



EU-Turkey Relations: Erdogan's Policies and Consequences on Turkish Economy

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Abstract

The basic aim of this paper is to analyze EU-Turkey relations in the context of world politics and economics despite being the largest trading partner of the EU, Turkey is losing its position in front of the EU and more importantly, the policies designed by the Recep Tayyip Erdogan's government since last 17 years. It has led to more controversies rather than a good cohesion among the partners. The economic policies especially put Turkey in a precarious situation. The growth rate is decreasing day by day, the foreign investors are not willing to invest in the projects. The unemployment rate is also high among young Turks. The added burden of current pandemic made the situation even worse. Interestingly with the political and economic turmoil faced by Turkey right now the popularity of Erdogan is increasing among Muslim community considering him as a brave and an ideal leader who has pleaded the case of its innocent Muslims of Kashmir and Palestine at every international forum and raised voice against atrocities. The rigid policies of Tayyip Erdogan, Turkey cannot lead alone on the path of progress, there is dire need to revive the policies of the current government as the present term of the government ends in 2023 and if things will not change from Turkey's side, then the future of EU-Turkey can be detectable.

Keywords: EU, economy, trade, politics, sanctions

Introduction

Turkey, possess unique strategic location on the map of the world with its, lying partly in Asia and partly in Europe. Historically speaking, Turkey has played its role as a bridge and barrier between both the continents. According to the World Bank report 2020, Turkey's current population is

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85,179,227 placed as among the largest countries in terms of territory and population.¹ Turkey is the one who is hosting the highest number of refugees, i.e. currently Turkey alone hosting 3.6 million Syrian registered refugees along with other nationalities.² As far as its location is concerned, Turkey is surrounded by the north on the Black Sea, also on the northeast Georgia and Armenia is present and on the east the Republic of Iran and Azerbaijan. Moreover, on the south east of Turkey, are Iraq and Syria and more specifically, on the southwest and west Mediterranean Sea and the Aegean Sea.³

As far as the economic outlook of the country is considered Turkey has a mixed economy, means that private and public sectors both are contributing their role in the economic development of the country. Initially, the Turkish economy was highly dependent on the agricultural sector but after the transformation in the economic sector, the country opted towards other sectors including the industrial sector. Historically speaking until the 1950s, the Turkish economy progressed due to industrialization, generated capital and made it possible to spend money on the infrastructure of the country.⁴

In retrospect, Turkey always tried to join the international forums or organizations like OECD or NATO and therefore in 1959 for the very first time Turkey applied for the association with European Economic Community (EEC). For the establishment of the relations between the EU and Turkey, the community at that time decided to design an agreement called “Ankara Agreement” which was basically the legal basis of association between the EU and Turkey until the country got its accession in the EU. The Ankara agreement was signed on September 12, 1963 and came into force on 1st December 1964. The basic aim of the agreement was to promote the balanced relationship between Turkey and the EU in terms of trade and culture specifically while giving full support and assistance to promote Turkish economy and development for raising the living standard of their people. Later on, Turkey applied for full membership of the EU on April 14,

¹ <https://www.worldometers.info/world-population/turkey-population/>.

² “Refugees and Asylum Seekers in Turkey”, UNHCR Turkey, <https://www.unhcr.org/tr/en/refugees-and-asylum-seekers-in-turkey#:~:text=Turkey%20currently%20hosts%20some%203.6,of%20concern%20from%20other%20nationalities.>

³ “Turkey” Introduction and Quick Facts”, <https://www.britannica.com/place/Turkey>

⁴ Ibid.

1987.⁵ At that time, the EU was not accepting the membership application due to internal issues and therefore Turkey took this explanation by the EU. In January 1996 Turkey entered into Custom Union. For Turkey it was an achievement and a gateway for the EU-Turkey relations as a new dimension.⁶

Currently, Turkey is one of the largest trading partners of the EU including Germany, one of the major and largest trading European partner so far in terms of imports (11%) and exports (9%) as of 2020. In 2019, Turkey was considered as the 5th largest trading partner of the EU with exports and providing imports as well. After several years of tremendous growth in the EU-Turkey bilateral trade, 2018 was the year when economic growth was halted due to the economic crisis in the country and then in 2019, it was a mixed one. EU exports goods to Turkey fell in 2019 by 1.3% to 68.2 billion Euros while imports from Turkey rose by 4.4% to 69.8 billion Euros. Turkey's main export markets along with the EU i.e. (42.4%) is Israel, Iraq, UK and USA. Although, imports into Turkey coming from Russia, China, USA and India along with the EU i.e. (32.3%). The EU exports to Turkey consist of machinery, transport equipment and chemical products as well. Turkey exports to the EU mostly transport equipment and textile articles.⁷

These are the countries that imported the most Turkish shipments in the year of 2020. In 2020, Turkey's 15 top trading partners in terms of export sales.

S. No.	Country	US Dollar	Percentage
1	Germany	\$16 billion	9.4% of total Turkish exports
2	United Kingdom	\$11.2 billion	6.6%
3	United States	\$10.2 billion	6%
4	Iraq	\$9.1 billion	5.4%
5	Italy	\$8.1 billion	4.8%
6	France	\$7.2 billion	4.2%
7	Spain	\$6.7 billion	3.9%
8	Netherlands	\$5.2 billion	3.1%

⁵ "History of Turkey-EU Relations", Republic of Turkey Ministry of Foreign Affairs Directorate of EU Affairs, https://www.ab.gov.tr/111_en.html

⁶ Ibid.

⁷ <https://www.worldstopexports.com/turkeys-top-import-partners/>.

9	Israel	\$4.7 billion	2.8%
10	Russia	\$4.5 billion	2.7%
11	Romania	\$3.9 billion	2.3%
12	Belgium	\$3.6 billion	2.1%
13	Poland	\$3.5 billion	2%
14	Egypt	\$3.1 billion	1.8%
15	China	\$2.9 billion	1.7%

Recep Tayyip Erdogan, who is in office since 2003, Turkey had experienced many ups and downs on political front. As compared to Mustafa Kemal Atatürk, Erdogan is a different leader. We can easily explain this in simple words by using the term for Mustafa Kemal Atatürk “Reformer” while Recep Tayyip Erdogan “Revivalist”. Erdogan as a President brought tremendous opportunities for Turkey in terms of economic growth. Before 2018, Turkish economy was considered as the most impressive developing economy in the world.⁸ In addition to this, the Turkish economy officially went towards recession at the end of 2018, inflation, unemployment, conversion value of Turkish lira declined due to these circumstances, people were facing economic challenges. Moreover, in 2018, the Trump administration imposed trade sanctions against Turkey after the incident of American priest and Turkish-American citizens hostage crisis. The behaviour of Erdogan’s government which is popular as an authoritarian one, became one of the reasons for the declining of foreign investments.⁹

From Reformist to Revivalist

Historically speaking after the end of the 600 year-old Great Ottoman Empire in 1922, Mustafa Kemal emerged as a popular leader. He was the one who started the movement for saving the pride of Turkish people and claiming the territories belonged to Turkey. In 1923, he created a new kind of Turkey as a modern state, when the Treaty of Lausanne signed in 1923 in which they recognized Turkey as a complete sovereign state/republic. The popular opinion was that it is not going to help but for the visionary leader Mustafa Kemal this was just the beginning. He became the first President of Turkey

⁸ “Turkey Country Profile”, BBC News, July 10, 2018, <https://www.bbc.com/news/world-europe-17988453>

⁹ “The Cost of Control: President Erdogan and Turkey’s Economic Crisis”, fanack.com, April 2, 2019, https://fanack.com/turkey/economy/turkeys-economic-crisis/?gclid=Cj0KCQjw0c aCBhCIARIsAGAFuMwzsF1DAF6JR-YCS_RgHhEIJGCh4Sztwwm72EBkld5ntH9AorwGnMa Ark-EALw_wcB

in 1923. From beginning till his death in 1938, he set various goals for the country. His first and foremost task was the reshaping of the Turkish nation as citizens of the 20th century. He also introduced the Latin letters for the first time. Most importantly introduced secularism or neutrality, any religious influence was curtailed to a zero level as it was legalise under the constitution as well. He always emphasized gender equality for the rights of women and considered them as equal with men. The government structure and policy of the state was completely transformed. Mustafa Kemal was a true reformer and known as a Father of the Turks means "Ataturk". He is still living in the hearts of Turkish people and will remain so because he reformed Turkey as it should be.¹⁰

The social reforms of Mustafa Kamal were intended to modernize Turkey on secular grounds, he closed all religious schools and opted for secularized public education. He also emphasized on women rights for instance the right to vote and to be elected to the parliament. He also introduced laws related to marriage, abolished polygamy and given the rights to women especially in the matters of divorce, custody of a child and inheritance as well.¹¹ Furthermore, Kemal Ataturk also industrialised Turkey. Under his leadership the industrial sector flourished. During his 15 years of government, he enjoyed powers similar to Erdogan. Ataturk's liberal policies paved the way for Turkey into NATO in 1952.¹² As far as the role of Turkey towards NATO is concerned, Turkey is an important ally of NATO and the significance lies in its size and strategic location and most importantly its military resources. Moreover, after the 2016 failed military coup in Turkey, relations between Turkey and NATO slightly changed, and frustration mounted among European allies when Turkish aggressive and self-serving actions disturbed these powers on the pretext of non-consultation. In the recent scenario, Turkey openly backed Azerbaijan for the efforts the state made for the small landlocked enclave of Nagorno-Karabakh. The international community

¹⁰ "Hannah Lucinda Smith", *Erdogan Rising A Warning to Europe*, 2019, William Collins, pg 24,25

¹¹ "Pinar Ozbek", *Leadership in a global context, Mustafa Kemal Ataturk and His Reforms*, February 08, 2018, <https://sites.psu.edu/global/2018/02/08/mustafa-kemal-ataturk-and-his-reforms/>

¹² "Why the world is worried about Turkey", *Vox*, May 12, 2017, <https://www.youtube.com/watch?v=WBZHdbfuFtw&list=WL&index=66>

more specifically European states criticized and showed their serious concerns towards Turkey's presence there directly or indirectly both.¹³

Moreover, Turkey is also keeping almost four million refugees and especially the Syrian and using them as a bargaining instrument for European states. The EU countries have a fear that Turkey would open the gate towards Europe for them if they are going to opt for mutual understanding with Turkey as happened in 2016 which is considered as the violation of EU-Turkish agreement. The aggressive measures by Turkey would give them serious repercussions in the form of sanctions by the EU and even the cutbacks from the EU fund to Turkey which will have a drastic effect on Turkish economy which is already weakened.¹⁴

After Kemal Ataturk as a reformer, Turkey is now in the hands of Recep Tayyip Erdogan since 2003. In the 2002-2003 general elections, when AKP (Justice and development party) which is Erdogan's party won the elections, he became the Prime Minister for the first time. Although Erdogan denied calling himself a revivalist but his policies are more open towards Turk's rights to express religion overtly. His government lifted a ban on headscarves in 2013, that was the ending of the decade old restriction made by Kemal Ataturk. In the initial years of Erdogan in the office, Turkey has seen economic stability overall with an average annual growth rate of 4.5% and increased its exports. Unfortunately, after 2014, the economic boom which Turkey was enjoying began dwindling and the annual growth rate fell at 2.9% and the unemployment rate also increased with 10%.¹⁵

The major changes he made in Turkey are that the country under his leadership is now more nationalist and conservative one to handle. The policies he introduced so far made Turkey inclined more as hardliners under Recep Tayyip Erdogan as Prime Minister for 11 years. Prior to that, the position was ceremonial but he changed the political structure of Turkey from parliamentary to presidential system.¹⁶

¹³ War on the rocks, "Turkey's crisis with the west: How a new low in relations risks paralyzing NATO", Antoine Got, November 19, 2020, <https://warontherocks.com/2020/11/turkeys-crisis-with-the-west-how-a-new-low-in-relations-risks-paralyzing-nato/>

¹⁴ Ibid.

¹⁵ "Recep Tayyip Erdogan: Turkey's pugnacious president", BBC News, October 27, 2020, <https://www.bbc.com/news/world-europe-13746679>

¹⁶ Ibid.

Turkey is now learning more as autocratic state. Also, there are no real checks and balances as the power which now Erdogan has, he can appoint one or more than one vice presidents and even ministers without consulting or getting the approval of the parliament. In other words, parliament is now present with minimal powers and the concentration of power is now in the hands of the President, the judiciary, media and most importantly there is a curb on the freedom of expression. This is highly unacceptable for the international community especially the European Union. Turkey is now on a different path against the EU's expectation. The new style of governance which Turkey is practicing is not acceptable for the EU and not only the EU, the United States also criticizing the decisions Turkey has made so far. As a result, the country had to face sanctions from the US and other European countries.¹⁷ But surprisingly, with all the criticism and the conditions in Turkey right now, Recep Tayyip Erdogan is still popular among Turkish people. For instance, in July 2020, Turkey's highest court, gave the unexpected decision of Hagia Sophia which is considered as a world heritage by UNESCO to convert it into a mosque from a museum. The decision was highly appreciated by the Muslim majority in Turkey and by the President Erdogan as well. There was a criticism by many on the court's decision and blamed Erdogan for it. The western countries were not happy with the court's decision.¹⁸

The Economic Backdrop

Turkey which was considered as the economic giant in the Middle East or the most impressive developing countries in the world in terms of economy. But with all that boom and economic strength, Turkey is now facing great recession since 2018. During Ataturk's or Erdogan, Turkey's economic condition is not an ideal one. According to Turkey's official statistical institute's data provided on their website, at the end of 2018, Turkey's recession went worse with the shrinking of 2.4% in the final quarter of 2018. In addition to this, critics present the real factors behind this economic condition. Policies of Erdogan towards Turkish economy more specifically the giant and expensive infrastructure projects by the Erdogan's government are the real factors. Also, the authoritarian style of government and policies

¹⁷ "The European Union and the New Turkey", Carnegie Endowment, Marc Pierini, June 26, 2018, <https://carnegieeurope.eu/strategieurope/76683>

¹⁸ "Converting Hagia Sophia into a mosque is an act of cultural cleansing", The Washington Post, Judith Herrin, July 15, 2020, <https://www.washingtonpost.com/opinions/2020/07/15/converting-hagia-sophia-into-mosque-is-an-act-cultural-cleansing/>

put off foreign investors' confidence in the Turkish market. It has been reducing since 2016 because of the last military coup and also the fiscal policy of the government as well.¹⁹ The Turkish lira has lost its value against the US dollar by about 30%. In addition to this, the stock market also slides by 17% and if we evaluate this loss in dollar terms it cost around 40% of decline.²⁰

There is not enough foreign currency reserves and one of the reasons for less exports and declining remittance. According to the data provided by the ministry of foreign affairs (Turkey) on their website, the total number of people living outside Turkey is around 6.5 million. In addition to this, 5.5 million Turkish people live in Western European countries.²¹

Moreover, Turkey has a deficit in its international trade as well. A deficit is a financial term which means “when expenditure exceeds revenues, imports exceed exports, or liabilities exceed assets” or in a simpler form “A deficit can appear when a government, organization or an individual spends more money than it receives in a given period which is usually a year.”²² So, it means Turkey spent more than it earned, which is an alarming situation for the country because that deficit has to be taken or financed through foreign investments in the form of projects or by borrowing from other countries and its companies. In 2018, the percentage of deficit is quite large i.e., 5.5% of national income of Turkey and it was an unusual figure to manage. Also, inflation is one of the main issues currently, because the value of the national currency of Turkey i.e., Lira is declining and for that reason Turkey has to pay a large amount of money for its imports.

Furthermore, the Central Bank of Turkey also set the inflation target with 5.5% but it got doubled in the later part of 2018. The financial market investors are also agitated from the economic policies of President Recep Tayyip Erdogan and then the replacements of three Central Bank chiefs in

¹⁹ “The Cost of Control: President Erdogan and Turkey’s Economic Crisis”, fanack.com, April 2, 2019, <https://fanack.com/turkey/economy-of-turkey/turkeys-economic-crisis/>

²⁰ “Is Turkey heading for an economic crisis?”, BBC News, Andrew Walker, August 9, 2018, <https://www.bbc.com/news/business-45113472>

²¹ “Turkish citizens living abroad”, Republic of Turkey Ministry of Foreign Affairs, <https://www.mfa.gov.tr/the-expatriate-turkish-citizens.en.mfa#:~:text=The%20total%20population%20of%20Turkish,live%20in%20Western%20European%20countries.>

²² “What is deficit?”, Investopedia, Clara Tardi, November 29, 2020, <https://www.investopedia.com/terms/d/deficit.asp>

less than two years made the situation even worse. For President Erdogan, setting a low interest rate is a part of economic strategy and will benefit economic growth.

The overall economic scenario of Turkish economy is weak. The initial years of Recep Tayyip Erdogan for Turkey's economy were good, but the policies and more importantly the autocratic style of government made his perception rigid worldwide. In the recent scenario, when entire world is facing pandemic, the Turkish economy is also badly affected. Unemployment rate is higher than before the Turkish economy's major part dependent on its tourism and because of the Covid-19, the tourism sites are closed and travel ban since 2020. But in the final quarter of 2020, the growth rate increased with 1.8% because of the increased domestic demand got increased, according to economists in 2021, economic growth will expected to continue with the economic growth rate of 5.0%, moreover, the average inflation rate is also predicted to increase but current account deficit is expected to decrease in this year (2021). In addition to this, the poverty rate is expected to increase, which can make the situation more vulnerable and will put pressure on the government to make policies and try to reduce the poverty rate.²³

To put Turkish economy back on the right path requires long term policies, it can be difficult but not impossible. Turkey has to design consistent economic policies and it has to maintain good relations with his largest trading partner i.e. European Union, because the political adventures of Turkey since the last few years especially the East Mediterranean front made EU-Turkey relations weak and this is due to Turkey's involvement in the Syrian conflict, support for Azerbaijan in the conflict of Nagorno-Karabakh or even tense relations with France over anti-Islamism movement by the western countries and even tense relations with the US. All these controversies put Turkey in a vulnerable position in terms of political and economic loss both.²⁴

²³ "Recent Economic Developments", The World Bank in Turkey, April 06, 2021, <https://www.worldbank.org/en/country/turkey/overview#3>

²⁴ "Erdogan's Economic Hail Mary Won't Work", Foreign Policy, Shlomo Roiter Jesner, November 30, 2020, <https://foreignpolicy.com/2020/11/30/turkey-economic-problem-erdogan-mismanagement/>

The EU-Turkey's Relations and its future

The EU-Turkey relations have always been unique, but recently, the European Union does not have the most cordial relationship with Turkey. Both the parties are not considering themselves enemies but the relationship are not smooth. Turkey is European Union's sixth largest trading partner and Germany, who is one of the biggest stakeholders of the EU, is the largest importer of goods and also largest exporter of goods from Turkey as well. As far as the relationship between EU and Turkey are considered historically speaking in 1959, Turkey applied for the very first time for the membership of the EEC (European Economic Community). The application was accepted and in 1989, Turkey applied for full membership but European states have their concerns on the idea of full membership as Turkey is a Muslim country. In addition to this, Turkey also had dispute over Cyprus. These factors were too crucial for the EU to ignore. There are series of events related to EU-Turkey relations for instance in 2007, France and Germany blocked all the negotiations with Turkey related to full membership because it refused to admit its role in the killings of Armenians. But at the turning point in 2016, the failed military coup in Turkey. According to the EU statements there was a violation of human rights. Again, Turkey was highlighted as a vulnerable state and faced criticism from all over the world especially Europe.²⁵

The EU states also have concerns over the way Turkey is handling the issue of migrants. All the migrants present in Turkey 90% are from Syria and from them 3.6 million Syrians registered themselves for temporary protection in Turkey and as a consequence, EU states have raised so many questions on it. The EU have raise security concerns because of the migrants. Also, the European citizens fear that they (migrants) will put pressures on the job opportunities and it will affect them negatively.²⁶

In 2016, after the failed military coup, the European Union set out the EU Global Strategy plan regarding matters in which they emphasized on some important issues specifically. For instance, terrorism and migration challenges Turkey is facing have to deal jointly, also Turkey's unique geo-strategic location is important for the EU but its rigid attitude towards

²⁵ "Gravitas: Will the EU sanction Turkey?", WION, December 03, 2020, <https://www.youtube.com/watch?v=0cf02XTyzvc>

²⁶ "Migration in Turkey", IOM UN Migration, IOM Turkey, <https://turkey.iom.int/migration-turkey>

political activities cannot be ignored. Furthermore, Turkey has to promote political reforms in the country, take economic measures, rule of law in the right direction and maintain good relations with neighbour states as well for the interest of EU-Turkey relations. More or less Turkey does not fulfill all the guidelines set by the EU.

Recently, Turkey involved itself in the dispute between Armenia and Azerbaijan over the disputed area of Nagorno-Karabakh and fully supported Azerbaijan and faced backlash by the EU states. Later on, the gas exploration in the eastern Mediterranean which also exacerbated the dispute between Cyprus, Greece and the other Eurasian countries rich in natural resources and as a result the EU imposed sanctions on Turkey in December 2020.²⁷

The future of EU-Turkey relations depend on the future policies and initiatives by Turkey. Both can maintain good relations by avoiding conflict in the disputed regions and by mutual cooperation in the fields of economy, politics, culture and other matter as well. The EU has concerns over the migration crisis, according to the EU states if the migration flow will not manage properly it will create a huge crisis politically and economically as well. As far as economic relations are concerned, EU-Turkey economic relations is the core and it was the base of Ankara Agreement of 1963, Turkey has to focus on it.²⁸

Conclusion

EU is the largest trading partner of Turkey, the important political ally and a NATO member as well. The association between the EU and Turkey is now more than six decades old and in this span of time both the EU and Turkey faced numerous challenges. Turkey's unique geo-strategic location makes Turkey extraordinarily unique in the region and for the EU, Turkey's importance is undeniable. But unfortunately, since the last few years Turkey has involved itself in the conflicts. The country is in a precarious situation right now due to the policies and the mismanagement of President Recep Tayyip Erdogan. Recep Tayyip Erdogan is the popular leader among the masses. Turkey got involved in more conflicts than ever before, all the major countries like France, Germany, the US especially have set their eyes on Turkey. The inflation rate is getting high, the value of its national currency

²⁷ "The future of EU-Turkey relations", Atalay, Andrea Polidura, January 1, 2021, <https://atalayar.com/en/content/future-eu-turkey-relations>

²⁸ Ibid.

(lira) dropping, the growth rate is suffering and due to the current pandemic the tourism industry also suffered hugely. Turkey's involvement in the eastern Mediterranean made EU-Turkey relations tense. Erdogan's policies towards Syria, Iran, put Turkey in an awkward situation. The tensions between Cyprus and Turkey is an issue. Meanwhile Erdogan's confrontation with European leaders and then purchasing of S-400 missiles from Russia is another point of concern for the European and Western powers. In addition to this, the centered approach of government by Recep Tayyip Erdogan is taking Turkey towards an orthodox route despite calling itself a secular state. The future of EU-Turkey relations purely dependent on the progress of economic plus political realm. There is also a need to revive the policies by the government for the betterment of its people and for the future relationship of Turkey especially with the European Union.