which was aggravated by shortages of raw materials. The war did provide some stimulus to industry, however, and enabled Turkey to build up substantial foreign credits, which could be used to finance post-war economic development. The most notable change in the post-war years was the liberalisation of political life. The investment in education was beginning to show more return, and literacy had risen to 29% by 1945. A growing class of professional and commercial men demanded more freedom.

After a split within the Republican's People Party (RPP), the Democrat Party (DP) was founded in 1946 and immediately gathered support. Other restrictions on political freedom, including press censorship, were relaxed. The period saw the establishment of the first mass circulation, independent newspapers. Trade Unions were permitted in 1947, although they were not given the right to strike until 1963. The DP won a massive victory in the 1950 elections, claiming 54% of the vote and 396 out of 487 seats. The DP victory has been attributed variously to US influence, to social change, to a desire for economic liberalisation, to better organisation, to religious hostility to the RRP, and to bad a harvest in 1949.

Turkey Under the Democrats, 1950-60

The Economy

The Democrats were pledged to a programme of economic growth, to be achieved through a reduction of state interference. At first they had much success; good harvests in 1950 and 1953 and the Korean War boom assisted. But problems appeared after 1953; in 1954 a poor harvest obliged Turkey to import wheat again. A shortage of foreign exchange limited the purchase of essential materials and parts, which handicapped industry. After a sudden favourable surge in the early 1950s, the terms of trade moved steadily against Turkey.

Political Repressions

The political fortunes of the Democrat government closely reflected the economic changes. In the 1954 elections – the Democratic peak – the DP took 57% of the vote and gained 503 out of 541 seats. Subsequent economic difficulties led to mounting criticism within and outside the DP, to which the government replied with increasing repression. Laws passed in 1954 provided for heavy fines on journalists who damaged the prestige of the state or the law; several prominent journalists were prosecuted under this law, which was made more severe in 1956, in which year other laws substantially abridged the independence of civil servants (including university teachers) and judges.

The DP's loss of popularity was reflected in the elections of October 1957, when they won only 48% of the vote and 424 out of 610 seats. Opposition attacks upon the DP became stronger, and it was accused of unconstitutional action.

The years 1958-60 saw a further worsening of the economic situation as the government reluctantly introduced restrictive measures. Returns on new investment fell and inflation continued. Serious problems of housing, unemployment, etc. were emerging in the large towns, whose population had been growing annually at the rate of about 10%, so that by 1960 the proportion of urban population to the whole had risen to 32%.

In April 1960 the government ordered the army to prevent leaders of RPP from campaigning in Kayseri and followed this by forming a committee to investigate the affairs of the RPP. It was believed that the next action would be to close the party. Student demonstrations followed, and martial law was declared on April 28. The army had been brought directly into the political arena.

The National Unity Committee, 1960-61

On 3 May 1960, the commander of the land forces demanded political reforms, and resigned when they were refused. On 27 May, the army acted; an almost bloodless coup was carried out by the officers and cadets from the İstanbul and Ankara War Colleges. The leaders established a 38-man "National Unity Committee" with the former commandâr of the land forces as chairman. The Democrat leaders were imprisoned.

The main work of the National Unity Committee was to Destroy the DP and to prepare the new constitution. Substantial purges took place – 5,000 officers including 235 out of 260 generals were dismissed or retired; 147 university teachers left their jobs; 55 wealthy landowners were banished from eastern Anatolia and their lands confiscated. The DP was abolished (29 September 1960), and many Democrats were brought to trial at Yassi Ada (October) on charges of corruption, unconstitutional rule and high treason.

Work on the new constitution began immediately after the coup, when a committee of five law professors was appointed to prepare a draft. The constitution was completed in May and approved by 61% of the voters at a referendum in July. The first elections were held in October 1961. The army then withdrew direct political involvement, although the members of the National Unity Committee retained some influence as life members of the Senate.

Period of Political Moderation, 1961-65

No party won a majority in October 1961. The results demonstrated the lasting popularity of the old DP: its votes had been divided among the three smaller parties, the majority of them going to the Justice Party (JP), which had also emerged as the largest party in the Senate. However, the coalition survived only until June 1962, when it broke up over the question of an amnesty for the imprisoned Democrats. In the local elections of 1963 the JP made extensive gains at the expense of the two smaller parties, which led to the break-up of the coalition.

In December 1964, a new electoral law had introduced the principle of the "the national remainder", by which a certain number of seats were distributed to parties according to their proportion of the vote. The law had been intended to operate in favour of the smaller parties and against the JP, but in the election the JP won a surprising majority with 53% of the votes and 240 seats.

Political moderation had triumphed in the years 1961-65. The army had stood aloof while power came gradually to a party that drew its main support from the same groups and areas as the Democrats and the espoused a similar philosophy of social changes, economic liberalisation, better organisation and hostility towards Islamic fundamentalism. Attempts to restore army rule had failed, intervention proposed by senior officers in October 1961 had been rejected by others. The political trends were liberal: the Democrat prisoners were released (1962-64); the labour law of 1963 made strikes legal and promoted a great expansion of trade unionism; workers become more active in politics through the left-wing Confederation of Reformist Workers' Unions, and through the Marxist Turkish Workers Party.

Political Development, 1965-71

The victory of the JP in 1965 did not lead to strong government mainly because the JP was itself a coalition of disparate elements – modernisers and traditionalists, secularists and religious conservatives. The PM Süleyman Demirel (the current President, 1998) showed considerable skill in balancing factions and holding his party to a moderate line. He concentrated on fostering rapid economic growth through foreign investment (thus avoiding the need for tax reform) and on suppressing the increasingly violent hostility of the radical left, notably of the Federation of the Revolutionary Youth of Turkey, a Marxist student organisation founded in 1969, that adopted terrorist methods. The leftists clashed with the newly emerging radical right.

In the election of 1969 the JP won a reduced majority. The national remainder system, which favoured the smaller parties, was dropped in favour of simple proportional representation. The Demirel government was unable to deal with the increasing disorders in Turkey. The army leaders became disturbed by the situation and by their own identification with Demirel's policies. On 12 March 1971, possibly to anticipate a take-over of government by more radical junior officers, the senior military commanders, led by the chief of staff, presented a memorandum calling for the resignation of the government on the grounds that it had proved itself incapable of dealing with the crisis that threatened civilisation in Turkey. Demirel immediately resigned.

Political Development From 1971 to 1980

Beginning in 1971, Turkey was governed by coalition governments. Their main aim was to restore law and order. On 26 April 1971, martial law was established in 11 provinces. In September 1971, the constitution was amended to reduce personal freedoms. Martial law was not completely lifted until September 1973, when the military courts were replaced by special security courts.

No party secured a majority at the general election in October 1973, but the RPP emerged as the largest single party, with a third of the vote and 185 seats. An uneasy coalition government was eventually formed by the Republican People's Party (RPP) and the National Salvation Party (NSP) in January 1974. In September 1974 it was dissolved by the leader of the RPP, Bülent Ecevit (the current deputy PM), who was also the PM. During this period the internal security situation again deteriorated; there were numerous conflicts in universities between leftists and rightists and clashes between security forces and guerrillas in eastern Turkey.

By 1980 the military, which had watched the growing violence and the government's ineffectiveness with alarm, intervened again. They precipitated a bloodless coup on 12 September, after the National Assembly had failed to elect a successor to President Korutürk. A National Security Council composed of the military high command took over government duties, naming General Kenan Evren head of state, and quickly dissolved the Assembly, political parties, and trade unions; suspended the constitution; and imposed martial law. Thousands of dissidents were jailed and, as

later revealed, tortured. The immediate result of these measures was a substantial drop in the number of terrorist killings. In July 1982 the government published a draft of a new constitution that won overwhelming approval in a national referendum held the following November. In 1983 the National Security Council transferred power to an elected parliament.

Martial law was gradually lifted from all the provinces except those where Kurdish rebel groups remained active. Growing international concern over reports of torture in the prisons after the coup prompted condemnation from the Europeans and led to the government granting on-site observation of prison conditions by international human right organisations.

CHAPTER 2

TURKISH POLITICS :

KURDISH & CYPRUS PROBLEMS; HUMAN RIGHTS

Introduction

Turkey and the rest of Europe need each other, as quoted by the Economist². During the cold war the country that carved itself out of the Ottoman Empire provided the West with a solid defence against the former Soviet Union. The collapse of communism proved how much more Turkey and Europe could mean to each other: democratic elections, replacing generals with civilians; the economy pointing-roughly in the right direction.

It should be accepted that placing Turkey firmly into Europe would protect such gains, but Europe would benefit too: Turkey is the only Muslim country that has become a working democracy by separating religion and state. It lies in a very strategic position, between the turbulent and bloody Caucasus and Balkans; could be used as a beacon of sanity and restraint.

In theory, there is no objection to Turkey eventually joining EU as a full member state. However, one obstacle lying in the way is its record on human rights. These are not just Kurdish but its own citizens too; fair treatment in courts and prisons for all citizens of Turkey. Then, of course, there is the question of Cyprus.

² Economist, 1 April 1995

Human Rights

Turkey's human-rights record is reminiscent of Argentina's or Chile's in mid-1970s. The Kurdish rebellion in the south-east has made matters worse, but even away from the war zone police routinely beat up people for minor offences and are rarely disciplined for it. According to Amnesty International, there were some 130 political murders in Turkey in 1995, including 15 deaths in prison likely to have been caused by torture³. Turkey dismissed these findings, banned the visit of an Amnesty researcher and detained a local representative of the organisation.

Criticism of Turkey's human-rights performance is not confined to foreigners: Turkey's own resolute Human Rights Foundation has documented 30 deaths by police torture 1994⁴. A parliamentary commission recently accused the security forces in the mainly Kurdish south-east of being a law unto itself. Many Turks were embarrassed by the lifting of immunity from prosecution of Kurdish members of parliament, six of whom were in prison awaiting appeal against sentences connected with their support for Kurds (they were later released).

³ Economist, 8 June 1996, Survey of Turkey: Richard Dowden

⁴ Economist, 6 May 1995, Turkey and Human Rights

The Role of the Army in Turkish Politics

Politics in Turkey are played out on a field designed by the army. The soldiers act not only as goal-keepers (the ultimate guards of the constitution) but also as referees, discreetly setting the boundaries of political activity. Three times in the past 40 years, in 1960, 1971 and 1980, the army has taken over. Each time the party landscape was transformed. Some parties went underground, some turned themselves into new parties, others lost or gained leaders (for example, Süleyman Demirel, now Turkey's president, was banned from politics in 1982), many split, some joined up with others. Confusingly, therefore, Turkish parties tend not to follow the usual pattern of representing long-established interest groups with clearly defined constituencies and local organisations.

The well-known, distinguished role played by the army is perhaps one reason why Turkey's democracy and politics have never quite grown up. Politicians can always hide behind the army's back; for example, by defining the civil war in the south-east as "terrorism", they have simply handed the problem to the security forces. The army, for its part, keeps itself to itself, doing things in its own, unaccountable way. It gives no press briefings or interviews and employs no press officers. Its role remains contradictory: it is both the guardian of the state and the strait jacket which prevents political development.

Kurdish Problem

Solving the Kurdish problem in turkey will be difficult. A bad situation gets worse from time to time by the government's wrong-headed pilicy towards this largest minority in Turkey, which is a minority in the south-eastern region. This so-called insurgency and the way it is being dealt is doing damage to Turkey's cause in Europe. It is so bad that, an average of 10 to 20 soldiers, guerrillas and civilians die every day⁵.

For ordinary Turks, any suggestion of surrendering part of their country is very sensitive, and unacceptable. They point out that such suggestions are needless as millions of Kurds play a full part in Turkish life. In reality, Kurds who assimilate suffer little of no discrimination. Yet, their demands are growing, and the Turks have a lethal blind spot about them: just a few years ago, many Kurdish nationalists would have been satisfied with some rights of cultural expression, namely, freedom to educate in their own language. This is no longer the case. These days, they require – at a minimum – right to watch television and listen to the radio in their own language, and they only see this as a starting point.

The current Turkish coalition government, with an economy far from robust, needs courage, skill and vision to enact laws that will guarantee democratic freedom. Turkey could learn from Spain: the sting of violent Basque nationalism was greatly softened when the Spanish government granted the Basques a wide measures of autonomy within a decentralised but still a united Spain. However, a separate Kurdish state in

⁵ Financial Times – Survey of Turkey, 22 January 1996, John Barham

south-eastern Turkey – let alone over a wider, boundary-crossing area is very hard to imagine indeed. At one side, Turkish nationalism at its peak; at the other, Kurdish unwillingness to live in a would-be Kurdistan, largely for economic reasons. In fact, most of them already live outside the south eastern area. An independent Kurdish state in any case would have no internal support; America and EU are opposed to the idea: Western diplomats point out that in a region of aggressive and roguish states, a landlocked Kurdistan would be neither safe nor stable. Turkey's Kurds, they argue, are better off as Turkish citizens.

Yet, some form of devolution of power over local government and policing is needed in Turkey's south-east: the longer the war, which sometimes spills outside the borders of Turkey and into the neighbouring Iraq, goes on the more radical the demands of ordinary Kurds will become. The government has to get down to business of addressing the Kurds' grievances and improving Turkey's human rights performance in general. Only by doing these things, the Turks should realise, can Turkey get itself welcomed into Europe. Settling the Kurdish issue would both reduce migration from the south-east, which is adding further strains on the social agenda; and deprive the country's feared security apparatus of its main "raison d'être".

In response to the release of the Kurdish MPs imprisoned in 1994 (for supporting Kurdish fighters), thus offering convincing assurances of better behaviour, a customs union was ratified. Nevertheless, the Kurdish minority undoubtedly still suffers persecution, and security courts still hold political trials.

Cyprus Problem

The Cyprus issue, is perhaps the longest-running "regional problem" in Europe. Cyprus has been divided since 1974, when troops from mainland Turkey entered the island after a coup in Athens briefly threatened to herald enosis⁶ between the island and Greece itself. The ensuing ethnic cleansing, terrible as it was and unjust as its consequences remain, on both sides of the island, has kept the two groups apart ever since, but has prevented large-scale bloodshed. Making the partition permanent, some say, is the best hope of preserving this hostile peace.

Most Turkish-Cypriots insist that the prospect of EU membership could and should be used to extract concessions from the Greek-Cypriots. Diplomatic pressure on the Greeks to clear the way for a loosely-united island to join EU could be used to reduce the pressure which has long been felt by the Turkish-Cypriots because of their economic isolation.

Also, if the EU insists on blocking Cypriot membership indefinitely, there is a very real prospect that Greece could block the EU's enlargement to include Turkey – and paralyse European integration for good. Fortunately, there is a solution: under an "agreement in principle" between Greece and Turkey, Cyprus would get a starting date for negotiations to join the EU. Greece would then lift its veto on EU aid to Turkey and on Turkey's inclusion in the EU. And a grateful Turkey would not try to sabotage the reunification of Cyprus and its entry to the Union. That is what the EU diplomats hope anyway.

⁶ Unification of Cyprus with Greece

However, the problems remain formidable. Strange things can always happen between Turkey, and Greece. For example the two came to the brink of a major war over a couple of deserted islands in Aegean Sea. So much for the two countries' alliance with NATO. Moreover, cynical Greek Cypriots anyway, doubt Turkey's resolve, if Turkey gets its long awaited aids, to promote a Cyprus settlement.

Although Cyprus seems to be a key issue in Turkish-Greek bilateral relations, it should not be treated as a problem solely between Turkey and Greece. It is a problem more complex than bilateral conflict between two states. It is false to assume that putting pressure in Turkey will solve the problem since Turkey support the Turkish Cypriot people in the island. It is therefore false to regard settlement of Cyprus problem as a prerequisite for Turkish-Greek relations.

Yet, Greeks know that it is barely credible that only one (Greek) part of the island would join without the (Turkish) other: that would upset Turkey and increase the growing fear that it will turn its back on Europe and adopt a surlier, more Islamic outlook. Both sorts of Cypriots, on the other hand, would benefit from Cyprus's membership of the Union, the Turks even more than the Greeks, because the Turkish Cypriot economy is so feeble. That is the big incentive for the Turks, since the 24 year old division of Cyprus is expensive for everyone, especially Turkey, which has 30,000 troops in the North.

Turkish Perspectives on Europe

Immediately after the Ankara agreement signed in 1963, all major newspapers in Turkey reported the event as if Turkey had joined the EU; very few had actually critically analysed the situation⁷ The press, during the period when the Agreement was signed, had followed a policy of supporting the government on its home and foreign policies irrespectively. The agreement was simply linked to receiving “substantial foreign aids”.

Hürriyet newspaper (14 September 1963) wrote “Be patient, the EU would eventually bring welfare and prosperity within the next 22 years. Anyone would be able to travel to Rome or Paris, and buy whichever the car he wants, and drive it in Turkey without the obligation of obtaining permit or paying duty tax”. Again, Akşam newspaper (15 September 1963) wrote “The Agreement has been signed: 6 EU states will lend Turkey an extra \$ 175 million next 5 years”, while Cumhuriyet newspaper quoted “We have joined the Common Market!”.

However, when the Additional Protocol was signed in 1970, there were further interests in the EU but not as much as it was in the 1960s. This time there were mixed reactions in the Press and more dissenting voices; Milliyet newspaper (5 October 1970) contained several comments by various correspondents. Some claimed Turkey was not ready for the second stage; and Turkey would be damaged economically by the EU; others claimed it was perfect timing for the second stage; and it was necessary for increasing Turkey’s exports. On the other hand, several right wing

⁷ The articles published in the Turkish Press about the Ankara Agreement ; Economic Development Foundation Journal, (Turkey), September 1988

radical newspapers – for ideological reasons – opposed any form of relationship with EU. These mixed reactions continued throughout 1970s and early 1980s. On April 14 1987, when Turkey applied for a full membership, the PM at that time, the late Turgut Özal had stated that he had full public support on the issue.

After the application, almost all of the trade unions, major industrial companies and political parties had openly stated their positive support, although the enthusiasm was not as strong as it was after the Ankara Agreement in 1963. Nevertheless, the public reaction and enthusiasm was regarded strong. Cumhuriyet newspaper (14 April 1987) wrote “We are knocking on the EU’s door”, while, on the same day, Milliyet newspaper reported it as historical move for Turkey; and the following day it stated Turkey would join the EU within 10 years. This time, the Press had had sought experts’ opinions, and Hurriyet newspaper (15 April 1987) published the following benefits and losses Turkey would incur should it become a full member state:

Advantages

- 1) Turkey’s political situation would Improve
- 2) Turkish economy’s some sectors Would benefit
- 3) Turkey could compete in Europe
- 4) Relations with the USA would take different direction
- 5) Multinational companies show more Interest in Turkey
- 6) Turkey would reach western welfare and Prosperity level

Disadvantages

- 1) Some sectors in industry would go bust
- 2) Prices on agricultural products would increase
- 3) Sacrifices would have to be made on Cyprus and Aegean Region

Even though the Press had taken the developments a lot more seriously than in 1963, comments such as Turkey's becoming a full EU member state within 10 years were quoted. However, these positive, sometimes too enthusiastic comments, were biased by the political situation of pre 1989. During that time, Europe was shaped differently, and Turkey was considered as an important factor in NATO for Europe's defence against the former Eastern Bloc. After the application to full membership, the press, radio and the TV ran campaign for the EU, and majority of the public was influenced by it.

TUSİAD (Turkish Industrialists and Businessmen Organisation) organised a market research study, and the result showed that 60% of the participants gave support for Turkey's presence in the EU, and 5.1% wanted an immediate membership⁸. On 16 April 1987, Milliyet-DATA Research Organisation had found that in seven regions, of 1346 people questioned, 61.1% had said yes to the EU. This figure was above the 51.1% figure in 1986. This 10% increase can be attributed to the positive campaign ran by the media in 1987.

Moreover, most people took part in the research had agreed that the EU membership would provide more and better employment opportunities for them. The public regarded benefits of the EU membership more on personal than general or global terms. From the same research, 54% of the participants had thought Turkey was ready for full membership, whereas 23% said it was too early. It also became apparent that there was more support for it in urban areas (64%) than rural (58%). This could be attributed to the fact that, urban population had better access to the media and were

⁸ Economic Development Foundation Journal (Turkey), September 1988, page 28

thus better informed. Urban unemployment was higher than rural unemployment. This could have raised urban expectations concerning the EU membership.

Many leading journalists, economists and consider that a further strengthen of the EU relations would benefit democracy and human rights in Turkey. Military coups would be prevented while radical movements (left and right wings, Kurdish etc.) would decline, and not find much support in future.

In general, today, not only do all major parties in Turkish Parliament support Turkey's full membership, as do most of the industrial and agricultural sectors; but – with the exception of radical groups – parts of both right and left wings, the majority of the public do too. Yet, recent developments have disappointed Turkey. The decision reached on the Luxembourg Summit by the EU Commission at the end of October '97; commencing the accession of Czech Republic, Poland, Hungary, Slovenia, Estonia and Cyprus to the EU as full member states, and further discussions on Bulgaria, Romania, Slovakia, Lithuania and Latvia, made no mention of Turkey. Many commentators concluded that for a foreseeable future, Turkey's full membership to the EU is nothing more than a dream.

CHAPTER 3

SOCIAL TRENDS; CULTURE

Introduction

Seen from İstanbul, Turkey looks like a nation on fast-forward: young, urban, dynamic and growing at a bewildering rate. Modern Turkey is not only overwhelming urban (see “Changing Trends” section), but also predominantly young: more than half its people are under 25.

Although the growth rate is slowing down, the numbers coming on to the job market will go on rising until 2003. The army and the civil service, which once attracted Turkey’s bright men, are now losing out to business. The multilingual, multicultural young people of Turkey’s western cities want to be economists, managers, lawyers and accountants. They no longer live in the world of Atatürk. They obtain their culture from global television: 16 national TV channels and hundreds of local ones carry a huge variety of programmes, ranging from politics to pornography: the past and its old boundaries appear to be dead.

Yet, travel east in Turkey, and the picture changes. The people are poorer, the roads degenerate, and the newly built-up areas look like refugee camps – which, often enough is what they are, filled with people fleeing war or poverty, waiting for the chance of a job further west and a life in peace. Eventually, on arriving to the eastern borderlands, emergency law, military occupation and civil war become reality.

Across the borders lie Syria, Iraq, Iran, Armenia and across the Black Sea, Russia, neighbours who would make anyone nervous. If Turkey's head and shoulders are thrusting into the brave new world of global markets and universal culture, its legs are firmly stuck in history, geography, war and poverty.

At first sight, Turkey seems well equipped to cope with such strains. It has a strong state, with an effective bureaucracy and the second largest army in NATO. Pro-western cosmopolitan Turks, full of enthusiasm about EU membership, see the Customs Union which Turkey joined at the beginning of 1996 as a stepping stone to full integration, and feel deeply insulted by any suggestions that they might not be properly "European".

Business Culture

Turkey's freewheeling financial and property markets, its big informal economy and tax regulation make it a paradise for money launderers. In the words of one investment banker in Istanbul: "I do not care who you are or how you got your money, you can come in here with a suitcase full of cash and no questions asked. The law tells me I do not have to give any information on your activities to the tax authorities or to the Central Bank". Nobody knows how much money from illegal activities is passed through Istanbul's financial system to make the gains appear legal in origin, but Turkey is coming under increasing international pressure to crack down on it.

Public sector jobs are usually in the gift of the political bosses. Political patronage largely accounts for the 55% increase in the number of civil servants in the last 15 years; Turkey now has about 2 million civil servants. There is great inequality of wealth, and wages are in any case low and do not keep pace with 80% inflation.

The economy is not creating enough jobs – urban unemployment is worsening particularly among the young. Society is becoming divided between haves and have-nots and between secularists and Islamists. Deteriorating social trends and growing alienation is creating an appetite for radical politics. Sympathy for political Islam rises as the quality of education declines, wages fail to keep up with the inflation and disgust at the decadence of the corrupt secular state deepens. Disturbing evidence of links between government politicians, the security establishment and right-wing

gangsters began emerging after a car crashed in November 1996 carrying a wanted underworld leader, a police chief and an MP from the centre-right True Path party, the former governing coalition's junior partner. The legal debate, whether the politicians, members of the security forces and criminals should be exposed and brought to justice, is still continuing.

In a sense, it does not really matter who runs Turkey. Conservatives, socialists, Islamists, have all had their turn over the years and all have shown they are as incompetent as each other. Their incapacity is reflected in chronic inflation, rising unemployment, deepening inequality and low education standards. Businessmen, shrug at warnings of an impending balance of payments crisis, a financial market collapse or a surge of inflation as the government liquidates its mountain of local debt with a burst of monetisation.

These are several examples which help to describe Turkey's business culture. Ordinary Turks, however, recognise these problems and are demanding immediate sweeping changes in the country's politics. They want deep-rooted changes, and only by society participating more fully in the political process can this "nightmare" be brought to an end.

Changing Trends

The population is rising by about 2% a year, by far the fastest growth rate in Europe; this makes Turkey a very young country, with a median age of 22 at the last census in 1990. Turkey's high growth rate and rising urban population should keep domestic demand reasonably buoyant.

The country's young age profile means not only that products angled to the youth market would do well but that the Turkish market is more receptive to innovation than more mature ones. For instance, Migros, the supermarket chain, reported it had virtually no difficulty in introducing laser-scanners at its checkout counters, unlike some European markets.

Exclusive brands and labels have a greater appeal to consumers in Turkey than they would elsewhere, partly because of the market's youthfulness and partly because trade liberalisation is relatively recent, giving foreign brands a special cachet; ten years ago imported Nike running shoes were a luxury item, and they are still sought after today. Unfortunately, this also means trade piracy is widespread in Turkey. Until now, Turkish authorities have paid little attention to an offence that is considered almost harmless. However, adoption of EU intellectual property laws and pressure from western governments (mainly the US), means enforcement of patent, copyright and trademark laws will probably become stricter in future.

Turkey is undergoing huge population movements as peasants migrate to the great cities of western Turkey: Istanbul alone receives about 400,000 migrants a year. Although these people are invariably very poor, their incomes and consumption patterns in the city are greater than in the remote villages of Anatolia. This together with the large underground economy helps explain why electricity consumption rises relentlessly every year despite the economy's apparently dreadful performance (see appendix 2).

Urbanisation should also speed social development and broaden the market. The Education Ministry says 21% of the population is illiterate, but this should fall as fewer people live in the country where school attendance is low. Education is also breaking up the extended family, for traditionally, parents, grandparents and children lived under the same roof. Now, households are dividing, meaning more houses and sales of houses and products for the home. As incomes rise, consumers will also start demanding new, more sophisticated products.

Yet, creation of such demand requires the Turkish economy to grow at a steady 7-10% a year, allowing the mass market of low to middle income groups to expand. This is an entirely feasible growth rate for Turkey, it would increase GDP by at least 40% and raise average incomes by nearly 30% in five years. However, even this would still leave incomes at only about one-third of current Greek levels at the turn of the century, when the population will be approaching 80 million: Turkey will still be very much an emerging market well into the future.

Immigration Problems

During the 1970s and 1980s, there had been large immigration from Turkey to Western Europe, partly due to military regime and political instability, and partly economical reasons. Although during the 1990s there has been greater political stability, and thus a decrease in political immigration (asylum seekers, political refugees etc.), many Kurdish origin Turkish citizens – for various reasons – still immigrate or seek refugee in Western Europe especially in Germany, France, Netherlands, UK and several other EU member states. The majority of these immigrants move for economical reasons: seeking a prosperous life rather than political asylum.

Turkey has its share of economic problems experienced by other developing countries: a population boom, inflation, unbalanced economic development, pollution, a lack of or inefficient welfare, health, education, and social security. Although Turkey has experienced an economic boom since the 1980s, inflation is still too high, and high unemployment is causing serious damages to the social welfare system.

Even though the population boom has slowed down in the last ten years, it is still one of the biggest barriers for economic and social development for Turkey. Currently, the birth rate in Turkey is around 3% and the population increase is around 2% a year. Therefore, Turkey's workforce (15-64 age group) is increasing one million a year, yet the new employment is not keeping up with the pace. For example, in 1989 and 1990,

1990, in the civil service, employment increase stayed around 205,000⁹. Today, the official unemployment figure in Turkey is around 9%; in reality, the real figure is estimated to be twice that. While unemployment has, and is still, increasing during the 1980s and 1990s, the number of the people finding jobs is decreasing and the potential workforce is going beyond the ability of the economy and government to provide jobs.

A research undertaken by Turkish Research Centre in 1985 showed that 39.4% of the Turkish community living in West Germany did not consider returning Turkey, while 21% would consider returning at least in ten years time¹⁰. Thus, 60.4% of the Turkish community – either indefinitely or very long term – would like to stay in Germany. In reality, the majority of emigrant families have settled in Germany and for the sake of their children's education and because of economic and unemployment situation in Turkey, coupled with the problems experienced by Turks returning to Turkey, are discouraging any thoughts of going back.

⁹ Government Planning Department, Main Economic Indicator, Ankara, May 1992, page 115

¹⁰F. Sen, Problems and Integration Constraints of Turkish Migrants in the Federal Republic Of Germany

Introduction

With a population of 62.3 million people, Turkey may be a large country but this does not mean it is a big market. In some markets Turkey is nearly as big as Germany, but in others it is so low it cannot even be compared with Greece, with a population of 10 million. Average incomes in EU countries are over \$18,000 a year; in Greece – the EU's poorest country – incomes are one third lower but in Turkey, they are a mere \$2,200 a year¹¹.

Still many of those in the select to 10-15% of the population enjoy living standards as high as anywhere in the developed world. Yet, what makes Turkey really exciting is its outstanding growth potential: it is a young, fast growing country with low consumption rates for almost all consumer products.

Turkey offers emerging market growth prospects right on Europe's doorstep, with the added advantage that with Customs Union EU-based exporters have duty free access to the market. Furthermore, Turkey now works to the EU consumer protection, safety and intellectual property standards.

¹¹ Financial Times – Survey of Turkey, 22 January 1996, John Barham

However, Turkey is not an easy market to understand: Turkey has plenty of emerging market volatility; although the economy has expanded at an annual average rate of 5% since 1980¹², growth has fluctuated tremendously over the years. In 1995, GDP rose by 7.6%,⁷ but this barely makes up for a severe drop the year before. Predicting these booms and busts is all but impossible – in 1994 many companies saw sales drop by half when Turkey suffered one of its worst economic downturns ever.

¹² Financial Times – Survey of Turkey, 22 January 1996, John Barham

The Turkish Economy's Strengths and Weaknesses

In 1994, the worst crash in Turkey's modern history had happened, but the economy bound back quickly. In 1995, overall growth was 7.6%, with manufacturing output up by 13.2%. Exports just carried on growing regardless. The crash illustrated both the Turkish economy's fragility and its underlying strength. Even if in an unstable economic environment it can notch up an – albeit erratic – average growth rate of 4-5%, it might do wonders without the existence of a huge budget deficit¹³.

The core of the problem is political: Turkey's elections never produce an absolute majority for any party, and the coalitions needed to form governments have encouraged short-term thinking. Essential reforms have been neglected, and successive governments have borrowed to fund their vote-catching programmes. The chief causes of the budget deficit are interest on debt, subsidies to state enterprises and the \$7 billion a year spent on the Kurdish war. A huge black economy and an inefficient tax collection system compound the difficulties. Public sector borrowing rose from 3.7% of GDP in 1986 to 12.3% in 1993, and after a brief dip is expected to rise again this year.⁶ Meanwhile, private investment is curtailed. It is ironic that everyone knows what must be done, yet the problem is the political will to do it, which almost never occurs due to conflicting ideologies among the coalition partners.

¹³ Financial Times – Survey of Turkey, 8 June 1996, Richard Dowden

Even so, many Turkish businessmen reckon that their country will continue to muddle through, and that no drastic changes are needed: it is the way Turkey has always managed, they say. In many ways Turkey's economy is reminiscent of Italy's: growing despite the government rather than because of it, kept going by the black economy and small, family-run enterprise, but held back by structural problems such as excessive public debt.

The strengths of the extended family is one of the Turkish economy's secret weapons. It serves as a platform for launching new enterprises and provides a life-raft in hard times – an important point in a country where unemployment, officially 9%, is unofficially put at nearly twice as much and unemployment benefit is minimal.

A typical young man moving from village to town makes contact with, say, a distant cousin, who squeezes him into his two bedroom flat (already housing his wife and four children) and supports him while the newcomer looks for a job. When he finds one, again often through the cousin, he moves into his own flat and gets his family to join him. It is this system of family support that has made Turkey's urban revolution possible. Those with jobs often provide for more than their immediate family. Many of them, whether working in Turkish cities or abroad, send money back home.

Another secret weapon – some would call it a double-edged sword – is Turkey's large black economy. No one can be sure just how large it is, but the lowest estimate is at least a quarter the size of the official economy; some experts reckon it may be as much as half. Many outsiders looking at Turkey are worried by its gloomy economic statistics (though not all of them: Britain's Marks & Spencer opened a shop in İstanbul in 1995), but most Turkish businessmen take a philosophical view: "some people look at the figures and are put off, but most Turkish businessmen just get on with it". Most of these businessmen employ fewer than 100 people, and much of their activity does not appear in any official records; even if they are operating in the official economy, Turkish businessmen specialise in getting round the rules.



Current State Of The Economy

Although privatisation has been an official government policy since the late 1980s and most parties now support it, very little progress has been made. In 1995 the government struggled to sell \$500 million worth of state assets, one-tenth of its target at the beginning of the year. Still, it is a tribute to Turkey's resilience that the economy grew 7.1% in 1995, following a 6% decline the previous year. Exports actually grew in 1995, despite of a 13% revaluation in real terms of Turkey's currency¹⁴. Much of the growth is attributable to the underground economy; estimates of its size vary widely, but, as pointed out the previous section, most economists agree that it is about at least a quarter the size of the formal economy. It may have helped to Turkey to weather successive economic crises with relatively little social trauma, but it spawns organised crime and companies evading taxes compete unfairly with those that pay taxes and onerous employment taxes.

Economists have urged successive governments to attack tax evasion more aggressively by simultaneously lowering tax rates and widening the tax net; this would increase revenues, narrow the budget deficit and reduce inflation. In principle, the government cannot continue bailing out loss making state companies or subsidise favoured industries. Greater import competition and investment flows could also bring greater stability.

Economists say Turkey's economic growth rate could easily increase by half to 7% a year if the government restructured the economy. But reducing debt and inflation requires a political consensus that has evaded Turkey for decades (see appendix 3).

¹⁴ Financial Times – Survey of Turkey, 22 January 1996, John Barham

Finance & Investment In Turkey: Current Trends

Investing in Turkey is always a hazardous business, starting from 1997 there have been three governments so far; inflation, interest and exchange rates are as volatile as ever, foreign competition is becoming more aggressive, endangering companies' formerly captive domestic markets. Yet, Turkish companies are busy investing, driven by fear as much as optimism. Foreign investors are holding back because of the risk of crises, but local companies have no such choice.

Investment in Turkey has averaged about 25% of GDP over the last ten years, a reasonable rate given the chaotic economy and similar to most other developing countries. Investments are most noticeable in areas where Turkey is already strong, such as textiles. There is no reliable data for this fragmented industry, but there is abundant anecdotal evidence of companies spending heavily to upgrade technology and capacity. Big Turkish groups have the resources and patient enough shareholders to ride out Turkey's unpredictable economy. Nevertheless Turkey's investment rate is probably insufficient to deal with the growing competitive challenge, particularly from fast growing Asian economies.

However, investment is closely linked to the wider economy's performance. Investment in 1995 was considerably lower than in 1993 when a burst of growth pushed capital spending up to Asian levels, only to drop unexpectedly in 1994 when the economy crashed. Instability deters foreign investment, and investments by EU companies was expected to become (and is still becoming) the main source of growth

following approval of the Customs Union. However, inflows slowed after a brief surge in 1995 and even are unlikely to exceed \$ 1 billion in 1998. Turkey has rarely attracted more than \$ 1 billion a year in inward investment, a tiny proportion of foreign investment in developing countries. By contrast, Mexico, just one position above Turkey in Euromoney's international risk ranking, is expected to receive \$ 4 billion in foreign direct investment only in 1996.¹⁵

This is all due to political uncertainty; foreign capital inflow has slowed to a point of stopping completely and those with (planned) investments have postponed future involvement for some time now. Nearly all foreign investment now consists of reinvestment of profits by companies already operating in Turkey, while the proportion of fresh inward investment has declined. This could only show that international business has no confidence in Turkey's current structure. Turkey also suffers from collapsing infrastructure, poor education standards and shortages of skilled workers and managers. Productivity is low. The country struggles with bureaucratic sluggishness: officialdom enforces long standing, but often trivial regulations but is less strict in implementing new codes protecting intellectual property, defending consumer rights or enforcing competition. Corruption is widespread. Depressing official statistics on wages, employment, investment, productivity, even the balance of trade, are misleading.

¹⁵ Financial Times – Survey of Turkey, 6 December 1996, John Barham

Turkey is not a wealthy country, but neither is it a basket case. Global companies cannot afford to ignore Turkey, however, it is a large market of 62 million potential consumers, has a young and rapidly urbanising population, as mentioned before in chapter 3. Most of the world's multinationals already have a presence. Penetration rates for products ranging from cars to washing machines are low; but a growing middle class has adopted western consumer styles. Turkey is a good low-cost manufacturing base. It has duty free access to the EU and is close to markets in eastern Europe, the middle east and central Asia. However, it will not fulfil its promise without restructuring the public sector, rebuilding its infrastructure, improving education standards, enforcing commercial law and stamping out corruption. Income distribution is getting out of balance; inflation, which brings social unrest, is stuck at 80-85% a year. If the economy is not on the right track, Turkey will not have adequate schools, hospitals, roads and harbours. Ordinary Turks and businessman would like to live in a county where inflation is low, where there is long term security, greater equality distribution of wealth might help to.

Nevertheless, Turkey is enjoying its third year of strong investment-led expansion. The private sector is healthy (at the moment), but it is the public sector (especially expenditure on the army and social security system) that is holding Turkey back. Most Turkish businessmen agree that until there is action on reform on public sector, there is and always will be a limit to the deals they can do. They also agree that Turkey gives the impression of a country less and less able to solve its problems, in foreign policy, domestic politics or the economy. Customs Union or even full EU membership alone is insufficient to bring a quantum increase of capital flows.

Customs Union: What Does It Mean To Turkey

Many Turks complain that the Customs Union between Turkey and the European Union, which came into force on 1 January 1996, has had no effect. Imported European goods from cheese to cars are as expensive as ever. European Commission officials tell another story: though it is too early to assess whether trade and investment flows, increased European competition, or at least the threat of it, is already having some positive effects.

For instance, the price of consumer durables fell sharply in real terms in the first quarter of the 1996; foreign investment, mainly by Europe based companies, rose to \$ 340 million in January 1996 alone after a record inflow in 1995¹⁶. Teething problems have nearly all disappeared and trade is flowing smoothly between the two sides. However, Turkey still needs to finish harmonising its tax laws with the EU's body of law and set up some enforcement mechanism.

With time, and assuming a minimum of political stability and economic reform in Turkey, investment flows should increase substantially; there is tremendous interest in Turkey, but it is inactive because of Turkey's political crises. Turkey's low wage economy is also starting to attract investments as companies relocate capacity in middle-to-low technology products such as textiles and clothing or consumer goods and cars. Yet with EU inward investment at less than \$ 1 billion a year, there is plenty of room for improvement.

¹⁶ Financial Times – Survey: Turkey 1996, 3 June 1996, John Barham

The Customs Union, allowing industrial goods to pass freely between Turkey and the EU, has (and will continue) proved a potent force for modernisation. It fully opens Turkey's home markets to international competition; companies have had to shape up, sold out or gone to the wall. Turkey's weak conglomerates have been forced to focus operations more tightly. This is a straining exercise, which doubtless caused great social and political stress. But it is also created opportunities for new entrants either from outside Turkey or for home grown entrepreneurs.

Open markets gradually imposing discipline on Turkey's undisciplined economy. Finally, and perhaps most crucially, trade is helping Turkey sustain its links to the west. Free trade invariably brings a flow of ideas and information; Customs Union has always been seen both from Brussels and from Ankara as a way of anchoring Turkey to the west.

(Refer to appendix 15 for a detailed explanation of the Customs Union agreement between Turkey and the EU)

Industrialisation Policies

Turkey's industrialisation policies disclose two basic strategies pursued since the 1960s: the first one is local production of imported goods, during the period of 1963-1980; and the second one is the industrialisation based on exportation, which has been pursued since the 1980s.

Local Production of Imported Goods

The aim of this policy was to develop the industry so that the imported goods could be produced or manufactured locally. The following policies pursued since 1963 that had enabled Turkish industry to manufacture locally the previously imported goods were:

- Protection of internal market against foreign competition
- Encouragement of investments in the manufacturing sector
- Reinforcement of local demands through fiscal policies, namely income and wage.

Local production policy had had effects on almost all sectors of the industry. In many sectors, through the employment of foreign technologies, which were not available in the past, the workforce had educated itself, and had become more productive and technologically advanced. The private sector, though very basic, had started production and manufacture of technological products, such as industrial machinery

and electronic consumer goods. However, the private sector had not been effective enough in satisfying the local industry demand in terms of such products.

The production sector created by the policies just mentioned had also faced with many serious difficulties. Through protectionism and lack of local competition (until 1980s, many sectors of the industry were owned and run by the government) had shaped an inefficient industry producing goods prices at above world levels. In reality, the outputs of production industry were aimed at a local market with an artificially fortified demand; and under the assumption that quotas would persist in the long term. Due to these factors, there had been few attempts to improve efficiency and quality of the outputs.

The inflows of foreign products manufactured abroad rather than in Turkey have continued to increase. While many new sectors have been created, the investments and inputs necessary for supporting these sectors has been sought from sources outside the Turkish industry. As a result of this serious trade balance deficits have occurred, which still exists today.

Industrialisation Based On Exportation

Turkey was forced to follow a policy of fostering the exports of industrial goods due to serious foreign currency crises that took place between 1978 and 1979. This policy was in fact part of the economic trend started at the beginning of 1980. This strategy, which followed economic development policies pursued after 1980, was successful in that it created an increase on the level of exports. However, this improvement on exports did not result in attempts to increase production capacity. During the first 10 years of this strategy i.e. until the beginning of the 1990s; the pre-1980s industrial capacity was used more effectively. Export prices were reduced through various strategies without genuine reductions in the actual cost of production. We can regard this policy of export encouragement therefore as one of fiscal manipulation rather than an export-led process of industrialisation.

The policies pursued after 1980 to increase level of exports were based upon the following factors:

- Depreciation of Turkish Lira through devaluation
- Restriction of internal demand and labour costs
- Reduction in the levels of protective measures
- Direct subsidies for exports

Devaluation of Turkish lira was one of the most effective factors in the increase of export levels. Devaluation was closely linked to the increase of exported outputs which were price sensitive. The other factor was the restriction of internal demand, thus forcing economy to look for markets outside Turkey. Also, a reduction in labour costs had played an important role in reducing the production and export costs, thus making exported outputs more competitive in foreign markets. Agreements signed with the EU and GATT had caused reduction in protective barriers, the most important one being the Customs Union agreement signed; and effectively commenced in January 1996.

The last factor was the introduction of direct subsidies, specifically in the form of tax rebates on exported outputs. This policy was put in use after 1980, and especially during the first few years to the 1980s when it was used heavily, the exports rose. However, direct subsidies could go no further than being an artificial boost. For long term success and competitiveness, it is necessary to deal with the factors creating differences between local market prices and global prices. Turkey, until the mid 1990s, has made little attempt and or progress towards attaining such competitiveness. The short-term policies pursued, such as direct subsidies are becoming more and more circumscribed due to recent trade agreements signed, such as Customs Union with the EU.

Nevertheless, this policy of increasing exports probably has enabled the Turkish industry to become more efficient and quality aware. Companies that export goods have been forced to think about these matters from a more international perspective, so that slowly Turkish industry is adapting to the international markets.

The Structure and Output of the Manufacturing Industry

During the period of stabilisation and growth, at the 1987 price indices, the value of manufacturing sector was TL 4750bn (Turkish Lira) in the mid 1960s. This figure had risen to TL 7773bn in 1980 and TL 2216bn in 1993. From a 10% contribution to the national GDP in 1963, the manufacturing sector accounted for 19% of national GDP in 1970, and stayed at that rate until 1993, when it had risen to 23% (see appendix 9).

Manufacturing Sector Measures

The structure of the manufacturing sector, in terms of employment and business sizes, can be seen from the following table, based on the consensus taken in 1963, 1970, 1980 and 1985:

| | 1963 | 1970 | 1980 | 1985 |
|-----------------------------------|---------|---------|---------|---------|
| Businesses | | | | |
| Large | 3012 | 4820 | 8710 | 10647 |
| % | 2 | 3 | 5 | 5 |
| Small | 157,759 | 170,479 | 177,159 | 183,106 |
| % | 98 | 97 | 95 | 95 |
| Employees ('000) | | | | |
| Large businesses | 299 | 510 | 796 | 937 |
| % | 69 | 61 | 62 | 64 |
| Small businesses | 132 | 327 | 494 | 526 |
| % | 31 | 39 | 38 | 36 |
| Value (TL bn)¹⁷ | | | | |
| Large businesses | --- | 4750 | 6797 | 10285 |
| % | 73 | 88 | 88 | 87 |
| Small businesses | | 630 | 1010 | 1530 |
| % | 27 | 12 | 12 | 13 |

Source: DIE; Industry and Business Census, 1963, 1970, 1980, 1985 (Ankara)

¹⁷ According to the 1987 Price Index

Small firms formed 98% of the businesses in this industry in 1963, and had only declined to 95% in 1985. However, when the analysis is based on the number of employees and business value, it can clearly be seen that large businesses¹⁸ formed the backbone of the manufacturing industry. For example, in 1985, although the number of large businesses only formed 5% of the total businesses, they formed the 64% of the workforce in the industry, while their values formed 87% of the total industry value.

In 1963, the percentage of the workforce employed in large businesses in terms of the whole manufacturing sector employment was 69%. From 1970, this had showed a steady decline, although it did pick up marginally in 1980. The percentage of the workforce in large businesses has showed a decline, although the actual figures are showing an absolute increase. This increase is not on a par with the number of new large businesses opened, and the number of businesses showed no such decline, the reduction in employment rate in large businesses can be attributed switching to new technologies.

Although from 1980 onwards, the industrialisation strategy has changed drastically, and many industries were affected by the change, the manufacturing industry had not been affected to a great extent. Employment in large businesses, which had been declining since 1963, had only showed an increase of 2%, to 64% from 62%; while the value had decreased by 1%, to 87%.

¹⁸ Large firms are firms with 10 employees or more (up to 1983); and 25 employees or more (from 1983)

The largest presence by large businesses in manufacturing industry was apparent in the chemical, petroleum, machinery and transportation, metal goods and pottery sectors. On the other hand, forestry and textile sectors showed the most concentration by small businesses (see appendix 10). In metal industry, the small businesses were very active in all sectors but steel.

In terms of value, the small businesses were prevalent in forestry, textile and publishing sectors; large businesses were in metal goods, machinery, transportation, pottery, chemicals and petroleum sectors.

Value of Large Businesses in Manufacturing Sector

From 1970 till 1990, manufacturing industry shows an increase in value, when analysed in terms of sectors and periods elapsed (see appendices 11 and 12). Among the sectors, the fastest growing ones were metal goods and machinery. The second fastest ones were chemicals, and petroleum; followed by textile; food and tobacco respectively.

The public sector's share of the value of manufacturing industry had showed a decline, from 50% in the period up to 1980, to around 30% after 1980 (see appendix 13). From 1980 to 1990, the public sector showed a loss in terms of value in all sectors of the manufacturing industry except petroleum (see appendix 14).

Restructuring of the Turkish Industry

Turkish industry has realised the importance of utilising micro-electronic technologies, and the fact that they increase competitiveness when utilised correctly. However, industry prefers to replace conventional machinery with micro-electronic technologies when conventional machinery has completed its useful life, which sometimes can take many years. Moreover, in many sectors of industry, the utilisation of such technologies are only done through selective methods; instead of building the new production system completely with such technologies, only critical and selected parts of the system are modernised and then operated as separate entities. This limited investment strategy chosen by the industry is the natural result of the unfavourable and uncertain economic conditions prevalent in Turkey, which discourages industrial investment.

Also, the cost of introducing and installing such technologies and the cost of restructuring required outweighs the current production costs, not to mention low labour costs discouraging investment in new capital intensive technology. Many Turkish businesses are not capable of utilising the modern technologies to maximum levels. The most obvious reason for that is the selection of foreign suppliers that do not provide extensive after sale and service support in Turkey. Many Turkish businesses suffer from this. They have to wait for the technical support teams to arrive and service/fix the machinery in case of failure; the firms are forced to keep unnecessarily high levels of spare parts; and due to lack of proper training incorrect or incomplete utilisation of machinery occurs.

The application of new process and management techniques is even rare than utilisation of new micro-electronic technologies. For example “just-in-time-delivery” techniques, the operation of business with very much reduced stock levels are known, but when it comes to putting them into practice, it is regarded as something impossible. Instead of “total quality management” and “total management”, it is not uncommon to find exactly opposite operation methods in practice: Products are inspected by the quality control system after the production is completed, and not during the process of production. These techniques are used to spot inferior quality after it occurs, rather than to prevent it occurring in the first place during the production process.

Businesses attempt to market products after production is completed, rather than encourage flow of information between themselves and the customers or consumers, and produce according to the consumer preferences based on the feedback. These structural shortcomings not only prevent businesses from entering the right markets at the right, but prevent the prompt recognition of changes in market trends as well.

Lack of highly professional white-collar personnel and engineer, technician, computer programmer graduates is another attribute of Turkish industry's inability to utilise new technologies and management techniques.

Overcoming These Weaknesses

Turkish industry requires solid structural changes and new strategies in order to become more competitive and increase growth rates and levels of investment.

Local and Foreign Competition

The Turkish industry as mentioned before, from the very first years of its creation to the 1980s, a) has been protected almost completely against foreign competitors; b) has low levels of domestic competition because very few firms exit in each sector. By the 1990s the short-term strategies used to gear up Turkish industry to a more competitive level had been exhausted. These strategies (refer to “Industrialisation Policies” section) had only provided short-term increases in exports, while it failed to build necessary solid structure for long term competition; and when the customs union ratified and effectuated at the beginning of 1996, the industry was left with little protection, as even export subsidies and import quotas were outlawed.

Turkish industry will have to consider other methods to make itself more competitive and efficient. Rather than resorting to protective measures, it should consider co-operative strategies. It should attempt to gain knowledge from foreign businesses through education and training the workforce, technological consultancy, international marketing and research and development.

Micro-economic Technologies & Local Technological Policies

In countries such as Turkey, where there is some inability to manufacture their own technology, there is a gap between the user and the provider of the technology. Although the importance of micro-electronic new technologies have been recognised by the Turkish industry, the full potential of them have yet to be realised and appreciated. In order to achieve such realisation in the shortest possible period,

the transfer of the technology from foreign firms to local firms must take place. Such transfer of knowledge and technology when foreign firms invest in Turkey must be made the foremost condition. This condition would not only resolve the problems of providing after sale support and services, but the need to keep unnecessarily high levels of spare parts and incorrect or incomplete utilisation of machinery as well.

However, the macro-economic imbalance and financial instability which not only effect investment by foreign firms providing such technologies, but the demand for such technological products if inward investment were to go ahead. Only if these problems are resolved firms with high technology start investing in Turkish industry. Therefore, long term strategies to deal with the high inflation and depreciation of local currency should not be considered separately from technological structuring strategies.

Demand for Professional Graduates and the Need for Training

The changes in Turkish higher education system based on current global business trends are inevitable. The lack of research and development at business level, and university-industry co-operation becomes very apparent when competing in global markets. Such research and development function should take place under a government and industry partnership; the government providing guidance and industry financing it. In many countries, in order to increase industry's competitiveness and efficiency in selected sectors, the governments provide guidance on such strategic partnership which help to form research and development functions.

Small Sized Businesses

During the restructuring period, the importance of small sized businesses is emerging. While in many sectors the need for organisation of small sized businesses became apparent, large sized firms which has been dominating other sectors have started to shrink in size compared to past trends (refer to “The Structure and Output of the Manufacturing Industry”).

For many years, only large investments have been encouraged and supported. Today, the trends have begun to change: small sized businesses should be provided with subsidies, and receive government support and guidance. During the restructuring period, these small businesses have gained substantial competitive advantages, and unlike their Turkish counterparts, foreign small businesses utilise technology, operate within the scope of employment legislation ie. insurance, work safety; and do not use the output strategies based on cheap manual labour. They are very dynamic, efficient and well organised, flexible business entities.

Considering these trends, since Turkish industry is very much concentrated with small businesses, it is very important that they receive financial support and guidance, especially when switching to and utilising new technologies.

THE EU PERSPECTIVES ON TURKEY

Introduction

After the Ottoman Empire, the new Turkish Republic took Westernisation very seriously and deeply: With certain amendments, Swiss Family Law, Italian Criminal Law and German Commercial Law had been adopted and incorporated into the new Republic's legal system; together with secularism. But however hard the Turks have tried, their relations with Europe have always faced with difficulties, due to its geographical status, its religion and culture. Moreover, economic obstacles due to Turkey's "developing country" status have been further added to the barriers between Turkey and the EU.

One of the negative factors effecting Turkey's relations with the EU is the recent increase in the waiting list for EU membership. After its fourth enlargement when the number of member states increased to 15, several more countries, from the former Eastern Bloc have joined the waiting list.

The Trends 2000 report published by the Commission in June 1997 has provided the economic status for EU membership for several countries waiting for the admission to the EU. The Commission, in its report, has suggested the commencement of the admission procedures for the following countries: Czech Republic, Poland, Hungary

Slovenia, Estonia and Cyprus. On the other hand, the remaining countries which Turkey was amongst, there had been no mention or suggestion for full membership.

It is not difficult to see, in terms of economic trends that there is not much difference – either in EU ranking or world ranking – between Turkey's economic status and of those countries approved for admission procedures (see appendix 4).

When certain Eastern European countries which are not in better economic status than Turkey are considered for admission, it is obvious to suggest there is more behind Turkey's constant rejection by the EU: Religion, culture and social identity. It is not difficult to realise that certain difficulties and barriers arise when requirements for a full EU membership is considered for Turkey. However, the important issue for Turkey with EU relations, which is rarely mentioned openly, is the prejudice European countries have had against Turkey for centuries. So, where does such prejudice come from?

Religion, Culture & Social Identity

Religion, culture and social identity like yesterday, are the main issues effecting Turkey's relations with the EU today. For centuries, Turks and Europeans have labelled themselves with different identities and used other's shortcomings when defining their own identities. Therefore, the "Turkish Image" has become the symbol of negative thoughts; and this image has been stored in western culture. Furthermore, the troubles associated with Islam during the 1970s and 1980s in the Middle East, have disturbed the Europeans towards Turkey's membership in the EU, since it is a Muslim country.

Nowadays, European-looking Turks with their brighter tan and modern dress-sense – as opposed to Turkish Image portrayed by Europeans – are puzzling Europeans: There is a conflict between the image and the reality.

Culture is another obstacle to the EU membership. Many European countries, especially Germany, is concerned with difficulties Turkish minorities are having in blending into their culture. If, they say, Turkey becomes a full EU member state, such problems will be amplified in grand scale. However, in such European countries as Germany and Belgium where sizeable Turkish communities live, the Turkish culture they posses is essentially that of the Turkish peasantry.

Most of these Turks have come from rural parts of Turkey, where life has remain unchanged for centuries; they arrive to European cities, with no knowledge of foreign language, and education; working at the most unskilled and underpaid jobs, and aiming to save enough money to return to Turkey in the shortest time possible. Naturally, the first generation could not cope with such a gap between two cultures.

Yet, just when the situation had begun to change with the second and third generation Turks living in Europe, a new threat has arrived: Racism, and hatred towards foreigners. This has forced the families even closer to their culture, and alienated them from the foreign cultures they have been living within for several generations.

No matter how much Turkey accepts the “western” culture; religion, culture and social identity would always be present themselves as obstacles against possible future solutions to the gridlock: Turkey’s acceptance in the EU.

Democracy, Human Rights And Ethnic Problems

Since 1980s, democracy, human rights and ethnic problems have been one of the most criticised and discussed issues about Turkey by the EU.

The recent Turkish governments have been pledging on democracy and human rights before coming to power. These pledges, coupled with certain specific promises have been aimed both inside and outside. Yet, not only the efforts made inside Turkey, but abroad by these governments has not been regarded as satisfactory by the EU. Europe has always been sceptical about Turkish policy and pledges on such issues.

However, critical issues such as human rights and democracy cannot alone be solved by governments: changes from bottom to top levels of society are necessary, and are not always so easy - especially in Turkey's case – with so many levels of hierarchies existing in its culture and society.

The ethnic problems would continue to be the straining factors in Turkey – EU relations, although (alternating) efforts on behalf of recent Turkish governments have partly begun to enhance Turkey's reputation and image in Europe on human rights and ethnic minorities issues.

Turkey's Economic Status

Turkey's "developing country" status, together with its population boom which is well above the EU average, are other factors giving concerns to the EU about its membership. Turkey has already have a huge population, with a steady increase of 2% per year. It is feared it may shake the EU's population balance.

On the other hand, while the EU GDP per capita is around \$18,000, in Turkey this figure is just under \$3,000 – no matter how hard the Turks deny or ignore it, the gap cannot be narrowed easily (see appendix 5). Unemployment is another concerning issue, especially with German-Turkish relations. Germany is concerned that on granting free movement of labour to Turkey, it (Germany) would be swamped with Turkish immigrants (unofficially, there are around 2 million Turks, yet the real figure is expected to be much higher than that; making the Turkish minority the largest foreign minority in Germany). Until recently, Germany has been one of Turkey's closest allies and supporters in Europe; nowadays, it is questioning every issue regarding Turkey's accession to the EU.

Most of the \$75 billion EU budget is used to fund agriculture, unemployment and developing underdeveloped regions; Greece, the poorest member state in the EU with a population of just over 10 million people, receives over \$3 billion funds. If Turkey, with high unemployment, heavily dependent on an agriculture which is extremely underfunded, together with huge regional imbalances and a population of nearly 63 million should become a member to the EU, undoubtedly the funds flowing into Turkey would be well above the \$3 billion received by Greece. A conservative

estimate of the cost of EU funds of Turkish membership is around \$4-5 billion; therefore should Turkey become member, it would receive funds five times over the amount it would provide to the EU budget¹⁹.

Turkish businessmen keep saying that "Turkey is a big market, therefore the EU cannot afford to ignore us". The EU is responding with the fact that Turkey may have a big population, but has a very low purchasing power. Turkey with over 60 million people has the same output potential as Denmark with just 5 million. Inflation, yet another issue, is running well above the EU average. According to the OECD statistics in 1996, with the exception of Greece with 10% inflation, the remaining EU states had below 5% inflation. In Turkey inflation was 80%.

European countries have long passed the early period of industrialisation, when social welfare was almost non-existent and the distribution of income and wealth highly unequal. Every member state can now provide social welfare to its citizens. Average European income per capita per month is \$2,400, but in Turkey, this figure is only \$420 (see appendix 6). Furthermore, Turkey is ineffective in providing social welfare to its citizens. The budget for social security and welfare is small and unemployment benefit does not exist.

The EU perspective on a country such as Turkey, with unresolved social and economic problems, is that it would present additional difficulties and threats to the integrity of the EU, but exert pressure on structured funds of EU, unless its problems are effectively addressed.

¹⁹ F. Sen, The Evolution of the Possible Effects of a Potential Turkish Accession to the EC on the Financial Means of the Community; Yapı Kredi Economic Review (Turkey), June 1990

Europe and Non-EC Countries

There has always been a clear hierarchy of treatment accorded to the Community's partners in the developing world. Although different kinds of agreements have been signed with the large minority of developing countries, either individually or with regional groups, a number of countries have been singled out for special treatment by the EU. One such group is the countries along the shores of the Mediterranean. Bilateral agreements with Mediterranean countries started soon after the establishment of the EEC in 1958. Most of them were renewed and extended in the context of the so-called global Mediterranean policy during the 1970s.

Bilateralism still characterised relations between the EC and individual Mediterranean countries; separate, sometimes identical agreements were signed with several countries as a result. The Mediterranean policy has formed two different shapes: one for the European non-member countries which had accepted reciprocity in the agreements signed as part of the package which also included prospect of membership in the future (the agreement with Israel belonged to this category because of the relatively high level of economic development of that country, although there was no prospect of EC membership), and another for the Arab countries of the Mediterranean which involved no reciprocity.

Three existing members of the Union, namely Greece, Portugal and Spain had concluded different kinds of preferential agreements with the EC prior to their accession. These agreements served as a preparatory stage for full membership.

Three other Mediterranean countries, Cyprus, Malta and Turkey have also subsequently applied for membership. All three have association agreements with the EU, centred on the much delayed objectives of customs unions, and accompanied with provisions for financial aid and political dialogue.

The application of rules of origin, together with restrictions imposed on exports of textiles and clothing and the progressive reduction of the Common External Tariff (CET), have significantly reduced the value of the EU trade concessions to the Mediterranean producers whose entry to the European market is heavily restricted through the application of Common Agricultural Policy (CAP) rules. The accession of Greece, Portugal and Spain to the EC has further reduced the export possibilities of other Mediterranean countries to European markets by substantially increasing the EC self-sufficiency ratio in typical Mediterranean products such as fruit and vegetables. It should not be surprising therefore that, despite trade preferences, the share of the Mediterranean countries in the EU's external trade has hardly changed at all between 1970 and 1994 (see appendix 7).

Driven mostly by fears of political instability in their southern backyard, coupled with the growth of Islamic fundamentalism, the presence of large communities of migrants from North Africa in some European countries, and the threat of large new waves of immigrants from the area, European countries have long since been searching for a way of exercising a stabilisation role in the region. This need has been felt more strongly by the southern members of the Union, especially Italy and France.

The opening of the economies of the Central and Eastern European countries (CEEC) and the prospects of a new EU enlargement eastwards has added a new dimension, namely the need to strike a balance between the East and the South in the Union's external policy, which is in turn directly related to the internal balance inside the EU: striking a balance between the interests of Germany and France.

In their search for a more effective Mediterranean policy, EU countries have faced the old dilemma of how to reconcile essentially political and security objectives with limited trade and financial instruments. Even with a wider range of instruments, the achievement of those objectives would not have been at all easy. Economic development and political stability in many of the Mediterranean non-member countries require major internal reforms which simply cannot be imposed from outside.

The EU has committed 4.7bn ECU as financial assistance to the Mediterranean region for the period 1995-9, which constitutes a large increase compared with the amounts spent in the past; and there will be more as loans through the European Investment Bank (EIB). Yet the total amounts involved are still significantly smaller than those committed for the CEECs, even more so when compared on a *per capita* basis, which is an indication of relative priorities. Financial assistance will no longer be tied to individual projects, thus following the example set by internal structural policies, and by refusing to establish an *ex ante* allocation of funds among the recipient countries, the EU will be able to reward those who undertake internal reforms.

The respect of human rights, the strengthening of civil society and the development of links at the non-governmental level (which concern Turkey almost more than any other country in the region) are important features of the new approach adopted by the EU in its Mediterranean policy. In some cases, they may prove difficult to apply, however. Yet, there is little doubt that the new approach is more sophisticated and has a better chance of having a tangible effect.

A clear commitment has finally been undertaken to admit the associated countries as members of the EU as soon as the countries concerned (see appendix 4) are able to satisfy the economic and political conditions for membership. These conditions include the stability of democratic institutions, respect for human rights and the protection of minorities, a functioning market economy, and last but not least, the ability to implement the *acquis communautaire*, all of which Turkey is struggling to comply with. No specific dates have been offered to the anxious candidates, with the exception of Czech Republic, Poland, Hungary, Slovenia, Estonia and Cyprus, whose accession process has already begun at the beginning of 1998, following the conclusion of the IGC took place in October 1997, with the long ratification process and the signing of the treaties of accession.

Introduction

While Turkey regards customs union as another step towards full membership in the EU; though the EU not willing to admit, it wishes Customs Union to be the last stop for Turkey. EU's justification is that Turkey's full membership would place economic strains on the EU.

The fall of Berlin Wall and, thus the Eastern Bloc cost Turkey its political importance in the EU; while the EU is searching for a new political direction through Maastrich. Given the population boom in Turkey, inflation, unemployment and Turkish economy's heavy dependence on agriculture, it is no wonder that Europeans think that Turkey would place strains on the EU by becoming full member.

Although the EU favours the customs union "solution" instead of a full membership, for Turkey, full membership is more desirable, since the benefits (and losses) of a customs union would be achieved by full membership. However, in case of full membership, Turkey would benefit further, from EU aid, would reduce its unemployment level by exporting labour, and would have better chance of correcting its financial difficulties. Moreover, politically, it would become more stable and integration with the West would be completed. The customs union would provide no

such further opportunities. However, if Turkey stays in Customs Union and does not become a full member, then there should be no conflicts with the West in terms of culture, religion and nationalism, which will certainly be the case with full membership.

Turkey is sometimes portrayed as a bridge between east and west, with a foot in each world. This is the wrong image; individual Turks belong to either east or west: these worlds are so different that there is no effective bridge between them. Turkey is more like a tree, with roots in many different cultures and ethnicities. In its early years it was pruned and trained to grow strictly in one direction: Turkish. Now, in its majority, its branches tend to go their own way, seeking their own kind of light. Each branch knows where it is going, but the tree as a whole does not.

Westernised Turkey is drawn to Europe, Turkish nationalists want to look east to fellow Turkic-speakers, fundamentalists south to other Islamic countries. Each group seeks models outside Turkey, betraying perhaps the lack of common identity. But identities shift with the twists and turns of history, Turkey is undergoing the greatest change in its short life, and its identity is bound to evolve too. More than three-quarters of Turks now live in substantial communities, towns and cities, where they hope to make a living and get themselves, or their children, an education. Like it or not, many will also turn away from western modernisation, preferring to seek truth in the Holy Koran. Others will be drawn to politicians trying to use Islam to build a constituency among the disillusioned.

What is for the Turkish Government Now?

If the current coalition government fails to reform the economy so that living standards fall further, if it allows the war in the east to continue, if there are riots in the streets met by a repressive police force, then it is possible to imagine Turkey descending into chaos and falling victim to political extremism.

If the government is to avoid such a fate and stay faithful to Atatürk's vision for a secular, modern, democratic state, it has to be open to the world and open to multiplicity of identities at home. It can do this only by creating a country in which everyone has the chance to live and work freely, and to aspire to living standards that Europe has long taken for granted. These steps required to attain this grand vision sound less grand, but will require Turkey's leaders to show courage and determination; it comes down to things such as bringing the budget deficit under control, cutting inflation, selling off state enterprises, gathering taxes more efficiently and spending them more effectively, and putting an end to the war: all of them difficult, but not impossible.

Progress in Europe

The biggest boost for Turkey from membership of the Customs Union is psychological: the feeling that they are not longer outsiders. But for the moment they are not treated as insiders either; more as second-class members.

In the short term, the obvious stumbling block for Turkey's progress in Europe is the Greek veto (although many Turks believe that the most powerful objections come from the Germans). In the longer term, Turkey's businessmen think the momentum towards membership is now unstoppable. Foreign-ministry officials, however, privately believe that even in the medium term Turkey could join only if the EU were to accept the broader idea of an outer-rim class membership. And the EU has insisted that, whatever happens, free movement of Turkish workers in Europe is a very long way off.

Many former Turkish migrants who have worked in European countries feel that if their country joined the EU, it would be swamped by Europe's alien culture. But the main reasons why Turkey will not get closer to Europe in the near future lie with Turkey itself. The first is the state of its economy: as things stand, it lags a long way behind even the poorest EU members (see appendix 7). The second and more important reason is its lack of democratic values and its violation of human rights. Europe is simply not keen to get closer to a country where torture and imprisonment without trial are still reported with disturbing frequency.

The Past, the Present and the Future

Turkey's application has been in the deep freezer, following the Commission's negative opinion reached on the Luxembourg Summit October 1997. This opinion has changed very little since December 1989, when the Commission for the very same reasons, decided to freeze Turkey's application.

A relatively low level of economic development, very high inflation and unemployment, a large and rapidly expanding population, a poor record in terms of human rights, bilateral problems with neighbouring Greece, and the continued presence of the Turkish Army in Northern Cyprus have all combined to temper any enthusiasm that may have existed about Turkey's early accession. Cultural and religious differences are the other important, yet publicly unmentionable, factor behind European resistance.

On the other hand, the increasing strategic importance of the country, which has declined after the fall of Berlin Wall yet strengthened after the Gulf War, its membership of NATO, and its long institutional relations with the Community, not to mention fears of growing Islamic fundamentalism make an outright rejection of Turkey's "European vocation" nearly impossible, and also undesirable.

The European Union has been subject to strong American pressures for the establishment of closer relations with Turkey. Some differences of attitudes on this subject between the two sides of the Atlantic are perhaps understandable. What is for the United States an important although distant ally is for the Europeans a close neighbour and a potential member of the Union; hence the greater sensitivity shown by the Europeans on questions of democracy and human rights, not to mention the handling of bilateral relations with Turkey's neighbours (recent incidents in Aegean Sea with Greece, seasonal military advances against Kurdish guerillas in the Iraqi territory, disputes with Syria over Tigris and Euphrates Rivers due to Atatürk Dam and due to Syria's action towards terrorism).

The decision to proceed with a customs union, which came into effect in January 1996, has provided an intermediate and perhaps temporary solution which has already come under strong criticism from the European Parliament. The combination of all the factors mentioned above will continue to complicate the Union's policy towards Turkey.

Appendices

Appendix 1

Turkey: Key Facts

| | |
|-----------------------|--|
| Area | 769, 360 sq. Km |
| Population | 62.3 million ^a |
| Head of state | Süleyman Demirel |
| Currency | Turkish Lira (TL) |
| Average Exchange Rate | 1995 ^b - \$1=tl 59,501 (September 1997: tl 182,630) |

Economy

| | 1994 | 1995 ^c |
|------------------------------------|---------|----------------------|
| Total GDP (TL bn, 1987 prices) | 91.81 | 98.3 ^b |
| Real GDP growth (%) | -6.0 | 7.1 ^d |
| GDP Per capita (\$) | 2,159 | 2733 |
| Components of GDP | | |
| Private consumption | 67.1 | N/A |
| Government consumption | 11.6 | N/A |
| Fixed investment | 24.4 | N/A |
| Exports | 21.3 | N/A |
| Imports | -20.3 | N/A |
| Change in stocks ^e | -4.1 | N/A |
| Annual average growth in: | | |
| Consumer prices (%) ^f | 125.46 | 78.9 |
| Industrial output (%) | -4.8 | 8.0 |
| Car Production (units) | 212,651 | 233,414 ^d |
| Unemployment (%) | 10.85 | 10.24 |
| Reserves minus gold (\$ bn) | 7.17 | 12.387 |
| Money growth (%pa) | 81.5 | 70.0 |
| Stk mkt indx (\$, annual % change) | -49.19 | -6.68 |
| Stk mkt indx (annual % change) | 31.79 | 46.84 |
| Current account balance (\$mn) | 2,631 | -866 |
| Merchandise exports (\$mn) | 18,331 | 21,667 |
| Merchandise imports (\$mn) | -22,600 | -31,623 |
| Trade balance (\$mn) | -4269 | -8956 |

Main Trading Partners^g

| | Exports | Imports |
|---------|---------|---------|
| Germany | 21.7 | 15.7 |
| US | 8.4 | 10.4 |
| Italy | 5.7 | 8.6 |
| UK | 4.9 | 5.1 |
| France | 4.7 | 6.3 |
| EU | 45.6 | 44.2 |

- a Estimate
- b End of 1995
- c Estimate unless otherwise stated
- d Calendar 1995
- e Plus statistical discrepancy
- f End priod
- g Share of world trade

Source : Data stream; Economist Intelligence Unit; national sources

Appendix 2

How Electricity Consumption is Risking (mn kwh)

| | Thermal | Hydro | Total |
|-------------|---------|--------|--------|
| 1991 | 37,563 | 22,683 | 60,246 |
| 1992 | 40,774 | 26,568 | 67,342 |
| 1993 | 39,857 | 33,951 | 73,808 |
| 1994 | 47,736 | 30,586 | 78,322 |
| 1995 (ets.) | 52,548 | 31,973 | 84,521 |

Source: Teas

Appendix 3

Total Outstanding Foreign Debt (\$ bn)

| Year | Debt | % of GDP | Service Payment |
|------|-------|----------|-----------------|
| 1991 | 50.49 | 32.9 | 7.56 |
| 1992 | 55.59 | 34.7 | 8.73 |
| 1993 | 67.36 | 35.5 | 8.23 |
| 1994 | 65.60 | 50.60 | 9.99 |
| 1995 | 70.59 | 44.3 | 12.53 |
| 1996 | 73.61 | 50.60 | 11.34 |

Source: IBCA

Appendix 4

Countries Waiting for Full EU Membership

| Country | Population (mn) | Unemployment (%) | GDP (\$ bn) | Inflation (1996) |
|----------------|-----------------|------------------|-------------|------------------|
| Czech Republic | 10.3 | 3.5 | 43 | 8.6 |
| Hungary | 10.3 | 9 | 30 | 20 |
| Poland | 38.5 | 13.6 | 120 | 18.5 |
| Slovenia | 2 | 14 | 18 | 8.8 |
| Estonia | 10.6 | 4 | 4.2 | 15 |
| Lithuania | 3.7 | 6.4 | 7.7 | 13 |
| Latvia | 1.56 | 7.1 | 5.5 | 13 |
| Romania | 22.8 | 8.9 | 28 | 57 |
| Bulgaria | 8.4 | 13 | 9.7 | 310 |
| Slovakia | 5.3 | 12 | 11 | 5.8 |
| Cyprus | 0.735 | 3 | 7.6 | 2.6 |
| TURKEY | 63.7 | 7.5 | 185.2 | 85.6 |

Source: European Commission, Trends 2000, 15 June 1997

Appendix 5

Comparison of Turkey with the EU in Terms of GDP

| Country | Population (000) | GDP (\$ bn) * | GDP Per capita* |
|---------------|------------------|---------------|-----------------|
| EU 15 | 372,662 | 6,808 | 18,305.1 |
| Belgium | 1,014 | 211.5 | 20,680 |
| Denmark | 5,251 | 136.1 | 21,057.3 |
| Germany | 81,845 | 1,186.4 | 20,158.6 |
| Greek | 10,474.6 | 88.7 | 11,617.1 |
| Spain | 39,241.9 | 447.4 | 13,917.4 |
| French | 58,265.4 | 1,232.2 | 19,674.6 |
| Ireland | 3,591.2 | 48.2 | 15,588.1 |
| Italy | 57,330.5 | 943.1 | 18,794.6 |
| Luxembourg | 412.8 | 13 | 29,677 |
| Netherlands | 15,492.8 | 310 | 19,048.7 |
| Austria | 8,054.8 | 184 | 20,712 |
| Portugal | 9,920.8 | 80 | 12,575.2 |
| Finland | 5,116.8 | 90.2 | 16,609 |
| Sweden | 8,837.5 | 182.2 | 17,853 |
| UK | 58,684 | 944.4 | 18,086 |
| TURKEY | 62,526 | 170.1 | 2,720.4 |

Source : Eurostat, Basic Statistics of European Union, 1996, Luxembourg 1997. *(\$1=0.909 ECU)

Appendix 6

Comparison of Income Per Capita in Turkey and the EU

| Country | Population (000) | GDP (\$ bn) * | GDP Per capita* |
|---------------|------------------|---------------|-----------------|
| Belgium | 26.7 | 13.21 | 2,800 |
| Denmark | 23.2 | 16.75 | 2,977 |
| Germany | 28.8 | 20.06 | 4,288 |
| Greek | 8.4 | 4.83 | 1,176 |
| Spain | 15.5 | 13.29 | 1,883 |
| French | 21 | 10.43 | 2,580 |
| Ireland | 14.5 | N/A | 2,376 |
| Italy | 19.91 | 14.14 | 1,830 |
| Luxembourg | 21.2 | N/A | 3,662 |
| Netherlands | 23.4 | 19.51 | 2,779 |
| Austria | 25.2 | 15.43 | 2,444 |
| Portugal | 6 | N/A | 835 |
| Finland | 19.6 | 11.51 | 20,023 |
| Sweden | 12.7 | 14.35 | 2,415 |
| UK | 14 | 9.81 | 2,525 |
| TURKEY | N/A | 1.66 | 420 |

Source : Eurostat, Basic Statistics of European Union, 1996, Luxembourg 1997. *(\$1=0.909 ECU)

Appendix 7

Breakdown of EU Trade by Trading Partners (imports and exports as % of extra - EU trade)

| Trading Partner | 1970 | | | 1980 | | |
|---|--------------|--------------|-------------------|--------------|--------------|-------------------|
| | % of imports | % of exports | exports / imports | % of imports | % of exports | exports / imports |
| Western industrial countries (non - EU) | 54.6 | 59.3 | 0.85 | 46.1 | 49.6 | 0.83 |
| EFTA countries | 17.4 | 25.1 | 1.28 | 17.0 | 25.5 | 1.15 |
| United States | 21.7 | 18.0 | 0.73 | 16.9 | 12.8 | 0.58 |
| Japan | 3.4 | 2.6 | 0.68 | 4.9 | 2.2 | 0.34 |
| Central and Eastern Europe and former USSR ^a | 8.4 | 7.3 | 1.00 | 7.3 | 8.0 | 0.84 |
| CIS | --- | --- | --- | --- | --- | --- |
| Developing countries | 38.0 | 31.0 | 0.71 | 45.7 | 41.2 | 0.69 |
| ACP countries ^b | 8.9 | 7.6 | 0.75 | 7.3 | 7.9 | 0.82 |
| Mediterranean basin ^c | 9.4 | 10.3 | 0.96 | 8.3 | 13.4 | 1.23 |
| OPEC countries ^d | 16.3 | 7.5 | 0.40 | 27.2 | 18.1 | 0.51 |
| Asian NICs ^e | 1.5 | 2.1 | 1.19 | 3.5 | 2.7 | 0.58 |
| China | 0.5 | 0.9 | 1.32 | 0.7 | 0.8 | 0.90 |

Appendix continued...

Appendix 7 continued

| Trading Partner | 1984 | | | 1988 | | | 1994 | | |
|---|--------------|--------------|-------------------|--------------|--------------|-------------------|--------------|--------------|-------------------|
| | % of imports | % of exports | exports / imports | % of imports | % of exports | exports / imports | % of imports | % of exports | exports / imports |
| Western industrial countries (non-EU) | 51.0 | 0.55 | 0.97 | 61.6 | 61.2 | 0.83 | 58.1 | 53.3 | 0.96 |
| EFTA countries | 19.4 | 21.8 | 1.01 | 23.4 | 26.6 | 1.06 | 22.9 | 22.2 | 0.97 |
| United States | 17.2 | 21.0 | 1.10 | 17.6 | 19.8 | 1.05 | 17.3 | 17.6 | 1.02 |
| Japan | 6.6 | 2.7 | 0.36 | 10.7 | 4.7 | 0.41 | 9.0 | 4.9 | 0.54 |
| Central and Eastern Europe and former USSR ^a | 9.2 | 6.3 | 0.62 | 6.4 | 5.7 | 0.83 | 9.1 | 8.1 | 0.99 |
| CIS | --- | --- | --- | --- | --- | --- | 3.2 | 3.0 | 0.75 |
| Developing countries | 38.9 | 37.4 | 0.86 | 30.1 | 31.3 | 0.97 | 29.7 | 34.2 | 1.15 |
| ACP countries ^b | 7.2 | 5.2 | 0.66 | 4.5 | 4.3 | 0.89 | 3.4 | 2.8 | 0.80 |
| Mediterranean basin ^c | 10.2 | 12.3 | 1.09 | 7.8 | 9.8 | 1.17 | 7.9 | 10.2 | 1.29 |
| OPEC countries ^d | 18.5 | 15.6 | 0.76 | 8.2 | 8.8 | 0.98 | 7.5 | 6.9 | 0.91 |
| Asian NICs ^e | 3.6 | 3.3 | 0.82 | 6.3 | 5.4 | 0.80 | 5.5 | 5.2 | 0.93 |
| China | 0.9 | 1.1 | 1.13 | 1.8 | 1.6 | 0.83 | 4.2 | 2.3 | 0.56 |

Source : Eurostat

- ^a Soviet Union, German Democratic Republic (until 1990), Poland, Czechoslovakia, Hungary, Romania, Bulgaria, Albania
- ^b Sixty - nine African, caribbean and pacific countries (signatories of the Lome convention at the end of 1994)
- ^c Malta, Yugoslavia, Turkey, Albania, Morocco, Algeria, Tunisia, Libya, Egypt, Cyprus, Lebanon, Syria, Israel, Jordan, Gibraltar, Ceuta and Melilla
- ^d There is an overlap Between the Mediterranean and OPEC countries since Algeria and Libya are members of both both groups.
- ^e Hong Kong, South Korea, Singapore, Taiwan

Appendix 8

Standard of Living

| | Private consumption Per person PPPS | Cars Per 1,000 people* | Telephone lines Per 1,000 people* | Television sets Per 1,000 people ** | Infant mortality Per 1,000 live births** |
|---------------|-------------------------------------|------------------------|-----------------------------------|-------------------------------------|--|
| Germany | 10,733 | 491 | 483 | 552 | 5.8 |
| Spain | 8,412 | 351 | 371 | 496 | 7.6 |
| Portugal | 7,780 | 224 | 350 | 231 | 8.7 |
| Greece | 6,367 | 188 | 478 | 212 | 8.5 |
| TURKEY | 3,617 | 43 | 201 | 269 | 52.6 |

* 1993

** 1994

Source: OECD; Eurostat; International Telecommunication Union; Automotive Industry Data

Appendix 9

Value of Manufacturing Industry, and its Contribution to the National GDP

| Year | Value, 1987 Price Index, TL bn | Value/GDP | Year | Value, 1987 Price Index, TL bn | Value/GDP |
|------|--------------------------------|-----------|------|--------------------------------|-----------|
| 1970 | 4,517 | 0.19 | 1982 | 9,967 | 0.22 |
| 1971 | 5,386 | 0.20 | 1983 | 10,324 | 0.18 |
| 1972 | 6,729 | 0.20 | 1984 | 9,886 | 0.16 |
| 1973 | 6,056 | 0.18 | 1985 | 10,285 | 0.16 |
| 1974 | 6,175 | 0.17 | 1986 | 13,401 | 0.19 |
| 1975 | 6,671 | 0.17 | 1987 | 16,318 | 0.21 |
| 1976 | 7,294 | 0.18 | 1988 | 16,579 | 0.22 |
| 1977 | 8,048 | 0.19 | 1989 | 17,076 | 0.22 |
| 1978 | 8,122 | 0.20 | 1990 | 18,729 | 0.22 |
| 1979 | 7,228 | 0.18 | 1991 | 19,175 | 0.23 |
| 1980 | 7,773 | 0.19 | 1992 | 20,281 | 0.22 |
| 1981 | 9,078 | 0.21 | 1993 | 22,166 | 0.23 |

Source: DIE, Statistical Indicators (1923 - 1990)

Appendix 10

The Number of Businesses and Distribution Among the Manufacturing Sectors, 1985

| | Number of Small Businesses, % | Number of Large Businesses, % | Number of Small Businesses, % | Number of Large Businesses, % |
|--------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Food | 89 | 10 | 9 | 91 |
| Textile | 96 | 4 | 18 | 82 |
| Forestry | 98 | 2 | 70 | 30 |
| Paper/Publishing | 91 | 9 | 10 | 90 |
| Chemical | 85 | 15 | 7 | 93 |
| Pottery | 88 | 12 | 6 | 94 |
| Metal | 96 | 4 | 9 | 81 |
| Machinery/transportation | 87 | 13 | 6 | 94 |

Source: DIE, Industry and Business Cansues, 1985

Appendix 11

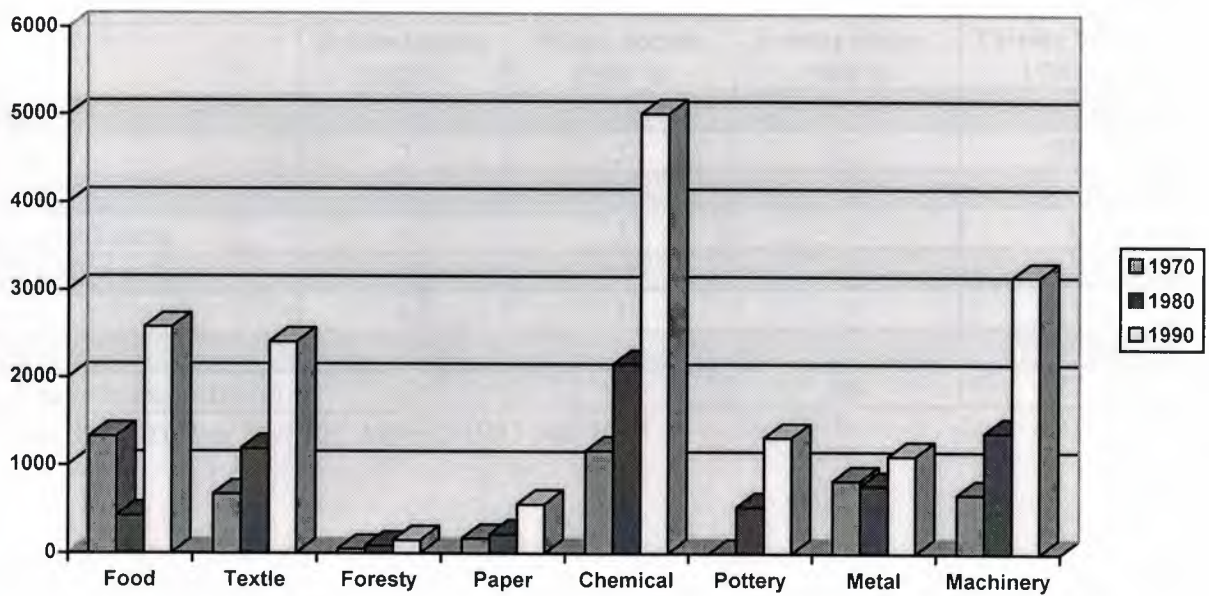
Value of Sectors in Manufacturing Industry (1987 Index, TL bn)

| | 1970 | 1980 | 1990 |
|--------------------------|-------|-------|-------|
| Food | 1,330 | 1,430 | 2,580 |
| Textile | 670 | 1,190 | 2,410 |
| Forestry | 50 | 90 | 150 |
| Paper/Publishing | 170 | 220 | 560 |
| Chemical | 1,170 | 2,160 | 5,020 |
| Pottery | --- | 530 | 1,320 |
| Metal | 830 | 770 | 1,110 |
| Machinery/transportation | 670 | 1,380 | 3,160 |

Source: DIE, Turkey Statistic Annual, 1983, 1990 and 1993

Appendix 12

Value of Sectors in Manufacturing Industry (1987 Index, TL bn)



Source: DIE, Turkey Statistic Annual, 1983, 1990 and 1993

Appendix 13

Distribution of Value and Workforce Between Public and Private Sectors in the Manufacturing Industry

| | Public Sector, Value, % | Public Sector, Workforce, % | Private Sector, Value, % | Private Sector, Workforce, % |
|------|----------------------------|--------------------------------|-----------------------------|---------------------------------|
| 1963 | 53 | 44 | 47 | 56 |
| 1970 | 54 | 36 | 46 | 64 |
| 1975 | 48 | 35 | 52 | 65 |
| 1980 | 33 | 36 | 67 | 64 |
| 1985 | 38 | 30 | 62 | 70 |
| 1990 | 32 | 26 | 68 | 74 |

Source: DIE, Industry and Business Cansues, 1963, 1970, 1980 and 1985

Appendix 14

Distribution of Value of Manufacturing Industry Sectors' in Public and Private Sectors, 1980 and 1990

| | Public Sector, 1980 % | Public Sector, 1990 % | Private Sector, 1980 % | Private Sector, 1980 % |
|--------------------------|--------------------------|--------------------------|---------------------------|---------------------------|
| Food | 89 | 22 | 13 | 12 |
| Textile | 7 | 3 | 21 | 20 |
| Forestry | 2 | 1 | 2 | 1 |
| Paper/Publishing | 4 | 2 | 3 | 4 |
| Chemical | 20 | 59 | 18 | 18 |
| Pottery | 4 | 3 | 9 | 11 |
| Metal | 21 | 7 | 6 | 7 |
| Machinery/transportation | 10 | 4 | 26 | 27 |

Source: DIE, Turkey Statistic Annual, 1983 and 1993

Appendix 15

Customs Union Agreement between Turkey and EU

Project de texte de décision Union douanière

(DECISION../95)

"The EC-Turkey Association Council having met in Brussels on 6 March 1995,

Considering that the objectives set out by the Ankara Agreement, and in particular by its article 28, which established the Association between Turkey and the Community maintain their significance at this time of great political and economic transformation on the European scene;

Recalling its Resolution of 8 November 1993 in which it reaffirmed the will of the Parties to enter into the customs Union according to the calender and modalities set out in the Ankara Agreement and its additional Protocol;

Considering that the Association relations as provided for in Article 5 of the Ankara Agreement are entering into their final phase based on the Customs Union, which will complete the transitional phase through the fulfilment by the two parties of their reciprocal obligations and which leads to the elaboration of the modalities for the effective functioning of the Customs Union within the framework of the Ankara Agreement and Additional Protocol;

Considering that the Customs union represents an important qualitative step, in political and economic terms, within the Association relations between the Parties;

Has decided as follows:"

Article 1

Without prejudice to the provisions of the Ankara Agreement, its Additional and Supplementary protocols, the Association Council hereby lays down the rules for implementing the final phase of the Customs union, foreseen in Article 2 and 5 of the above-mentioned agreement.

CHAPTER 1

FREE MOVEMENT OF GOODS AND COMMERCIAL POLICY

Article 2

This chapter shall apply to products other than agricultural products as defined in Article 11 of the Association Agreement. The special provisions relating to agricultural products are set out in Chapter 11 of this Decision.

Article 3

1. This chapter shall apply to goods:

- produced in the Community or Turkey, including those wholly or partially obtained or produced from products coming from third countries which are in free circulation in the Community or in Turkey;
- coming from third countries and in free circulation in the Community of Turkey.

2. Products from third countries shall be considered to be in free circulation in the Community or in Turkey if the import formalities have been complied with and any customs duties or charges having equivalent effect which are payable have been levied in the Community or in Turkey, and if they have not benefited from a total or partial reimbursement of such duties or charges.

3. The customs territory of the customs union shall comprise:

- the customs territory of the Community as defined in Article 3 of Council Regulation (EEC) No. 2913/92 of 12 October 1992 establishing the Community Customs code;
- The customs territory of Turkey.

4. This chapter shall also apply to goods obtained or produced in the Community or in Turkey, in the manufacture of which products coming from third countries and not in free circulation either in the Community or in Turkey were used.

These provisions shall however, apply to those goods only if the import formalities have been complied with and any customs duties or charges having equivalent effect payable on third-country products used in their manufacture have been levied in the exporting state.

5. If the exporting State does not apply the provisions of the second subparagraph of paragraph 4, the goods referred to in the first subparagraph of paragraph 4 shall not be considered to be in free circulation and the importing State shall therefore apply the customs legislation applying to goods from third country products.

6. The Customs Cooperation Committee set up by decision 2/69 of the Association council shall determine the methods of administrative cooperation to be used in implementing paragraphs, 1, 2, 4.

SECTION 1

Elimination of customs duties and charges having equivalent effect

Article 4

Import or export customs duties and charges having equivalent effect shall be wholly abolished between the Community and Turkey on the date of entry into force of this decision. The Community and Turkey shall refrain from introducing any new customs duties on imports or exports or any charges having equivalent effect from that date. These provisions shall also apply to customs duties of a fiscal nature.

SECTION II

Elimination of quantitative restrictions or measures having equivalent effect

Article 5

Quantitative restrictions on imports and measures having equivalent effect shall be prohibited between the Contracting Parties.

Article 6

Quantitative restrictions on exports and measures having equivalent effect shall be prohibited between the Contracting parties.

Article 7

The provisions of Articles 5 and 6 shall not prohibit prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value; or the protection of industrial and commercial property. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between the Contracting Parties.

Article 8

1. Within five years from the date of entry into force of this Decision, Turkey shall incorporate into its internal legal order the Community instruments relating to the removal of technician barriers to trade.

2. The list of these instruments and the conditions and detailed arrangements governing their implementation shall be laid down by decision of the Association Council within a period of one year from the date of entry into force of this Decision.

3. This provision shall not preclude the application by Turkey, with effect from the date of entry into force of this Decision, of Community instruments deemed to be of particular importance.

4. The parties stress the importance of effective cooperation between them in the fields of standardisation, metrology and calibration, quality, accreditation, testing and certification.

Article 9

When Turkey has put into force the provisions of the Community instrument or instruments necessary for the elimination of technical barriers to trade in a particular product, trade in that product between the Contracting Parties shall take place in accordance with the conditions laid down by those instruments, without prejudice to the application of the provisions of this Decision.

Article 10

1. With effect from the date of entry into force of this Decision, and during the period required for the application by Turkey of the instruments referred to in Article 9, Turkey shall refrain from impeding the placing on the market or taking into service on its territory of products from the Community the conformity of which with the Community Directives defining the requirements to be met by such products has been attested to; in accordance with the conditions and the procedures laid down in those directives.

2. By the way of derogation from paragraph 1, if Turkey finds that a product, the conformity of which with the Community Directives has been attested to in accordance with paragraph 1, and which is used in accordance with its intended purpose, fails to satisfy one of the requirements referred to in Article 7, it may take all appropriate measures, in accordance with the conditions and procedures provided for in paragraph 3, to withdraw the product in question from the market, or to prohibit or restrict its being placed on the market or taken-into service.

3. a) If Turkey is considering taking a measure in paragraph 2, it shall, forthwith, notify the Community through the Customs Union Joint Committee and shall provide all relevant information.

b) The Contracting Parties shall immediately enter into the Committee to find a mutually acceptable solution.

c) Turkey may not take a measure mentioned in paragraph 2 until one month has elapsed after the date of notification provided for in paragraph 3 (a) unless the consultation procedure under paragraph 3 (b) has been concluded before the expiry of the time limit. When exceptional circumstances requiring immediate action render prior examination impossible, Turkey may apply forthwith the measure strictly necessary to remedy the situation.

d) Turkey shall forthwith inform the Customs Union Joint Committee of the measure it has taken and shall provide all relevant information.

e) The community may at any time request the Customs Union Joint Committee to review such measure.

4. The provisions of paragraph 1 and 2 shall apply, mutatis mutandis, to foodstuffs.

Article 11

During the period required for the application by Turkey of the instruments referred to in article 9, the Community will accept the results of the procedures applied in Turkey for assessing the conformity with the requirements of the Community law, provided that those procedures are in conformity with the requirements in force in the Community, and on understanding that, in the motor vehicles sector, Council directive 70/156/EEC of 6 February 1970 on the approximation of the laws of the Member States relating to the type-approval of motor vehicles and their trailers¹, as last amended by Council Directive 92/53/EEC of 18 June 1992², shall apply in Turkey.

¹ OJ No L 42, 23.2.1970, p.1

² OJ No L225, 18.8.1992, p.1

SECTION III

Commercial Policy

Article 12

1. From the date of entry into force of this Decision, Turkey shall, in relation to countries which are not members of the Community, apply provisions and implementing measures which are substantially similar to those of the Community's commercial policy set out in the following regulations:

- Council Regulation (EC) No 518/94 on common rules for imports;

- Council Regulation (EC) No 519/94 on common rules for imports from certain third countries;

- Council Regulation (EEC) No 520/94 establishing a Community procedure for administering quantitative quotas (implementing provisions: Commission regulation (E) no 738/94);

- Council Regulations (EEC) N 2423/88, (EC) No 521/94 and (EC) No 522/94 on protection against dumped or subsidised imports;

- Council Regulations (EEC) No 2641/84 and (EC) No 522/94 on the New Commercial Policy Instrument;

- Council Regulation (EEC) No 2603/68 establishing common rules for exports;

- Council Decision 93/112/EEC on officially supported export credits;

- Council Regulation (EEC) No 636/82 and Commission Regulation (EEC) No 1828/83 (outward processing arrangements for textiles and clothing);

- Council Regulation (EEC) No 3030/93, as last amended by Commission Regulation (EC) No 195/94 (textile imports under common rules);

- Council Regulation (EC) No 517/94 (textile imports under autonomous arrangements);

- Council Regulation (EEC) No 3951/92 as last amended by Council Regulation (EC) No 217/94 (textile imports from Taiwan).

2. In conformity with the requirements of Article XXIV of the GATT Turkey will apply as from the entry into force of the Decision, substantially the same commercial policy as the Community in the textile sector including the agreements or arrangements on trade in textile and clothing. The Community will make available to Turkey the cooperation necessary for this objective to be reached.

3. Until Turkey has concluded these arrangements, the present system of certificates of origin for the exports of textile and clothing from Turkey into the Community will remain in force and such products not originating from Turkey will remain subject the application of the Communities Commercial Policy in relation to the third countries in question.

4. The provisions of the present decision shall not constitute a hindrance to the implementation by the Community and Japan of their Arrangement relating to trade in motor vehicles, mentioned in the annex to the Arrangement on safeguards attached to the Agreement setting up the World Trade Organisation.

Before the entry into force of the present decision, Turkey and Community will define the modalities of cooperation in order to prevent the circumvention of the said Agreement.

In the absence of such modalities, the Community reserves the right to take, in respect of imports into its territory, any measure rendered necessary by the application of the said Agreement.

SECTION IV

Common Customs Tariff and preferential tariff policies

Article 13

1. Upon the date of entry of this Decision, Turkey shall, in relation to countries which are not members of the Community, align itself on the Common Customs Tariff.

2. Turkey shall adjust its customs tariff whenever necessary to take account of changes in the Common Customs Tariff.

3. The Customs cooperation Committee shall determine what measures are appropriate to implement paragraphs 1 and 2.

Article 14

1. Turkey shall be informed of any decisions taken by the Community to amend the Common customs Tariff, to suspend or reintroduce duties and any decision concerning tariff quotas or ceilings in sufficient time for its simultaneously to align the Turkish customs tariff on the Common customs Tariff. Prior consultations shall be held within the Customs Union Joint committee for this purpose.

2. Where the Turkish customs tariff cannot be aligned simultaneously on the Common Customs Tariff, the Customs Union Joint Committee may decide to grant a period of time for this to be undertaken. Under no circumstances may the Customs Union Joint Committee authorise Turkey to apply a customs tariff which is lower than the Common Customs Tariff for any product.

3. If Turkey wishes to suspend on temporary basis or resume duties other than as envisaged in paragraph 1, Turkey will make a prompt notification to the Community. Consultations on the above-mentioned decisions will be held in the Joint Customs Union Committee.

Article 15

By the way of derogation from Article 13 and in accordance with Article 19 of the Additional Protocol, Turkey may retain until 1/1/2001 customs duties higher than the Common Customs Tariff in respect of the third countries for products agreed by the Association Council.

Article 16

1. With a view of harmonising its commercial policy with that of the Community, Turkey shall align itself progressively with the preferential customs regime of the Community within five years as from the date of entry into force of this decision. This alignment will concern both the autonomous regimes and preferential

agreements with third countries. To this end, Turkey will take necessary measures and negotiate agreements on mutually advantageous basis with the countries concerned. The Association Council shall periodically review the progress made.

2. In each of the cases referred in paragraph 1 the granting of these tariff preferences shall be conditional on compliance with provisions relating to the origin of products identical to those governing the granting of such preferences by the Community.

3. a) Where, during the period referred to in paragraph 1, Turkey maintains a tariff policy different from that of the Community, goods imported from third countries into the Community and released for free circulation with preferential treatment by reason of their country of origin or of exportation shall be subject to the payment of a compensatory levy if they are imported into Turkey, in the following circumstances:

- they have been imported from countries to which the same preferential tariff treatment is not granted by Turkey, and

- They can be identified as imported from these countries, and

- the duty to be paid in Turkey is at least 5 percentage points higher than that applicable in the Community, and

- an important distortion of traffic related to these goods has been observed.

b) The Joint Customs Union Committee shall establish the list of the goods to which the compensatory levy applies, as well as the amount of this levy.

SECTION V

Processed agricultural products not covered by Annex II to the Treaty establishing the European Community

Article 17

The provisions of this section apply to goods listed in Annex 1.

Article 18

Notwithstanding Article 13, Turkey may apply on imports from third countries of good listed in Annex 1 an agricultural component. The agricultural component shall be established in accordance with article 18 bis.

Article 18 bis

1. The agricultural component applicable to goods imported into Turkey shall be obtained by adding together the quantities of basic agricultural products considered to have been used for the manufacture of the goods in question multiplied by the basic amount corresponding to each of these basic agricultural products as defined in paragraph 3.

2. (a) The basic agricultural products to be taken into account are listed in Annex 2.

(b) The quantities of basic agricultural products to be taken into account are set in Annex 3.

(c) In case of goods classified under the nomenclature codes for which reference is made in Annex 3 to Annex 4, the amounts of the agricultural component to be taken into account are set out in Annex 4.

3. The basic amount corresponding to each basic agricultural product is the amount of the charge applicable on import into Turkey of the agricultural product originating in a non-preferential third country during the reference period applicable to agricultural products. The basic amounts are set out in Annex 5.

Article 19

1. Notwithstanding Article 4, Turkey and the Community may apply agricultural components established in accordance with the provisions below in trade with each other.

2. Such agricultural components, reduced in accordance with Article 21 where applicable, shall only apply to goods listed in Annex 1.

3. The Community shall apply to Turkey the same specific duties that represent the agricultural component applicable to third countries.

4. Turkey shall apply to imports from Community the agricultural component applied in accordance with article 18 bis.

Article 20

Notwithstanding the modalities set out in the present Decision a derogation regime is foreseen for the products listed in the Annex 6/Table 1 and Annex 6/Table 2 in which the import charges in Turkey will be reduced in three steps over a period of 3 years for the former and 1 year for the latter. The level of those import charges is set in Annex 6/Table 1 and Annex 6/Table 2.

At the end of the relevant periods the provisions of this section shall apply fully.

Article 21

1. Where, in between the Community and Turkey, the duty applicable to a basic agricultural product is reduced, the agricultural component determined in accordance with Article 19(4) for imports into turkey or that referred to in Article 19 bis (3), for imports into the Community, shall be reduced proportionally.

2. Where the reductions referred to in paragraph 1 are effected within the limits of a quota, a list of goods and quantities to which the reduced agricultural component is applicable shall be drawn up by the Association Council.

3. The provisions of paragraphs 1 and 3 above apply to the import charges referred to in Article 20.

Article 21 bis

If imports of one or more of the products covered by the derogation regime cause or threaten to cause in Turkey serious disturbances which may endanger the objectives of the Customs Union for processed agricultural products, consultations between the parties shall be held within the Customs Union Joint Committee, with a view to finding a mutually acceptable solution. If

such a solution cannot be found, the Customs Union Joint Committee may recommend appropriate ways of maintaining the proper functioning of the Customs Union without prejudice to the provisions of Article 61.

CHAPTER II

AGRICULTURAL PRODUCTS

Article 22

1. The Association Council hereby reaffirms the Parties' common objective to move towards the free movement of agricultural products between themselves as provided for in Articles 32-35 of the Additional Protocol.

2. The Association Council notes that an additional period is required to put in place the conditions necessary to achieve free movement of these products.

Article 23

1. Turkey shall adjust its policy in such a way as to adopt the common agricultural policy measures required to establish freedom of movement of agricultural products. It shall communicate to the Community the decisions taken in that respect.

2. The Community shall take account as far as possible of Turkish agriculture's interests when developing its agricultural policy and shall notify Turkey of the relevant Commission proposals and the decisions taken on the basis of these proposals;

3. *Consultations may be held within the Association Council* on the proposals and decisions referred to in paragraph 2 and on the measures which Turkey intends to take in the agricultural field pursuant to paragraph 1.

Article 24

The Community and Turkey shall progressively improve, on a mutually advantageous basis, the preferential arrangements which they grant each other for their trade in agricultural products. The Association Council shall regularly examine the improvements made to these preferential arrangements.

CHAPTER III

CUSTOMS PROVISIONS

Article 26

1. On the date of entry into force of this Decision, Turkey shall adopt provisions in the following fields, based on Council Regulation (EEC) No 2913/92 of 12 October 1992³ establishing the Community Customs Code and Commission Regulation (EEC) No 2454/93 of 2 July 1993⁴ laying down the implementing provisions thereof:

- a) origin of goods;
- b) customs value of goods;
- c) introduction of goods into the territory of the customs union;
- d) customs declaration;
- e) release for free circulation;
- f) suspensive arrangements and customs procedures with economic impact;
- g) movement of goods;
- h) customs debt;
- i) right of appeal.

³ OJ No L302, 19.10.1992

⁴ OJ No L302, 19.10.1992

2. Turkey shall take the measures necessary to implement, on the date of entry into force of this Decision, provisions based on:

a) Council Regulation (EEC) No 3842/86 1 December 1986 laying down measures to prohibit the release for free circulation of counterfeit goods⁵ and Commission Regulation (EEC) No 3077/87 of 14 October 1987 laying down the implementing measures thereof⁶;

b) Council Regulation (EEC) No 918/83 of March 28 1993 setting up a Community system of reliefs from customs duties⁷ and Commission regulations (EEC) No 2287/83, No 2288/83, 2289/83 and No 2290/83 of 29 July 1983 laying down the implementing measures thereof⁸;

c) Council Regulation (EEC) No 616/78 on proof of origin for certain textile products falling within chapter 51 or chapters 52 to 63 of the Common Customs Tariff and imported into the Community, and on conditions for the acceptance of such proof⁹.

3. The Customs Cooperation Committee shall lay down the appropriate measures to implement paragraphs 1 and 2.

Article 27

Mutual assistance on customs matters between the administrative authorities of the Contracting Parties shall be governed by the provisions of Annex 7, which on the Community side, covers those matters falling under the Community competence.

Article 28

The Customs Cooperation Committee shall elaborate the appropriate provisions on mutual assistance on the recovery of debts, before the entry into force of this Decision.

⁵ OJ No L357, 18.12.1986

⁶ OJ No L291, 15.10.1987

⁷ OJ No L105, 23.4.1983

⁸ OJ No L220, 11.8.1983

⁹ OJ No L84, 31.3.1978

CHAPTER IV

APPROXIMATION OF LAWS

SECTION I

Protection of Intellectual, Industrial and Commercial Property

Article 29

1. The Parties confirm the importance they attach to ensuring adequate and effective protection and enforcement of intellectual, industrial, and commercial property rights.

2. The parties recognise that the Customs Union can function properly if equivalent levels of effective protection of intellectual property rights are provided in both constituent parts of the Customs Union. Accordingly, they undertake to meet the obligations set out in the Annex 8 to the present decision.

SECTION II

Competition

A. Competition rules of the Customs Union

Article 30

1. The following shall be prohibited as incompatible with the proper functioning of the Customs Union, insofar as they may affect trade between the Community and Turkey:

All agreements between undertakings, decisions by associations of undertakings and concerted practices which have as their object or effect the prevention, restriction or distortion of competition, and in particular those which:

a) directly or indirectly fix purchase or selling prices or any other trading conditions;

b) limit or control production, markets, technical development or investment;

c) share markets or sources of supply.

d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby replacing them at a competitive disadvantage;

e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

2. Any arrangements or decisions prohibited pursuant to this Article shall automatically be void.

3. The provisions of paragraph 1 may, however, be declared inapplicable in the case of:

- any agreement or category of agreements between undertakings;

- any decision or category of decisions by associations of undertakings;

- any concerted practice or category of concerted practices

which contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which does not:

- impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives;

- afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question.

Article 31

1. Any abuse by one or more undertakings of a dominant position in the territories of the Community and/or of Turkey as a whole or in a substantial part thereof shall be prohibited as incompatible with the proper functioning of the Customs Union, insofar as it may effect trade between the Community and Turkey.

2. Such Abuse may, in particular, consist in:

a) directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;

b) limiting production, markets or technical development to the prejudice of consumers;

c) applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;

d) making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

Article 32

1. Any aid granted by EC Member States or Turkey through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, insofar as it affects trade between the Community and Turkey, be incompatible with the proper functioning of the Customs Union.

2. The following shall be compatible with the functioning of the Customs Union:

a) aid having a social character, granted to individual consumers, provided that such aid is granted without discrimination related to origin of the products concerned;

b) aid to make good the damage caused by natural disasters or exceptional occurrences;

c) aid granted to the economy of certain areas of the federal Republic of Germany affected by the division of Germany, insofar as such aid is required in order to compensate for the economic disadvantages caused by that division;

d) for a period of 5 years from the entry into force of this decision, aid to promote economic development of Turkey's less developed regions, provided that such aid does not adversely affect trading conditions between the Community and Turkey to an extent contrary to the common interest.

3. The following may be considered to be compatible with the functioning of the Customs Union:

a) In conformity with Art 43.2 of the Additional Protocol, aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment;

b) aid to promote the execution of an important project of common European interest or to remedy a serious disturbance in the economy of an EC Member State or of Turkey;

c) for a period of 5 years after the entry into force of the decision, in conformity with article 43.2 of the additional protocol, aids aiming at accomplishing structural adjustment necessitated by the establishment of Customs Union. The Association Council shall review the application of that clause after the aforesaid period.

d) aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does adversely affect trading conditions between the Community and Turkey to an extent contrary to the common interest;

e) aid to promote culture and heritage conservation where such aid does not adversely affect trading conditions between the Community and Turkey to an extent contrary to the common interest;

f) such other categories of aid as may be specified by the Association Council.

Article 33

Any practises contrary to Articles 30,31,and 32 shall be assessed on the basis of criteria arising from the application of the rules of Articles 85, 86 and 92 of the Treaty establishing the European Community and its secondary legislation.

Article 34

The Contracting Parties shall exchange information, taking into account the limitations imposed by the requirements of professional and business secrecy.

Article 35

1. The Association Council shall, within two years following the entry into force of the Customs Union, adopt by decision the necessary rules for the implementation of Articles 30, 31 and 32 and related parts of Article 33. These rules shall be based upon those already existing in the EC and shall inter alia specify the role of each competition authority.

2. Until these rules are adopted,

a) the authorities of the Community or Turkey shall rule on the admissibility of agreements decisions and concerted practices and on abuse of a dominant position in accordance with Articles 30 and 31.

b) the provisions of the GATT Subsidies Code shall be applied as the rules for the implementation of Article 32.

Article 36

1. If the Community or Turkey considers that a particular practice is incompatible with the terms of Articles 30, 31 or 32, and

- is not adequately dealt under the implementing rules referred to in Article 35 or

- in the absence of such rules, and if such practice causes or threatens to cause serious prejudice to the interest of the other Party or material injury to its domestic industry.

It may take appropriate measures after consultation within the Joint Customs Union Committee or after 45 working days following referral for such consultation. Priority shall be given to such consultation. Priority shall be given to such measures that will least disturb the functioning of the Customs Union.

2. In the case of practices incompatible with Article 32, such appropriate measures may, where the General Agreement on Tariffs and Trade applies thereto, only be adopted in conformity with the procedures and under the conditions laid down by the General Agreement on Tariffs and Trade and any other relevant instrument negotiated under its auspices which are applicable between the Contracting Parties.

B. Approximation of Legislation

Article 37

1. With a view to achieving the economic integration sought by the Customs Union, Turkey shall ensure that its legislation in the field of competition rules is made compatible with that of the European Community, and is applied effectively.

2. To comply with the obligations of paragraph 1, Turkey shall

a) before the entry of the force of the Customs Union, adopt a law which shall prohibit behaviours of undertakings under the conditions laid down in Article 85 and 86 of the EC Treaty: It shall also ensure that, within one year after the entry into force of the Customs Union, the principles contained in block exemption regulations in force in the Community, as well as in the case law developed by EC authorities, shall be applied in Turkey. The Community shall inform Turkey as soon as possible of any procedure related to the adoption, abolition, or modification of block exemption regulations by the EC after the entry into force of the Customs Union. After such information had been given, Turkey shall have one year to adapt its legislation, if necessary;

b) before the entry into force of the Customs Union, establish a competition authority which shall apply these rules and principles effectively.

c) before the entry into force of this decision, adapt all its aids granted to the textile and clothing sector to the rules laid down in the relevant Community frameworks and guidelines under Articles 92 and 93 of the EC Treaty. Turkey shall inform the Community of all its aid schemes to this sector as adapted in accordance with these frameworks and guidelines. The Community shall inform Turkey as soon as possible of any procedure related to the adoption, abolition or modification of such frameworks or guidelines by the EC after the entry into force of the Customs Union. After such information has been given, Turkey shall have one year to adapt its legislation.

d) within two years after the entry into force of this decision, adapt all aid schemes other than those granted to the textile and clothing sector to the rules laid down in Community frameworks and guidelines under Articles 92 and 93 of the EC Treaty. The Community shall inform Turkey as soon as possible of such frameworks and guidelines by the EC. After such information has been given, Turkey shall have one year to adapt its legislation.

e) within two years after the entry into force of the Customs Union, inform the Community of all aid schemes in force in Turkey as adapted in accordance with point d). If a scheme is to be adopted, Turkey shall inform the Community as soon as possible of the content of such scheme.

f) notify the Community in advance of any individual aid to be granted to an enterprise or a group of enterprises that would be notifiable under Community frameworks or guidelines had it been granted by a Member State, or of individual aid award outside of Community Frameworks or guidelines above an amount of 12 MECU and which would have been notified under EC Law had it been granted by a Member State.

Regarding individual aids granted by Member States and subject to the analysis by the Commission, on the basis of Article 93 EC, Turkey will be informed on the same basis as the Member States.

3. The Community and Turkey shall communicate to each other all amendments to their laws concerning restrictive practices by undertakings. They share also with each other of the cases when these laws have been applied.

4. In relation to information under paragraph 2, points c), e) and f) of this Article, the community shall have the right to raise objections against an aid granted by Turkey which it would have deemed unlawful under EC Law had it been granted by a Member State. If Turkey does not agree with the Community's opinion, and if the case is not resolved within thirty days, the Community and Turkey shall each have the right to refer the case to arbitration.

5. Turkey shall have the right to raise objections and seize the Association Council against an aid granted by a Member State which it deems to be unlawful under EC Law. If the case is not resolved by the Association Council within three months, the Association Council may decide to refer the case to Court of Justice.

Article 38

1. The Community shall inform Turkey as soon as possible of the adoption of any decision under Articles 85, 86 and 92 of the EC Treaty which might affect Turkey's interests.

2. Turkey shall be entitled to ask information about any specific case decided by the Community under Articles 85, 86 and 92 of the EC Treaty.

Article 39

With regard public undertakings and undertakings to which special or exclusive rights have been granted, Turkey shall ensure that, by the end of the first year following the entry into force of the Customs Union, the principles of the secondary legislation and the case-law developed on this basis, are upheld.

Article 40

Turkey shall progressively adjust, in accordance with the conditions and the time-table laid down by the Association Council any State monopolies of a commercial character so as to ensure that, by the end of the second year following the entry of this decision, no discrimination regarding the conditions under which goods are produced and marketed exists between nationals of the Member States and of Turkey.

Article 41

1. If the Community or Turkey believes that anti-competitive activities carried out on the territory of the other Party are adversely its interests or the interests of its undertakings, the first Party may notify the other Party and may request that the other Party's competition authority initiate appropriate enforcement action. The notification shall be as specific as possible about the nature of the anti-competitive activities and their effects on the interests of the notifying Party, and shall include an offer for such further information and other cooperation as the notifying Party is able to provide.

2. Upon receipt of a notification under paragraph 1 and after such other discussion between the Parties as may be appropriate and useful in the circumstances, the competition authority of the notified Party will consider whether or not to initiate enforcement action, with respect to the anti-competitive activities identified in the notification. The notified Party will advise the notifying Party of its decision. If enforcement action is initiated, the notified Party will advise the notifying Party of its outcome, to the extent possible, of significant interim developments.

3. Nothing in this Article limits the discretion of the notified Party under its competition laws and enforcement policies as to whether or not to undertake enforcement action with respect to the notified anti-competitive activities, or precludes the notifying Party from undertaking enforcement action with respect to such anti-competitive activities.

SECTION III

Trade Defence Instrument

Article 42

1. The Association Council shall review upon the request of either Party the principle of application of trade defence instrument other than safeguard by one contracting party in its relations with the other. During any such review, the Association Council may decide to suspend the application of these instruments provided that Turkey has implemented competition, state aids control and other relevant parts of the *acquis communautaire* which are related to the internal market and ensured their effective enforcement, so providing a guarantee against unfair competition comparable to that existing inside the internal market.

2. The modalities of implementation of anti-dumping measures set out in the Article 47 of the Additional Protocol remain in force.

Article 43

By derogation from the provisions of Section II of Chapter V, the consultation and decision making procedures referred to in that section shall not apply to trade defence measures taken by either party.

In the framework of the application of trade policy measures towards third countries, the parties shall endeavour, through exchange of information and consultation, to seek possibilities for coordination their action when the circumstances and international obligations of both parties allow.

Article 44

By derogation from the principle of the free movement of goods laid down in Chapter I of this Decision, where one party has taken or is taking anti-dumping measures or other measures pursuant to trade policy instruments as referred to in Article 42 in its relations with the other Party or with third countries, that Party may make imports of the products concerned from the territory of the other Party subject to the application of those measures. In such cases it shall inform the Customs Union Joint Committee accordingly.

Article 45

When completing the formalities involved in importing products of a type covered by trade policy measures, provided for in the preceding Articles, the authorities of the importing State shall ask the importer to indicate the origin of the products concerned on the customs declaration.

Additional supporting evidence may be requested where absolutely necessary because of serious and well-founded doubts in order to verify the true origin of the product in question.

SECTION IV

Government Procurement

Article 46

As soon as possible after the entry into force of this decision, the Association Council will set a date for the initiation of negotiations aiming at the mutual opening of the Contracting Parties' respective government procurement markets.

The Association Council will review progress in this area annually.

SECTION V

Direct Taxation

Article 47

No provisions of this Decision shall have the effect:

- of extending the fiscal advantages granted by either Party in any international agreement or arrangement by which it is bound;

- of preventing the adoption or application by either Party of any measure aimed at preventing the avoidance or evasion of taxes;

- of opposing the right of either Party to apply the relevant provisions of its tax legislation to taxpayers whose position as regards place of residence is not identical.

Indirect Taxation

Article 48

1. Neither Contracting Party shall, directly or indirectly, impose on the products of the other Party any internal taxation of any kind in excess of that imposed directly or indirectly on similar domestic products.

Neither Contracting Party shall impose on the products of the other Party any internal taxation of such a nature as to afford indirect protection to other products.

2. In trade between the Community and Turkey, repayment of internal taxation imposed on those products, whether directly or indirectly.

3. The Contracting Parties shall repeal any provisions existing at the date of entry into force of this decision which conflict with the above rules.

Article 49

The Association Council may recommend the Contracting Parties to take measures to approximate laws, regulations or administrative provisions in respect of fields which are not covered by this Decision but have a direct bearing on the functioning of the Association, and of fields covered by this Decision but for which no specific procedure is laid down therein.

CHAPTER V

INSTITUTIONAL PROVISIONS

SECTION I

THE EC /Turkey Customs Union Joint Committee

Article 50

1. In accordance with Article 24 of the Association Agreement, an EC /Turkey Customs Union Joint Committee is hereby established. The Committee shall carry out exchange of views and information, formulate recommendations to the Association Council and deliver opinions with a view to ensuring the proper functioning of the Customs Union.

2. The Contracting Parties shall consult within the Committee on any point relating to the implementation of the Decision which gives rise to a difficulty for either of them.

3. The Customs Union Joint Committee shall adopt its rules of procedure.

Article 51

1. The Customs Union Joint Committee shall consist of representatives of the Contracting Parties.

2. The office of Chairman of the Customs Union Joint Committee shall be held alternately, for a period of six months, by

the representative of the Community, ie. The European Commission, and the representative of Turkey.

3. In order to carry out its duties, the Customs Union Joint Committee shall meet, as a general rule, at least once a month. It shall also meet on the initiative of its Chairman or at the request of one of the Contracting Parties in accordance with its rules procedure.

4. The Customs Union Joint Committee may decide to establish any subcommittee or working party to assist it in carrying out its duties. The Customs Union Joint Committee shall lay down the composition and rules of operation of such subcommittees or working parties in its rules of procedure. Their duties shall be determined by the Customs Union Joint Committee in each individual case.

SECTION II

Consultation and Decision Procedures

Article 52

1. In areas of relevance to the operation of the Customs Union, and without prejudice to the other obligations deriving from Chapters I to IV of this decision, Turkish legislation shall be harmonised as far as possible with Community legislation.

2. Areas of direct relevance to the operation of the Customs Union shall be commercial policy and agreements with third countries comprising a commercial dimension for industrial products, legislation on the abolition of technical barriers to trade in industrial products, competition and industrial and intellectual property law and customs legislation.

The Association Council may decide to extend the list of areas where harmonisation is to be achieved in the light of the Association's progress.

3. The procedural rules provided for in Articles 53 to 58 shall apply for the purposes of this Article.

Article 53

1. Wherever new legislation is drawn up by the European Commission in an area of direct relevance to the operation of the Customs Union and the European Commission consults experts from Member States of the European Community, it shall also informally consult Turkish experts.

2. When transmitting its proposal to the Council of the European Communities, the European Commission shall send copies thereof to Turkey.

3. During the phase preceding the decision of the Council of the European Communities, the Contracting parties shall, at the request of either of them, consult each other again within the Customs Union Joint Committee.

4. The Contracting Parties shall cooperate in good faith during the information and consultation phase with a view to facilitating, at the end of the process, the decision most appropriate for the proper functioning of the Customs Union.

Article 54

1. Where it adopts legislation in an area of direct relevance to the functioning of the Customs Union as defined in Article 52(2), the Community shall immediately inform Turkey thereof within the Customs Union Joint Committee to allow Turkey to adopt corresponding legislation which will ensure the proper functioning of the Customs Union.

2. Where there is a problem for Turkey in adopting the corresponding legislation, the Customs Union Joint Committee shall make every effort to find a mutually acceptable solution maintaining the proper functioning of the Customs Union.

Article 55

1. The principle of harmonisation defined in Article 52 shall not affect Turkey's right without prejudice to its obligations deriving from Chapters I to IV of this decision to amend legislation in areas of direct relevance to the functioning of the Customs Union Provided the Customs Union Joint Committee has concluded that the amended legislation does not affect the proper functioning of the Customs Union or that the procedures referred to in the paragraphs 2 to 4 have been accomplished.

2. Where Turkey is contemplating new legislation in an area of direct relevance to the functioning of the Customs Union, it shall informally seek the views of the Commission on the proposed legislation in question so that the Turkish legislator may take his decision in full knowledge of the consequences for the functioning of the Customs Union.

The Contracting Parties shall cooperate in good faith with a view to facilitating, at the end of process, the decision most appropriate for the proper functioning of the Customs Union.

3. Once the proposed legislation has reached a sufficiently advanced stage of drafting, consultations shall be held within the Customs Union Joint Committee.

4. Where Turkey adopts legislation in area of direct relevance to the functioning of the Customs Union, it shall forthwith inform the Community within the Customs Union Joint Committee.

If Turkey's adoption of such legislation is likely to disrupt the proper functioning of the Customs Union, the Customs Union Joint Committee shall endeavour to find a mutually acceptable solution.

Article 56

1. If, at the end of the consultations undertaken under the procedure provided for in Article 54(2) or Article 55(4), a mutually acceptable solution cannot be found by the Customs Union Joint Committee and if either Party considers that discrepancies in the legislation in question may affect the free movement of goods, deflect trade or create economic problems on its territory, it may refer the matter to the Customs Union Joint Committee which, if

necessary, shall recommend appropriate ways of avoiding any injury which may result.

The same procedure will be followed if differences in the implementation of legislation in an area of direct relevance to the functioning of the Customs Union, cause or threaten to cause impairment of the free movement of the goods or deflections of trade and the affected party considers that immediate action is required, it may itself take the necessary protection measures and notify the Customs Union Joint Committee thereof; the latter may decide whether to amend or abolish these measures. Priority should be given to measures which least disturb the functioning of the Customs Union.

Article 57

In areas of direct relevance to the proper functioning of the Customs Union, the European Commission shall ensure Turkish experts are involved as far as possible in the preparation of draft measures to be submitted subsequently to the committees which assist the European Commission in the exercise of its executive powers. In this regard, when drafting proposals, the European Commission shall consult experts from Turkey on the same bases as it consults experts from the Member States of the Community. Where the matter referred to the Council of the European Union is in accordance with the procedure applying to the type of committee concerned, the European Commission shall transmit to the Council of the European Union the views of the Turkish experts.

Article 58

Turkish experts shall be involved in the work of a number of technical committees which assist the European Commission in the exercise of its executive powers in the areas of direct relevance to the functioning of the Customs Union where this is required to ensure the proper functioning of the Customs Union. The procedure for such participation shall be decided by the Association Council before the entry into force of this Decision. The list of Committees is contained in Annex 9. If it appears to the Parties that such an involvement should be extended to other Committees, the Customs Union Joint Committee may address the

necessary recommendations to the Association Council for decisions.

SECTION III

Settlement of Disputes

Article 59

Without prejudice to paragraphs 1-3 of Article 25 of the Ankara Agreement, if the Association Council fails to settle a dispute relating to the scope or duration of protection measures taking in accordance with Article 56(2), safeguard measures taken in accordance with Article 61 or rebalancing measures taken in accordance in Article 62, within six months of the date on which this procedure was initiated, either Party may refer the dispute to arbitration under the procedures laid down in Article 60. The arbitration award shall be binding on the Parties to the dispute.

Article 60

1. If a dispute has been referred to arbitration there shall be three arbitrators.

2. The two parties to dispute shall each appoint one arbitrator within 30 days.

3. The two arbitrators so designated shall nominate by common agreement one umpire who shall not be a national of either Contracting Party. If they cannot agree within two months of their appointment, the umpire shall be chosen by them from seven persons on a list established by the Association Council. The Association Council shall establish and review this list in accordance with its rules of procedure.

4. The arbitration tribunal shall sit in Brussels. Unless the Contracting Parties decide otherwise, it shall adopt its rules of procedure. It shall take its decisions by majority.

SECTION IV

Safeguard Measures

Article 61

The Parties confirm that the mechanism and modalities of safeguard measures provided for in Article 60 of the Additional Protocol remain valid.

Article 62

1. If a safeguard or protection measure taken by a Contracting Party creates an imbalance between the rights and obligations under this decision, the other Contracting Party may take rebalancing measures in respect of that Contracting Party. Priority shall be given to such measures as will least disturb the functioning of the Customs Union.

2. The procedures provided for in Article 61 shall apply.

CHAPTER VI

General and Final Provisions

Entry into Force

Article 63

1. This decision shall enter into force on 31 December 1995.

2. During the year 1995, progress in the implementation of this decision shall be examined regularly within the Association Committee, which will report to the Association Council.

3. Before the end of October 1995 the two parties shall consider within the Association Council whether the provisions of the present decision for the proper functioning of the Customs Union are fulfilled.

4. On the basis of the reports of the Association Committee, if Turkey on one side or the Community and its Member States on the other side considers that the provisions referred to in

paragraph 3 have not been met, this Party can notify to the Association Council its decision to ask for a postponement of the date referred to in paragraph 1 in such a case this date is referred 1 July 1996.

5. In this case the paragraphs 2 to 4 shall apply *mutatis mutandis*.

6. The Association Council may take other appropriate decisions.

Interpretation

Article 64

The provisions of this Decision, in so far as they are identical in substance to the corresponding provisions of the Treaty establishing the European Community shall be interpreted for the purposes of their implementation and application to products covered by the Customs Union, in conformity with the relevant decisions of the Court of Justice of the European Communities.

STATEMENTS

Statement by Turkey on Article 3:

Turkey undertake to ensure that customs duties or charges having equivalent effect levied pursuant to the second subparagraph of Article 3(4) are not allocated to any specific purpose but accrue to its national budget in the same way as other customs revenue.

Statement by The Community on textile and clothing ad Article 6:

1. Arrangements for trade in textile and clothing products will expire as soon as it is determined that Turkey has effectively implemented the measures for which the adoption is required under this decision, regarding intellectual, industrial and commercial property (articles 2,3,4,5 of the annex 8), competition including the measures regarding public aid (Chapter IV, section II, article 37, S 1 and 2 (a), (b) and (c), and that Turkey has to put into operation, according to the multilateral rules presently in force, the measures necessary for the alignment of its commercial policy with that of the Community in the textile sector, in particular the arrangements and agreements referred to in section II article 12 S 2.

2. The Community will apply the safeguard measures foreseen in Article 60 of the Additional Protocol if, through Turkey does not fulfil the conditions mentioned in paragraph 1, the present Arrangements for trade in textile and clothing products are not extended.

3. The Community insists on effective reciprocity in market access in that sector.

Statement by Turkey on textiles and clothing ad article 6:

1. If despite the fulfilment by Turkey of the measures referred to in the first paragraph of the Community's Statement on the expiration of arrangements for trade in textile and clothing products, an end has not been put to the said arrangements, Turkey will take appropriate rebalancing measures.

2. In reference to the paragraph 1 of the Community Statement on textiles and clothing ad article 6, Turkey understands that the measures related to the conclusion by Turkey of agreements or arrangements with Third Countries in the textile sector signifies that Turkey has taken the necessary steps referred to in Article 12 S 2 for such a conclusion, and that, in the meantime, the measures referred to in Article 12 S 3 remain applicable.

3. Turkey insists on full market access in that sector.

Statement by Turkey on Article 6:

Turkey deems it necessary to be associated with the Textile Committee.

Statement by Turkey on Article 8:

Turkey deems it necessary to be associated with the work of the Standards and Technical Regulations Committee with a view to ensuring a level of cooperation commensurate with the aim of harmonisation.

Statement of Turkey on Article 8:

Turkey wishes to stress the importance of a comprehensive, quick as unburdensome as possible assessment of the instruments, procedures and infrastructures concerning the fulfilment by Turkey of the requirements foreseen in the instruments included in the list referred to in Article 8 S 2.

Turkey further stress the need of proceeding by the Community to the technical adaptations necessitated by Turkey's fulfilment of the requirements referred above.

Joint Statement on Article 11:

The Parties agree to engage immediately in discussions at the level of experts on the transposition by Turkey of the acquis communautaire concerning the abolition of technical barriers to trade.

Statement by Turkey on Article 12:

Without prejudice to Article 5 of the present Decision, Turkey intends to retain the provisions of its import regime decree (OJ No 22158 bis, 31.12.94) on used motor vehicles whereby subjecting the importation of such products to prior permission, for a certain period following the entry into force of the present Decision.

Statement by Turkey on Article 16:

Turkey may seek consultation within the Association Council regarding the obligations that may arise for it as the result for its membership of E.C.O.

Statement of Turkey on Article 16:

In relation with Article 16, Turkey states that the priority will be given to the following preferential agreements: Bulgaria, Hungary, Poland, Romania, Slovakia, Czech Republic, Israel, Estonia, Latvia and Lithuania, Morocco, Tunisia, Egypt.

Statement of the Community on Annex 8:

For the effective implementation and application of the provisions mentioned in this Annex, the Community is prepared to provide adequate technical assistance to Turkey both before and after entry into force of the Customs Union.

Statement of Turkey on Annex 8 article 1:

This commitment does not prejudice Turkey's status as a developing country in the WTO.

Statement by the Community on Article 42:

In relation with Article 42, paragraph 2, the Community states that the Commission, without prejudice to the position of the Council, in the exercise of its responsibilities for anti-dumping and safeguard measures, will offer information to Turkey before the initiation of proceedings. To this effects appropriate modalities of application of Article 47 will be set out jointly before the entry into force of this Decision. Furthermore, the Community will give, on a

case by case basis, where appropriate, a clear preference to price undertakings rather than duties in order to conclude anti-dumping cases injury is found.

Statement by Turkey on Article 46:

Turkey states its intention to enter into negotiations with a view to acceding to the GATT Government Procurement Agreement.

Statement by Turkey on Article 58:

During the year 1995, and as Turkey harmonises its legislation with that of the Community it will seek from the Association Council a decision to extent its involvement to other committees.

Joint statement on Article 63:

1. La decision commune eventuelle de la Communaute et des Etats membres de demander le report de l'entrée en vigueur de l'Union douaniere en s'appuyant sur le S 4 de l'article 63 de la decision se prendra sur la base d'une proposition de la Commission et avec la meme procedure de decision que pour l'adoption de la presente decision.

2. En outre, le report de l'entrée en vigueur de la presente Decision n'affectera en rien les obligations contractuelles qui incombent aux parties aux termes du Protocole Additionel.

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