

INTRODUCTORY COMMENTS

“TRADE AND GLOBAL ECONOMY: EU AND TURKEY” “EUROPEANISATION AND THE ROLE OF ECONOMIC ELITES IN ROMANIA, HUNGARY AND TURKEY”

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This special issue of the journal is composed of the contributions from two conferences organized by the Department of European Studies, Graduate School of Social Sciences at Dokuz Eylül University, Izmir. The conferences were supported under the JM Chair in European Economic Integration (07/0013), and were concluded in cooperation with national NGOs. The conference titled “*Trade and Global Economy: EU and Turkey*” on 21st April 2010 was in cooperation with Economic Development Foundation (IKV). Prof. Dr. Haluk Kabaalioglu, President of Economic Development Foundation (IKV) and JM Chair in European Law at Yeditepe University, Prof. Dr. Michael Smith from Loughborough University, UK, Dr. M. Sait Akman from Marmara University and Turkish Economic Policy Research Foundation (TEPAV), and Mr. Şahin Yaman, Deputy Director General for Economic Research and Evaluation, Undersecretariat of Foreign Trade of Turkey were the contributors of this conference. Dr.Nevzat Şimsek, Dr.Dilek Seymen and Prof.Dr. Utku Utkulu were the main contributors from the Department of Economics at Dokuz Eylül University. The discussion centred on the role of EU as a global actor, European trade strategy and its impact on Turkish trade policy under the framework of the Customs Union and the assessment of Turkey’s Competitiveness in the EU market and the Turkish and EU negotiation positions in the Doha Round.

The conference on “*Europeanisation and the Role of Economic Elites in Romania, Hungary and Turkey*” which took place on 27th April 2010 was in cooperation with Aegean Young Businessmen Association (EGIAD). Prof. Dr. Nicolae Paun from Babes-Bolyai University and Prof. Dr. Tibor Palankai from Corvinus University of Budapest, both Jean Monnet professors, contributed to the conference by sharing the experience of the transition periods of the two EU members, which were previously under the communist regime.

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This special issue includes seven papers. The first five papers mainly discuss the global trade agenda, the transformation of European trade policy from multilateralism to bilateralism and its impact on Turkey's trade policy under the obligations of the Customs Union. The next two papers cover issues related to Europeanisation and the role of elites in the process, with specific case studies of Hungary and Romania. Each paper provides significant insight and suggestions for academics, researchers and policymakers.

“TRADE AND GLOBAL ECONOMY: EU AND TURKEY”

The agenda of global trade recently is dominated by the world's most severe financial and economic crisis since the Great Depression. After decades of steady growth, the volume of international trade shrank for the first time since the Second World War (Bellmann, et al. 2010: 163). The remarkable trade reforms of the 1980s and 90s slowed down in the early 21st century. While the 1990s witnessed major achievements in terms of trade policy such as the Uruguay round, the Single Market of the European Union, the North-America Free Trade Area (NAFTA), the zero-tariff agreement on trade in ICT goods (ITA) – the first years of the 21st century have been “a lost decade” (ECIPE, 2010: 3). Reforms aiming to open economies to global competition have been limited in the new century, and many countries have become more defensive in trade relations. In terms of the WTO negotiations, the Doha Round of trade talks is almost in deadlock, and neither EU nor USA is taking political leadership for making it work. In addition, there are many who argue that the Doha Round agenda does not reflect present problems but reflects concerns of the late 1990s. Thus many countries and global actors including the EU, not finding a solution at the multilateral level, try to address the issues through bilateral measures. Preferential Trade Agreements (PTA), and/or bilateral Free Trade Agreements (FTA), are in their heyday.

The global economic crisis has set off fears of creeping protectionism. The developed nations breed the protectionism with the perception of “Keynes at home, Smith abroad” (ECIPE, 2009). The number of PTAs in force has increased swiftly; around 250 PTAs have been notified to the WTO. Other bilateral agreements are being negotiated in different parts of the world. The European Union has joined the FTA trend in 2006, under its trade strategy labelled “Global Europe: Competing in the World”, which underlines the importance of strengthening bilateral trade relations with a set of carefully targeted emerging markets. Although the policy statements reiterate the EU's commitment to multilateralism in trade and to the completion of the Doha Development Agenda (Woolcock 2006: 1), EU usually sees FTAs as a faster and more flexible way to secure preferential market access in the absence of progress at the multilateral level (Bellmann 2010: 178). The trade policy climate in the coming years will not be very different and it will affect the mood for trade liberalisation reforms. The recent Europe 2020 strategy of the EU aims to achieve prompt recovery of the crisis, and then to set out to enhance structural change and drive economic growth. It recognizes that “the EU has prospered through trade, exporting round the world and importing inputs as well as

finished goods.” It also concludes that “faced with intense pressure on export markets and for a growing range of inputs “, it must improve its competitiveness through higher productivity. However it does not have a specific trade component but rather says that the Commission will draw up a trade strategy in 2010(European Commission, 2010: 12, 22).

The first paper entitled “Turkey-EU Customs Union: Problems and Prospects” by Kabaalioglu, analyzes the Customs Union between EU and Turkey specifically focusing on the problems faced by Turkey due to the implementation of the Customs Union. Turkey, not being a full member, is not included in decision-making process but has to adopt the rules decided by the EU. Although full membership of Turkey to the EU will bring solution to this problem, until that date, Kabaalioglu argues that “current problems have to be resolved within the Association Council by way of joint decision –making mechanisms”.

The second paper, entitled “The European Union’s Trade Strategy and its Reflections on Turkey: an Evaluation from the Perspective of Free Trade Agreements” by Akman, analyzes the European Union’s new trade strategy of concluding a series of Free Trade Agreements (FTAs) with third countries and its impact on Turkey-EU relations. It discusses the path of Europe towards initiatives for bilateral and preferential agreements (PTAs) in its ‘Global Europe: Competing in the World’ communication which was adopted in 2006 under the vagueness of WTO negotiations to be concluded in the foreseeable future. Since the EU roughly replaced the multilateralism by bilateralism in its trade strategy, Turkey has to align its trade policy to the EU’s preferential regimes, pursuant to its obligations arising from the Customs Union (CU). Hence, it has concluded so far sixteen FTAs with relevant countries. The paper concludes that “aside from technical aspects of the CU, the ‘political uncertainty’ converged around the ‘open-endedness’ of the membership process, affects the CU, Turkey’s most vital linkage to the EU”.

The third paper, authored by Yaman, entitled “*Non-Agricultural Market Access Negotiations and Turkey*” focus on analysing Turkey’s position and constraints in the WTO Non-agricultural Market Access Negotiations (NAMA) especially vis-à-vis developing countries. Turkey’s unique negotiating position; de jure developing, de facto an advanced economy status in the WTO Doha NAMA negotiations is discussed in detail. Turkey’s constraints in trade liberalization process under WTO negotiations stemming from the Turkey-EU Customs Union (CU) are also considered. This study concludes that despite the constraints and dilemmas stemming from the EU-Turkey customs union, it is in Turkey’s industrial interests to be actively involved in the WTO to tackle the high tariffs, tariff peaks and escalations which also hinder Turkey’s exports to the world markets.

The fourth paper by Smith titled “*The European Union as a Global Trade Actor: Challenges and Opportunities*” discusses the challenges and opportunities that the European Union faces specifically in terms of its trade and broader commercial policies, in this period of transition. Within the framework of EU’s ‘actorness’ in international context, its changing position in world trade, with the current trade agenda and the new agenda of broader commercial policy, the paper

provides an insight by reviewing potential future opportunities and challenges concerning EU trade and commercial policies.

The fifth paper by Şimsek, Seymen and Utkulu basically explores the competitiveness of the Turkish industries in the EU Market by employing different trade measures such as the Balassa's Revealed Comparative Advantage Index (RCA), Vollrath's Revealed Competitiveness Index, Grubel-Lloyd Index, and Brülhart B Marginal Intra-Industry Trade Index. The paper not only focuses on various RCA indices but some additional and complementary measures of competitiveness which underline different aspects of competitiveness. Consistency of the results of various trade measures are then compared by using the Sperman Rank Correlation and Kruskal Wallis tests. Based on the empirical results, the authors draw valuable policy implications.

“EUROPEANISATION AND THE ROLE OF ECONOMIC ELITES IN ROMANIA, HUNGARY AND TURKEY”

The concept of Europeanisation emerged as a new analytical framework in European Studies and has become a commonly used conceptual and theoretical approach for studying the EU and its influence on the current and future EU member states. Although most of the literature in Europeanisation studies has focused on ‘top-down’ approach analysing the impact of its transformative power on the countries that have already joined the EU, Europeanisation can also be exported towards the candidate countries where EU exerts similar pressure. (Balkır & Soyaltın 2009:2) EU's transformative power catalyses fundamental democratic and economic reforms and domestic change in these countries where conditionality is placed very much at the centre. It is also important to remember that Europeanisation is not only related with institutional, legal or structural reforms but it also includes change in informal structures. Therefore according to Radaelli Europeanisation is “a processes of (a) construction (b) diffusion and (c) institutionalization of formal and informal rules, procedures, policy paradigms, styles, ‘ways of doing things’ and shared beliefs and norms which are first defined and consolidated in the making of EU decisions and then incorporated in the logic of domestic discourse, identities, political structures and public policies” (Radaelli 2000: 4).

It is obvious that European integration has been pushed mainly by the elites, political as well as economic elites. Elites are important in modern societies in affecting and channelling the public opinion. In 1950s, it was the political elites, such as Jean Monnet and Paul Henri Spaak, who were at the forefront of the European integration process. At the time of the Single Market, the main catalysts of the process were the economic elites. Owners and managers of large corporations and the leaders of business interest groups have been very influential in the process of European economic integration. These elites operate under contradictory pressures both from below and from above. The pressures from below come mostly from organisations representing small business, labour unions,

agricultural producers, pensioners and others. Pressures from above stem primarily from supra-national bodies, including international financial institutions like the IMF. The pressure of EU conditionality is another international pressure for the countries in accession or candidate countries.

The influence of transformative power of the EU on receiving countries depends on domestic configurations. The national features continue to play a role in shaping the direction and extension of diffusion of European norms. The target countries are offered political rewards in return for compliance; the full membership is the greatest reward to be offered. The domestic adoption costs and the response of economic and political elites greatly affect the compliance decisions of target governments. Thus, Europeanisation becomes gradually incorporated in the *rationale* of their agendas, discourses and behaviour (Balkır & Soyaltın 2009: 3).

Both ‘liberal intergovernmentalist’ and ‘supranational governance’ approaches perceive major national or transnational economic interests as the main explanatory factor of European integration (Grossman 2004:637). Liberal intergovernmentalism offers a sophisticated theory of interest group behaviour and attitudes towards European integration. Grossman cites Moravcsik (1993, 1998) stating that it is the interests of big multinational and financial firms that determined the positions of national governments on the major issues at the negotiations preceding the Single European Act and on economic and monetary union (Grossman 2004: 639). Thus the power base of economic elites in Europeanisation is based on this reality. Usually, when speaking of economic elites, one thinks only of the owners and managers of large corporations since they are the most powerful and can exert direct influence on politics. They control budgets which are larger than those of many small states. Thus, it is not surprising that these elites have huge influence in modern societies. However, small and medium sized enterprises needs to be considered as their dependents represent significant fractions of voters and some of them have strong interest organizations. The same can be referred for farmers and their associations. In the process of European integration, along with the owners and managers of large corporations, the leaders of agrarian and other interest groups have also been influential.

The economic elites act as agents of Europeanisation, while at the same time being transformed in the process. Within this context, business leaders, business associations and trade unions are among the key actors. The integration process affects not only the socio-economic environment in which these elites and their interest associations act but also their institutional structure. Business-government relations are also transformed by the impact of EU integration. The Europeanisation process puts pressure on national business organizations to adapt to new policy structures and offers them considerable opportunities to improve their organizational structures and capacity to intervene in national policy-making. However, the ignorance of EU institutions and policy-making as well as the uncertainty associated may make it difficult to evaluate economic or political opportunities arising from EU integration. Thus Grossman challenges the IPE

hypothesis according to which economic actors with mobile capitals will *necessarily* favour more liberalization and hence European integration (Grossman 2004:641).

Economic systems are liberalized through market-oriented reforms while political systems undergo a parallel transformation calling for the expansion of democratic process, respectful of universally recognized rights and freedoms. The state no longer dominates the national system alone, as transnational influences concerning human rights and democracy equally shape the domestic scene. Within this context, economic elites put pressure not only for the economic liberalization but also the political liberalization, with the notion that liberal economy is only possible with a democratic and a liberal system in politics.

Nicolae Paun and Tibor Palankai contributed to the conference of “*Europeanisation and the Role of Economic Elites in Romania, Hungary and Turkey*” on April 27, 2010. Their papers showed the importance of economic elites in the Europeanisation process of Central and Eastern European countries. Paun analyzes the impact of Romanian economic elite on Romanian development, modernization and the Europeanisation process. The positions of elites in general and economic elites in particular have played a decisive role in Romanian history. The paper analyzes the interwar period, the communist regime and subsequently, the post-revolutionary era. It assesses the most significant contributions of this highly dynamic social segment to the progress of modern Romania, with special emphasis on the most notable representatives of the economic elite and their evolution in the changing political context of the last nine decades. The study relies on extended personal research conducted over the years in national archives, as well as on a vast bibliography.

Palankai in his paper argues that current Hungarian elite was born from the transformation period in early 1990s. After briefly explaining the transformation of Hungarian economy after 1990, Palankai focuses on the new economic elite in Hungary and its impact on Europeanisation. According to Palankai, the Hungarian economic elite is not a unitary group. The older generation was already in management or owner positions before system changed, but they did not come from Communist political nomenclature. The second generation finished their university studies in the late 1980s, without any initial capital, and their emergence showed greater similarities to Western contemporaries. Other parts are managers and technocrats of big companies, bankers and also from SMEs. The Hungarian elite is Europeanised, but divided, because some part, particularly national companies and SMEs are negatively affected by process of European integration.

As for the Turkish case, the role of the economic elites is especially important, as both Turkey and the EU has viewed the economic aspect of Turkish accession as a case of "win-win game". The country is an important market for EU goods and services, it is the seventh biggest trade partner and the EU firms have invested significantly in Turkey. In addition, the experience of corruption, economic mismanagement and political instability in the 1990s has led the Turkish economic elites to the conclusion that the country needed an outside anchor for

stabilization and good governance. The Helsinki decision granting candidate country status to Turkey for EU membership has opened the pathway for the EU to play such an anchoring role. But the real breakthrough came in the aftermath of the deep economic crisis of 2000-2001. The Turkish economy in the post-2001 era witnessed a successful transformation with an ambitious reform agenda to strengthen the financial sector, banking sector and social sector. The main target of fiscal policy was to implement fiscal discipline, formulating the budget and debt structure in line with the Maastricht criteria. Subsequently, national elections in 2002 ended decades of unstable coalition governments and Justice and Development Party (AKP) won an absolute majority in parliament and established its position as pro-EU and pro-reform. This increased the ruling party's credibility in the eyes of the country's liberal business leaders.

The Turkish business community, notably the big business, has become quite vocal in the Europeanisation process in the post-Helsinki era. The interaction with EU level policy making has somehow shaped their negotiation patterns and their interventions in the national reform process. Thus, they have been both actors and subjects of Europeanisation process in Turkey and the vigorous supporters of economic reform programme in the country. Thus Progress report 2009 concludes "As regards the economic criteria, Turkey is a functioning market economy. It should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that it continues implementing its comprehensive reform programme in order to address structural weaknesses" (Commission of the EC, 2009: 33).

The debate concerning the CU in Turkey has been basically between the supporters who believe that the CU will yield positive results in the medium and long term, and the opponents, who argue that it will impair Turkey's economic interest. The CU was perceived in big business circles as a cure-all that would impose discipline on the domestic market, correct the balance of payments, provide funding, and promote foreign investment. Assessing closer relations with the EU as a counter-weight to the inward looking etatist economic policy, the business community controlled by large enterprises around Istanbul supported the CU. On the other hand, the small and medium sized companies were against the CU claiming that tariff dismantling beyond a critical point would eradicate domestic producers.

However, the ongoing conditionality based accession process diminished the expectations of even the big corporations. Hence, added with uncertainties of global challenges on EU trade policy, Turkey is questioning the requisites of the Customs Union, which seems unsustainable in the long run without a full membership perspective.

The EU has been less receptive to the sensitivities of Turkish business even in the 80s, by imposing quotas on Turkish textile exports under the name of voluntary export restraints. Today, some of the countries with which the EU had concluded or continue to negotiate FTAs are not willing to have a similar preferential arrangement with Turkey, even after the added 'Turkey clause' in the

FTAs. This clause is not authoritative legally and in practice it takes a few years before Turkey can conclude a FTA. This puts Turkish exporters into a disadvantageous position with regards to EU exporters, who can obtain preferential status years earlier. FTAs are not new for the EU; they have been part of the negotiations for Economic Partnership Agreements with the African Caribbean and Pacific countries. However, the concern has become more important for Turkey with the second-generation FTAs with countries such as South Korea and India, which are competitors of Turkey in EU markets, particularly in sectors that compose considerable part of Turkey's foreign trade.

Remarkably, the EU integration process has not so far opened up significant divisions within the Turkish business community. The main reason is that the Turkish business bore most of the adjustment costs in the years following the conclusion of the CU in 1996, at a time when it was difficult to disentangle the adverse impact of the CU from the country's chronic macroeconomic instability. In addition, there has not been any major market opening since the completion of the customs union, as the negotiating process is rather slow. As the EU negotiations move into new areas, the sectoral impact of EU integration will become more obvious and may cause divisions in the business community. Already, TUSIAD – which represents larger, more internationally competitive businesses – exhibits a more pronounced pro-accession stance than TOBB, which is seen as the representative body of medium and smaller businesses. On the other hand, farmers have not so far been vocal in the EU process.

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