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FESSUD

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Research Brief #8

The Impact of the European Union upon a Candidate Country in the Era of Financialisation: The Case of Turkey

Asuman Göksel and Galip L. Yalman, Middle East Technical University

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1. Introduction

This research brief is based on the FESSUD Working Paper #143, entitled "Financialisation, Uneven Development and Faltering Governance: The Case of Turkey". It focuses on the role of Turkey's European Union (EU) accession process as part of the neoliberal transformation of Turkey in the 2000s in four areas: namely finance and banking, labour, development, and trade. The main argument is that until the mid-2000s, European integration was instrumental for the implementation of some elements of a post-Washington consensus in Turkey, but the role of the EU and of international financial institutions has been subdued since the global financial crisis of 2008.

The Research Brief first provides a brief historical background and then assesses the role of the EU in Turkey's neoliberal transformation.

2. Historical Background

Turkey's economic integration into the European Union dates back to the Association Agreement between Turkey and the European Economic Community (also known as the Ankara Agreement) that was brokered in 1963 and as part of its Additional Protocol of 1970. This process laid the basis for a Customs Union between Turkey and the EU in 1995.

Turkey was officially granted EU candidacy status at the Helsinki European Council in December 1999, the month in which a three-year IMF stand-by agreement was also signed by Turkey. This agreement resulted in a comprehensive structural reform programme under the shadow of the "twin crises" of a balance of payments crisis and a banking-sector crisis.

From the beginning of the 2000s, the European Union (EU), the IMF and the World Bank played a mutually supportive role in a basic redefinition of development in Turkey. The EU's first Accession Partnership for Turkey in 2000 inscribed its economic criteria within the structural reform programme agreed with the IMF and the World Bank (Yalman, 2007).

While the first half of the 2000s was constructive in terms of EU requirements and subsequent responses from Turkey, from the mid-2000s onwards political relations between the two parties worsened. In May 2012, the European Commission (EC) launched its "Positive Agenda" in order to bring "fresh dynamics and a new momentum" to the Turkey-EU relations. However, since 2016 relations have again become tense and uncertain due to the refugee crisis and recent developments in the aftermath of 15 July 2016.

3. The European Union and the Neoliberal Transformation in Turkey

The integration of the Turkish economy into the global economy has been shaped by a variety of interrelated global, international and domestic dynamics, in which the combined role of the EU and the international financial institutions (IFIs) has been important if somewhat subdued since the 2008 global financial crisis.

At Turkey's domestic level, European integration has gone hand in hand with social and economic transformations that have deepened a particular economic model. In this regard, EU intervention has at times served to justify government's pursuit of the full liberalisation of the Turkish economy in order to supposedly to increase its competitiveness, and this policy has corresponded to the demands of Turkish capital. At the same time, this intervention has helped particular domestic social forces such as the trade unions' in their search for support of workers' rights. These issues are examined across four dimensions of the Turkish economy.

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3.1 Finance and Banking

The financial sector plays an important role in the discussions leading towards full EU membership. Most of the measures have been concentrated on the banking sector since banks account for more than 90 percent of the total assets of the Turkish financial system. In the wake of the twin crises of the Turkish economy in 2001, necessary amendments have been made in full compliance with EU banking-sector legislation. These regulatory reforms have played an important part in getting the Turkish banking industry through the 2008 global financial crisis relatively unscathed.

3.2 (Re)regulating the Labour Market

The Turkish labour markets have been restructured through the new Labour Law (No: 4857) and the establishment of the Turkish Employment Organisation (İŞKUR) in 2003. The new Law has two objectives: to bring more "flexibility" to Turkey's labour market by liberalizing labour regulations and to transpose the relevant EU *acquis* into this field. This initiative has included the introduction of non-standard, atypical, flexible forms of employment,[1] new conditions regarding the duration and organisation of working time,[2] and the establishment of private employment offices.

However, the extent to which the new Labour Law has fully transposed the relevant EU *acquis* in the field of Labour Law remains contested. Several studies have shown that certain principles of the EU directives were not included in the Law; some of them were only partially covered; some provisions conflicted with EU regulations; and some went beyond EU requirements in terms of ensuring further flexibility in the labour market while ignoring some of the worker protective provisions of EU legislation (Taymaz and Özler, 2004: 24).

[1] Namely part-time work (Article 13), fixed-term work (Article 11), on-call work (Article 14), subcontracting (Article 2), temporary employment relationships (Article 7); and compensatory work (Article 64).

[2] Namely weekly working time (Article 63); beginning and ending of daily working time (Article 67); duration of the rest breaks (Article 68); paid annual leave (Article 53); introduction of "compensatory work" (Article 64), which was considered differently from "overtime work" (Article 41); and introduction of the concept of "overwork."

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Finally, the announcement of the Employment Strategy in 2013 sought to increase flexibility of the labour market and decrease employment-related burdens on the employers. It completes the legal and institutional transformation of Turkey's labour markets in order to ensure competitiveness through flexibility, adaptability and employability, as requested by the EU in the 2001, 2003 and 2006 Accession Partnership documents.

3.3 From Centralised Development to Regional Development

The establishment of the Regional Development Agencies (RDAs) in 2006 was a direct outcome of Turkey's EU candidacy, the conditions of which were identified in the EU Accession Partnership documents. Previously, the regional policy of Turkey was limited to the directives of the centralised state development policy intended to promote industrialisation, but in 2006 this policy had become focused on the private sector.

The RDAs seek to facilitate between the local actors of a particular region and investors by investigating the natural and human potential of the region, promoting it at the national and international level and easing the bureaucratic processes for external investors (Gündoğdu, 2009). The RDAs tend to emphasise cheap labour at the local level and access to natural resources. They do not only restructure the relations between labour and capital, but also establish a new form of relations between international capital, internationalised domestic capital and purely domestic capital within the process of greater integration with global economy.

3.4 Economic Integration through Trade: The Customs Union

The Customs Union (CU), which was established in 1995, has been critical for Turkey's economic integration with the EU. However, the Union has fallen short of original expectations due to the EU's "unfulfilled obligations." These have included: the lack of progress on the free movement of labour; technical difficulties and trade barriers created by European counterparts; the negative impact of Schengen visa requirements for Turkish businessmen; the non-inclusion of Turkey in the EU's Free Trade Agreements (FTAs) with third parties; tariff revenue losses for Turkey caused by the CU; non-inclusion of agricultural products in the context of the CU; and lack of financial assistance and support from the EU.

When considering the effects of the CU on the Turkish economy, the impact on economic growth certainly does not meet the original expectations (Yazıcı, 2012: 31). The foreign trade deficit between Turkey and the EU doubled, in fact, between 1995 and 2010. While Turkey's imports increased, there was no substantial increase of exports (Yazıcı, 2012: 30). I

The EU does appear to be the largest foreign direct investor in Turkey (Kirişçi, 2015: 7). However, in the CU's first five years (1996-2000), no substantial increase in FDI inflows was observed (Togan, 2012: 21). FDI started to increase after 2001, and did reach high levels in 2006-2008, which were often associated with the start of accession negotiations with the EU rather than the existence of the CU per se.

Finally, the major asymmetry of the CU is most visible within the context of the negotiations for the Transatlantic Trade and Investment Partnership (TTIP) between the EU and the US in 2013. Since Turkey was one of the countries to be adversely affected by TTIP, the Turkish government stated its wish to take part in the process, or to start a FTA negotiation itself with the US (Yılmaz, 2015: 2). The Turkish business community was certainly alarmed by the risk of exclusion of Turkey from TTIP.

As a result, the European Commission asked the World Bank to prepare a report on the Turkey-EU Customs Union, which was published in May 2014. In May 2015, the European Commission and Turkey agreed to initiate procedures for the modernisation and extension of the CU to enhance and "boost" EU-Turkey bilateral trade and commercial relations, not as an alternative but as a complement to the accession negotiations of Turkey.[3] In August 2015, the European Commission launched an "Impact Assessment"[4] in order "to prepare negotiating directives in the course of 2016" (European Commission, 2015: 87).

4. Concluding Remarks

This Research Brief has highlighted the role of Turkey's integration with the European Union within the context of its progressive integration into global financial capitalism. This process has produced a variety of outcomes. The EU's various interventions into the policy

[3] http://trade.ec.europa.eu/doclib/press/index.cfm?id=1307

[4] Inception Impact Assessment, Enhancement of EU-Turkey bilateral trade relations and modernisation of the EU-Turkey Customs Union, http://ec.europa.eu/smart-regulation/roadmaps/docs/2015_trade_035_turkey_en.pdf.

domains of finance and banking, labour, development, and trade indicate that especially until the mid-2000s, the EU had a considerable degree of capacity and was instrumental in the implementation of some elements of the post-Washington consensus in Turkey. However, since the global financial crisis of 2008 the EU's capacity and role have been restrained, if not eliminated, as a result of a new set of geopolitical tensions due to increasingly adverse domestic and global circumstances.

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