

Dealing with Risk: If Turkey and Europe Break Up...

Katinka Barysch and Charles Grant¹⁹

During the first year of EU-Turkey accession negotiations, one thing has already become abundantly clear: Turkey's path will be rocky. It may even lead to nowhere. Olli Rehn, the EU's enlargement commissioner, famously warned of a "train crash" in EU-Turkey accession negotiations, caused by either disagreements over Cyprus and/or the slowdown of political reform in Turkey.

The EU and Turkey may manage to salvage accession talks in 2006, but the risk that they may fail in subsequent years remains substantial. Even if the EU overcomes hostile public opinion and Greek Cypriot stubbornness, a disillusioned Turkey may decide to turn its back on the EU. What would be the consequences?

The most immediate impact would be on Turkish politics. The goal of joining the EU has helped to glue together an array of political forces, including Kemalists, Islamists, nationalists and liberals. If this glue dissolves, Turkey may return to the bad old days of political instability. "We told you the EU wasn't serious," the nationalists would say, promoting the idea of a sovereign and independent Turkey. The hopes of the Kurdish minority to obtain better rights under the aegis of the EU would dwindle. The more traditional Islamist factions in Prime Minister Erdogan's AKP would feel reconfirmed in their view that Turkey was never going to be a mainstream European country anyway, and they could make a new push to achieve objectives such as changing the rules on wearing the veil in public places. This, in turn, would fuel the Kemalists' suspicion that the AKP's hidden agenda was to undermine Turkey's secular traditions. The liberals – who have seen the EU as an anchor for Turkey's modernization – would be close to despair. The Turkish army would be on stand-by once again, ready to take over if and when the country descended into political turmoil. The positive momentum of political reform would stall.

Political instability would not bode well for economic policy and investor confidence. In less than five years, Turkey has managed to graduate from economic basket case to growth story. Since the last meltdown in 2001, real GDP has expanded by

7% a year on average, inflation is down to single digit figures for the first time in decades, and FDI has risen from next to nothing to €10 billion a year. Jitters in currency markets no longer lead to crises. More responsible policy-making and the prospect of convergence with the EU appear to have put a floor under the lira. Both the IMF and the EU have underpinned these improvements: the IMF by limiting Turkey's traditionally spendthrift policies; and the EU by nudging Turkey to adopt more liberal and transparent rules in competition, telecoms and banking.

The IMF is still holding Turkey's hand until 2008, when the current stand-by agreement runs out. After that, the risk of macroeconomic slippage would increase. With the EU anchor gone as well, microeconomic reforms may also stall. Turkey would presumably maintain its customs union with the EU (although Turks have tended to see this as a preliminary step towards membership). But the government would see little need to make further progress with bringing its business environment in line with EU requirements. As a result, West European businesses would feel less at home in Turkey. The spectre of less foreign investment must be hugely uncomfortable for a country that runs an annual current-account deficit of €20 billion.

German politicians in particular argue that, if EU accession negotiations fail, Turkey could be persuaded to accept a "privileged partnership" instead. For those opposed to Turkish membership, this represents the best possible outcome: Turkey would still be closely aligned with the EU but it would not have a seat at the decision table. Nor would it get much money. But this view may be too sanguine. An angry and disappointed Turkey will probably say "No thank you" to any close EU relationship that falls short of full membership. Many Turks would argue a mixture of close economic ties (in the shape of the custom union) and arms-length political relations are better than being fobbed off with a "privileged partnership".

Political and economic instability in Turkey would not only be bad news for Turkey itself. It would also be bad for Europe. There would be opportunity costs for the European economy: Turkey's fast-growing economy adds a degree of dynamism. And Turkey's

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young and fast-growing workforce could help other European countries mitigate their demographic problems.

An end to accession talks would also have a negative impact on EU foreign policy. It would damage the EU's ability to influence the Middle East, and would not help its role in the Islamic world. Turkey's accession process has provided Europe with an invaluable commodity in the Islamic world: credibility. An EU that rejects Turkey could be seen as a Christian club; its potential to play a leading role in the Middle East peace process would diminish.

And then there are implications for wider Europe. An end to accession would not be good for Turkish-Armenian relations. Turkey knows that if it wants to join the EU, it will need to reopen its frontier with Armenia. Take away the goal of EU membership, and Turkey has few incentives to do that. Continuing poor relations between Turkey and Armenia would ensure that Turkey had little influence over the Nagorno-Karabakh peace process, and would minimize its influence over the Caucasus region generally.

Rejected by the EU, Turkey might turn its attention to other potential allies. Russia has already taken steps to woo Turkey. Trading and political ties have burgeoned. Many senior figures in the Kremlin argue that both countries are outcasts from the European mainstream and should therefore stick closely together. There are other similarities as well, for example the two countries' tendency, in difficult times, to resort to nationalist posturing or paranoia.

Russia is not only looking for friends. It is also worried that a more European Turkey would undermine Russia's hold over European energy markets. At present, most of Europe's gas comes through pipelines that run over Russian territory. But the EU wants to diversify in the name of energy security. Almost all alternative routes for gas from the Caspian and the Middle East would go through Turkey. Turkey cherishes its growing importance as a European energy hub. But if it turned away from the EU, towards Russia, the EU may find it a lot more difficult to decrease its reliance on Russian energy

and pipelines. Closer political ties to Russia, however, are unlikely to undermine the overall western orientation of the economy.

A closer Turkish-Russian alliance could also have implications for Cyprus. Russia has been protecting Cyprus at the United Nations, preventing the UN Security Council from passing resolutions that are critical of Greek Cypriot obduracy. There are some signs that Moscow may be reconsidering. However, a shift in Russian policy would be immaterial if EU-Turkey relations broke down – because this would almost certainly end hopes of reuniting the island. Without the goal of EU accession, Turkey has few incentives to make the concessions required to get the Greek Cypriots to compromise and accept a revised version of the Annan plan. Northern Cyprus would in the long term head towards gradual integration with Turkey – even if the “Turkish Republic of Northern Cyprus” claimed to be an independent state.

A disappointed Turkey would look around its neighbourhood for allies. At various times since the break up of the Soviet Union, Turkish politicians have talked of reviving their country's ancient cultural ties with the Central Asia states (all of which speak Turkic languages, bar Tajikistan). But little has come of it, and Central Asia does not provide a serious alternative to Europe, given the small size of the Central Asian economies. Russia and China will remain the dominant countries in the region. The AKP government has taken a closer interest in the Islamic world than earlier secular governments. Turkey has become an active participant in meetings of the Organization of Islamic Conference. If talks with the EU collapsed and AKP stayed in power, these ties would probably deepen.

Nevertheless, even if EU talks collapse, Turkey's overall orientation – both in trade and politics – would remain westward. Turkey would continue to modernize and open its economy, and consolidate its democracy. However, progress would be much slower and more patchy than it would be if Turkey stayed on the EU accession path.