

XIIth CONFERENCE of the MEDITERRANEAN COMMISSION**Turkey as a European and regional hub**
Implications for Euro-Mediterranean relations

Istanbul, 5-6 February 2016

Summary of the meeting

« Is Turkey a European and regional hub? » this was the topic of an international conference that was organised in Istanbul on February 5th and 6th 2016. The meeting analysed Turkey's strategic position as a bridge between Europe and other neighbouring regions and its implications for Euro-Mediterranean relations in four different sectors: energy, finances, infrastructures and production. The conference concluded that Turkey already is an enviable transit hub, but that the bar should be put higher to make it into a real trading hub. The speed of the EU accession process will of course play a determining role.

The international meeting was attended by some 80 participants from the EU and Turkey. The conference was co-organised by IKV (Economic Development Foundation, Istanbul), CIDOB (Barcelona Centre for International Affairs) and the Mediterranean Commission of ELEC (European League for Economic Cooperation, Brussels).

In his welcome remarks **Carles Gasòliba, president of CIDOB and of the Mediterranean Commission of ELEC**, pointed out that the previous meetings of the Mediterranean Commission which started in 1996, focused primarily on the western part of the Mediterranean. By addressing in this 12th conference the eastern part of the Mediterranean, the key role of Turkey in Mediterranean affairs is acknowledged. Since the aim of ELEC is to support a greater and deeper European Union, it also wants to improve the relations with Turkey. Gasòliba thanked the co-organisers of the conference, as well as the co-sponsor, the Obra Social of the La Caixa Foundation.

President Ayhan Zeytinoglu of IKV explained that his organisation, that celebrated its 50th anniversary in 2015, is specialised in EU and Turkey-EU matters. Turkey realised an annual economic growth rate of 4.7% in the period 2002-2014, thanks to the tentative EU membership perspective that was an anchor for reforms. Turkey is now the 18th economy in the world and member of the G-20, and has made considerable progress in tackling its macro-economic imbalances. Hopefully the refugee crisis will speed up the accession proceedings with the EU.

Hansjörg Haber, the head of the European Union delegation in Turkey, pointed out that Turkey and Istanbul have always been a hub in a wide variety of fields, ranging from culture to the topics that are discussed at this conference: energy, finance, infrastructure and production. In energy, Turkey has an enviable position since it is a bridge between the consumer countries in the west and the oil and gas producing countries in the east, although it lacks physical connections and an integrated market. In finance Istanbul has an outstanding potential. Much will depend on the stability of the legal and fiscal environment. Infrastructure has been considerably upgraded, also thanks to substantial grants by the EU, but much remains to be done in education and training. Finally, Turkey is also a favourable hub for production, in sectors such as automotive, pharma and services.

Rauf Engin Soysal, Turkish undersecretary for EU affairs, reminded that we live in critical times, facing immense challenges. Turkish-EU closeness matters more than ever, as was demonstrated during the November 2015 summit between Turkey and the EU. We are all Mediterraneans. It is time to act in favour of full EU accessibility. On the question whether Turkey is a European and regional hub, Soysal claimed that Turkey is already in the very heart of Europe. But the bar should be set higher. Turkey has already a privileged position in the EU and NATO and the same should be pursued in the whole surrounding region. The immigration crisis is now the top priority and the EU and Turkey have to respond together. Turkey has proved it is up to the challenge. With its economic growth of more than 4%, Turkey is already number four on the world ranking. Every day the country raises the bar on fundamental rights and freedoms. It wants to capture the momentum of European and global values. Turkey is not a country of barbarism and terrorism, but a big laboratory in combining traditionalism with modernism. If Europe puts the focus on the Mediterranean, it would in fact return to its own foundations.

Energy hub

The first session of the conference on Turkey as a European and regional hub was devoted to the energy sector. **Sohbet Karbuz from the Observatoire Méditerranéen de l'Energie** in Paris that gathers energy companies that operate in the Mediterranean, first wondered what “a hub” means. The term refers to a corridor, a transit, but a good hub should also be a trading platform. In gas, Turkey still has a long way to go, but the potential is there. Karbuz referred to the Turkish Stream plans and the many challenges in the gas market (Russia, storage, legal framework). A domestic production would be a plus. One should also keep in mind that global gas markets are changing (LNG, shale oil, prices). At the same time, Turkey should make efforts to act as an oil hub. The name “hub” or “transit” is not important, what is needed is a 20 or 30 year strategic plan.

Ridvan Ucar, general manager of Aygas Natural Gas Wholesale Trade, agreed with the analysis of the former speaker. One should look at the map and see where the best location for a hub is. Turkey is situated in-between consumers and producers, but it is more than only a pipe line. Making a transit hub into a trading hub demands efforts. Turkey should not miss the boat to become a trading hub and should not be afraid to make mistakes while doing so. This requires liberalisation, which is a long term process. For the EU, Turkey can offer supply security.

Olgu Okumus, project manager of the energy division of the Union for the Mediterranean, said her organisation tries to enhance cooperation with the Mediterranean through concrete projects. By way of energy platforms, it provides a permanent forum, e.g. gas, regional electricity markets and renewable energy. In electricity transmission, Turkey links the eastern part of the Mediterranean.

Financial hub

During the second session, Turkey's role as a financial hub was discussed. According to **Fabian Briegel, economist at Rabobank** (Netherlands), Turkey's potential as a financial centre is considerable but it will take time to achieve this goal. Among the many favourable factors, the fact that Turkey is an EU accession candidate is of utmost importance. In international rankings Istanbul is not so far behind Paris or Amsterdam. The Turkish capital market is dominated by banks, while financing through stocks and bonds plays a minor role. One of the weaknesses is the dependence on foreign funding because Turkey struggles with its current account deficit, which in turn results in exchange rate volatility and high inflation. This contrasts with countries such as the UAE and Saudi-Arabia that can rely on local financial savings. So macro-economic reforms should be continued, while micro-economic policy should enhance public stock listings, corporate governance and information to foreign investors.

Rankings may act as an incentive for politicians, but according to **Alvaro Oritz, economist at BBVA Bank** (Spain), the problem is that there are no safe havens in emerging markets. Turkey has a Chinese growth rate of 4% but is surrounded by countries such as the Ukraine, Syria, Iraq and Greece. Among the positive factors, he mentioned the reduction of the current account deficit from 10% to 4%, the absence of an ageing population, the potential for corporate profit growth, the excellent infrastructure and a good image. The accession process to the EU is - just like it was in Spain - a positive thing because it makes reforms necessary, be it that the political crisis in the EU makes it more difficult than before. Turkey should make efforts to improve its comparative advantages, but Oritz recommended to select priorities rather than aiming for all components of the ranking. Turkey should not forget either that Hong Kong and Singapore were trading centres before they developed into a financial centre.

Yavuz Canevi, chairman of the Turkish Economy Bank and former governor of the Turkish Central Bank, referred to the action plans that were launched to make Istanbul an international financial centre. They are now for 80% completed, but challenges remain ahead. The most important is that after a sleeping period Turkey is now re-emerging as a candidate EU country. This horizon should be finally cleared. Other challenges are the normalisation and democratisation process, private lead growth and reducing inflation. It is also essential that the new administration structure that needs to be set up for the international financial centre of Istanbul, should not be run by the government. At the same time, Istanbul should look for specific financial niches such as Islamic finance or a regional centre for multinationals' administration. After the banking crisis, Istanbul already improved its relative performance. There is a window of opportunity. By 2050 the Turkish economy will be the 9th economy in the world (versus 16th now) and the third in Europe (versus 6th now). The contribution to GDP of a financial centre could be as high as 8%.

The debate after the financial hub session treated topics such as Turkish migration to the EU, Syrian refugees in Turkey, challenges of turning developing countries into developed countries and access to Far East savings and investments.

Infrastructure hub

The third session analysed Turkey as an infrastructure, communications and logistics hub. **Yigit Alpogan, deputy secretary general of the Union for the Mediterranean**, explained that his organisation brings together the 28 EU member states and 15 countries from the southern and eastern shores of the Mediterranean. It was launched in 2008 by then French president Sarkozy as an alternative to Turkey's admission to the EU. The UfM strictly focuses on projects, and does not interfere with the peace process in the region. Syria's membership, for example, is suspended until peace comes back to the country. But through political engineered solutions, the UfM brokers delicate projects such as the desalinisation project in Gaza, the trans-Maghreb highway, and projects between Morocco and Algeria. In infrastructure, the UfM would like to expand the trans-Maghreb highway around the whole Mediterranean Sea. It promotes linking the north and south of the Mediterranean by the "Motorway of the Sea" initiative.

Evren Bingöl of the International Transporters' Association indicated that the improved quality of Turkish infrastructure made Turkey climb in the logistic sector index of the World Bank from the 39th place in 2007 to the 30th place in 2014, on a total of 160 countries, and this despite a setback in timeliness and price competitiveness. She focussed specifically on road transit, which handicaps greatly the customs union between Turkey and the EU. A Turkish truck that transports goods to, for example, Germany, is submitted to successive quota when it wants to drive through countries such as Bulgaria, Romania, Hungary and Austria. Permits are needed to cross each country and are only supplied in restricted quantities. Italy for its part distributes a limited quantity of permits every two months, resulting in a cyclic slowdown of trade. All this involves a huge cost - estimated at 3.4 billion

euro - aggravated by a very complex system of limited visas for truck drivers. The restrictions are only applied to transport coming from Turkey. This is even more absurd since half of Turkey-EU exports originates from Turkish affiliates of EU capital companies. Mrs. Bingöl fiercely pleaded to at least liberalise transit transport. A first step could be that the 28 EU member states provide global and not country by country quotas. Overall, Turkey's strategic objective is to become not only a transport hub but a regional logistic hub, that reaches out not only to the EU but that goes as far as China and the Caspian Sea.

An animated discussion followed not only on road transit restrictions, but also on connections to the Black Sea, the possible role of river transport on the Danube, the position of Cyprus and the Syrian refugee problem.

Production hub

The fourth and final session was devoted to Turkey as a production and service hub. **Antonio Martins da Cruz, president of ELEC Portugal and former Portuguese minister of foreign affairs**, emphasised that political will or a good strategic position are not enough to become a hub. A market is needed. Turkey is set to become a regional power. It has many strategic assets but can also be a strategic threat in regional disputes. Until recently, Turkey had no problems with its neighbours, but the Arab spring changed all that. It is difficult to act as a safe corridor amid regional and political tensions. Several obstacles undermine Turkish ambitions. Syria, Iraq and Isis, but also Kurdish separatism, could create uncertainty that can spill over to investments and tourism. The re-emergence of Iran, the Russian intervention in Syria and the Chinese plans to build a new silk road also pose challenges. Africa on the contrary is an opportunity that could make Turkey a hub for this region. For the EU, cooperation with Turkey is essential to ease the refugee burden, even if the EU is divided on this topic. At the same time, the EU integration process has changed. The EU could be growing into a multispeed club with different circles (euro, Schengen, defence, integration) around a common platform and with more power for national governments. Martins da Cruz, finally, warned that if Turkey joins the EU, it will still be a peripheral country in the EU, which does not make things easier.

According to **Bozkurt Aran, director of the TEPAV Centre for Multilateral Trade Studies**, nowadays it is globalisation that determines the rapid economic growth of Turkey. Liberalisation, the customs union with the EU, the growing role of SME's, the development of the financial system and an export lead growth, all have favoured investments. Turkey is now the largest industrial production hub between Italy and China. It is not yet a trading nation, but it plays a leading role in the region. The EU and MENA (Middle East and North Africa) account for 70% of Turkish trade. Given their specific geographical connections, the western part of Turkey is more directed towards the EU, the eastern part towards MENA. Two projects will be of major influence in the future: the new silk road that China wants to build and the TTIP trade agreements that will allow Turkey to deepen its custom union.

Haluk Nuray, the IKV representative at the EU in Brussels, fears that the EU customs union, that was the most important factor in the sevenfold increase of Turkish exports towards the EU since the eighties, is now halted. To get things moving again, more is needed than liberalisation. Turkey should produce unique products, at a good price and with facilitated transport. In equipment and skills, Turkey should raise the bar higher than just middleclass. To convince other partners, Turkey needs more innovation to attract technology transfers. Turkey is already part of the European production chain, but should also become part of the global value chain. Being involved in the EU and TTIP are solid references for Turkey. Since accessibility to the EU is key, achieving stability and respecting the fundamental freedoms are a necessity.

In the debate with the audience, the question whether the end of Iran's isolation is an opportunity or a threat for Turkey was widely discussed, as well as the consequences of the migration and refugee flow.

In his concluding remarks, ELEC Mediterranean Commission president **Carles Gasòliba** said that Turkey is indeed a European and regional hub, but there remains still a lot of work to be done in the current difficult times. The recent EU-Turkish summit showed a will to improve relations and could be a turning point in the integration process. IKV chairman **Ayhan Zeytinoglu** thanked speakers and participants and confirmed that IKV does everything it can to realise the Turkish association to the EU.


