
**Crisis and Decline in Southern Europe:
Implications for Turkey**

Eduard Soler i Lecha

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Overview

The twists and turns of the economic and political crisis in southern Europe are now an important parameter for relations between Europe and Turkey. This crisis and the way it is being managed are detrimental to Turkey's economic interests and tarnish the image of European integration in the eyes of Turkey's leaders and its general public. Moreover, the economic and political decline of allies such as Italy and Spain weakens the argument of supporters of a renewed accession effort. The situation in the eastern Mediterranean is particularly delicate because of the mixed effects of the crisis on Greco-Turkish relations and the Cyprus issue. As a result, there is a wide range of different scenarios for the future.

Introduction

The crisis in southern Europe is clearly important to Turkey. Among the countries most affected by this multi-faceted crisis are Cyprus and Greece, nations with which Turkey remains in open dispute, but also Spain, Italy and Portugal, which are often considered allies and have traditionally supported Turkey's desire to become a member of the European Union (EU). A crisis affecting some of Turkey's major economic partners is clearly bad news for Ankara, but the political decline of its traditional allies is even more problematic.

2013 should be a year of transition for southern European countries and for relations between Turkey and the EU. After five long years of crisis, 2013 may see the start of a slow economic recovery in Europe. However, it is also possible that the recession deepens and costs for countries in southern Europe continue to mount. At the same time, half century after the signing of the Ankara Agreement, the Euro-Turkish relations are at an impasse. Following the June protests in Turkey and the subsequent repression by the Turkish government, the Europeans have decided to delay the discussions about opening new negotiating chapters, until autumn of 2013. This decision is the result of a compromise between the German position, supported by the Netherlands and Austria, who advocated for freezing the negotiation process; and the positions of other Member States, including those of Southern Europe, who felt this was the right time for the EU to further engage with Turkey. Thus, in October 2013, there could still be a reactivation of the accession negotiations. However, if that does not happen, frustration could take hold within the Turkish government and society, increasing the sense of detachment between Turkey and the European integration process.

The development of the economic and political crisis in southern Europe is one of the factors for consideration when trying to predict scenarios of improved Euro-Turkish relations, against a current background that seems more favourable in view of political changes in France and Cyprus. But, the situation is still more complicated given that some European countries are putting forward Turkey's internal difficulties, in order to oppose to its EU accession.

Clearly, the crisis in southern Europe is not the only factor, nor indeed the most important one, but the chances of turning the page and leaving behind the seven years of deadlock in negotiations would be considerably greater if Europe showed it were capable of successfully resolving the most serious crisis since the EU was created. This would require: (i) the expansion of the Union to be seen as an effective response to the crisis; (ii) countries such as Italy and

Spain to re-establish themselves as participants in, rather than the subject of, debate; and (iii) the Turks to stop thinking that had their country been a member of the EU, they too could be suffering like Greece. It would also require the crisis to kick-start Cypriot reunification and to resolve the many disagreements between Greece and Turkey.

This article focuses on three factors: (i) the impact of the crisis on the Turkish economy and on Turkey's perception of the European Union; (ii) the economic and political weakening of allies such as Italy and Spain, and the consequences of this for Euro-Turkish relations; and (iii) the effects of the crisis on disputes in the eastern Mediterranean. Lastly, we will set out three possible scenarios for future Euro-Turkish relations.

Economic Interests and Turkey's Perception of a Crisis Hit Europe

The first important thing to note is that Turkey has recovered far more quickly than most European countries from the effects of the global economic and financial crisis (see Table 1). During the first phase of the crisis, between 2008 and 2009, the fall in Turkish GDP was among the sharpest of all OECD countries, owing mainly to less external demand and to fewer investments. However, unlike the majority of EU countries, Turkey embarked on a surprising economic recovery. After an initial slump of 4.8% in 2009, the country's GDP grew by 9.2% in 2010 and 8.5% in 2011, putting it back among the best performers in the G20².

Table 1: GDP growth in Turkey and southern Europe (2008-2011)

	2008	2009	2010	2011
Greece	-0.16	-3.25	-3.52	-6.91
Italy	-1.16	-5.49	1.80	0.43
Portugal	-0.01	-2.91	1.4	-1.67
Spain	0.89	-3.74	-0.32	0.41
Turkey	0.66	-4.83	9.2	8.5

Source: author's use of data from the International Monetary Fund's World Economic Outlook Database, October 2012

Turkish growth stabilises at 3% in 2012, and forecasts remain fairly prudent for 2013 (around 3.5%). Three things have slowed growth since 2011: (i) the prolonged crisis affecting most European countries; (ii) geopolitical instability in the Middle East; and (iii) the measures taken by the Turkish central bank to prevent economic overheating.

Turkey is affected by stagnation and the threat of a recession in countries such as Italy and Spain, which are among its top 10 trading partners, particularly if such a downturn threatens to worsen one of the major structural problems of the Turkish economy: the trade deficit. Turkey's trade deficit with the EU has risen sharply since the start of the crisis, and southern Europe is partly responsible for this. Since

² International Monetary Fund, "IMF Executive Board Concludes 2012 Article IV Consultation with Turkey", 20 November 2012.

2008, Turkey's trade deficit with these southern European countries, which account for nearly 10% of Turkey's external trade and a quarter of its trade with the EU, has multiplied by six (see Table 2). This is why a recovery in the European economy, including in Spain and Italy, is one of the key factors in restoring high growth rates in Turkey, reducing the trade deficit and improving the balance of payments.

Table 2: Trade balance between Turkey and southern European countries (2006-2012) in US\$ thousands

	2006	2007	2008	2009	2010	2011	2012
Spain	-112132	237001	-500915	-958447	-1303857	-2278893	-3720982
Italy	-1897231	-2271220	-2863049	-1705687	-3634611	-5598381	-6968522
Greece	557262	1312497	1279253	498571	-85922	-1015514	-2137385
Portugal	180863	143957	60893	-9068	-38430	-160817	-203136
TOTAL	-1271237	-577764	-2023818	-2174631	-5062820	-9053605	-13030025

Source: author's use of TUIK data³

Economic interests are not the only things at stake. The image and attractiveness of the EU in the eyes of the Turkish people will also depend on how well the crisis is managed. Since 2004, the support for accession and above all the desire to become a member of the EU have been blighted in Turkey by mixed messages and deadlocks in the negotiation process, as well as by anti-Turkish discourse from certain European politicians. With the Turkish economy growing, the crisis in the EU makes the European project seem less enticing. Despite this, a significant part of the Turkish population still wishes to join the EU. According to Eurobarometer in 2011, 59% of Turks were in favour of accession and 28% were opposed⁴. A survey conducted by Turkish think tank TESEV in the same year provided an even clearer result, with 69% declaring they were in favour of accession⁵. However, the surveys of Pew Global Attitudes in 2011 revealed a narrower majority (52%)⁶. Lastly, a survey by another Turkish think tank, EDAM, indicated that only one third of people believed Turkey should persist with its efforts to join the EU⁷. These different results could be explained by the way in which the question was asked, the kinds of people surveyed or the time that the survey was conducted. It could

³ All data on Turkey's external trade are available on the website of the Turkish Statistical Institute (TUIK): <http://www.turkstat.gov.tr>

⁴ European Commission, DG Communication / TNS Opinion & Social, *Standard Eurobarometer 74*, Autumn 2010, Public Opinion in the European Union, Brussels, 2010.

⁵ Mensur Akgün et al., *Foreign Policy Perceptions in Turkey*, Istanbul, TESEV, 2011.

⁶ See "On eve of elections, a more upbeat mood in Turkey", Pew Research Center, 7 June 2011.

⁷ EDAM, "Public Opinion Surveys of Turkish Foreign Policy 2013/1", available at: <http://www.edam.org.tr/eng/document/EDAM%20Poll%202013-1.pdf>

also suggest that the Turkish people's support for the European project can vary depending on the context and on the accession conditions.

Turkey's leaders are also showing repeated signs of disenchantment and frustration. The statements of Prime Minister Recep Tayyip Erdoğan, who has described the delay in the negotiation process as "unforgivable" and raised the prospect of Turkey joining the Shanghai Cooperation Organisation, seen as an alternative to the EU, are a good example⁸. Is Turkey re-assessing the potential pros and cons of accession? Statements from several senior political figures would appear to suggest so: European affairs minister Egemen Bağış said Europe needed Turkey more than Turkey needed Europe⁹, while finance minister Mehmet Şimşek said he was in favour of joining the EU but expressed reservations about adopting the euro¹⁰. Even President Abdullah Gül expressed his concerns about the future of European integration at the end of 2012: "To our north, Europe is at a crossroads, undergoing a process of creative destruction, with potentially far-reaching ramifications well beyond the confines of the European Union."¹¹.

⁸ "Erdoğan: Turkey considers Shanghai organization an alternative to EU", *Today's Zaman*, 25 January 2013.

⁹ "EU needs Turkey more than Turkey needs it, says Bağış", *Today's Zaman*, 7 January 2011.

¹⁰ Kristina Karasu, 2012, "Turkey and the Euro crisis: EU membership losing its appeal", *Spiegel Online* [<http://www.spiegel.de>], 14 August 2012

¹¹ Abdullah Gül, "Crisis and Transformation", *Project Syndicate*, 31 December 2012.

Allies in Crisis

Together with the UK, Sweden and Finland, the countries in the south west of the EU are among the biggest supporters of Turkish accession. The Italian, Spanish and Portuguese governments have generally supported closer political and economic ties with Turkey, both bilaterally and at a European level. These countries have been a source of trade, investment and political support for Turkey.

Spain, for example, has always been in favour of Turkey's candidacy as part of its overall support for the EU enlargement. The Spanish position has remained the same in spite of the political changes in Madrid. First Felipe González, then José María Aznar and José Luis Rodríguez Zapatero, and now Mariano Rajoy, have supported closer ties between Turkey and the EU¹². Only the arguments put forward to justify this position have changed. The Partido Popular has focused on geostrategic and economic factors, while the socialists have portrayed Turkish accession as a way of bringing Europe, and more generally the western world, closer to Muslim countries and of re-enforcing the inclusive side of European integration, which would also help the modernisation and democratisation of Turkey itself¹³. The absence of a broad public debate in Spain on Euro-Turkish relations can be explained by political consensus on the issue, a lack of coverage in the Spanish media and a very low Turkish population in Spain¹⁴.

Hispano-Turkish political relations have been excellent for a number of years: no bilateral disputes, annual government summits and shared initiatives such as the Alliance of Civilizations¹⁵. However, it is economically where the ties between the two countries have become especially close, particularly since the customs union between

¹² Eduard Soler i Lecha, "Las relaciones hispano-turcas: buena sintonía pese al estancamiento europeo", *Anuario Internacional CIDOB 2011*, Barcelona, CIDOB, 2011, pp. 427-433.

¹³ Irene García and Eduard Soler i Lecha, "Spanish Perceptions", in Sait Akşit, Özgehan Şenyuva and Çiğdem Üstüñ (dir.), *Turkey Watch: EU Member States' Perceptions on Turkey's Accession to the EU*, Ankara, CES-METU, November 2009, pp. 74-89.

¹⁴ 1,713 people in December 2010, according to official Spanish figures. See: <http://extranjeros.mtin.es/es/InformacionEstadistica/Informes/Extranjeros31Diciembre2010/index.html>

¹⁵ Laia Mestres and Eduard Soler i Lecha, "Spain and Turkey: A Long-Lasting Alliance in a Turbulent Context", *Insight Turkey*, Vol. 8, no. 2, April-June 2008, pp. 117-126.

the EU and Turkey came into force in 1996. Trade between Spain and Turkey has now recovered to pre-crisis levels, with the Spanish trade surplus \$3.7 billion and rising¹⁶. In 2012, Spain was Turkey's 10th-largest export market and its ninth-biggest supplier. The growth since 2001 is spectacular: 291% for exports and 464% for imports. In terms of investments, it is also worth noting the increasing number of Spanish companies in Turkey, with flagship projects such as Spain's investment in the construction of a high-speed rail link between Istanbul and Ankara and BBVA's acquisition of a 24.9% stake in Garanti, Turkey's third-biggest bank¹⁷.

Turkey is not as close to **Portugal** as to its Iberian neighbour, but relations between the two countries have also intensified at a similar pace. Lisbon has generally supported Turkish integration with the EU, underlined the geopolitical advantages of Turkey and sought to strengthen economic ties. However, some political parties, such as Paulo Portas' Partido do Centro Democrático e Social - Partido Popular (CDS-PP), have proposed 'advanced status' as an alternative to accession. Interestingly, once he got into power and was appointed foreign minister, Mr Portas changed track and now says he is in favour of Turkey joining the EU¹⁸.

Italy is also seen as a supporter of Turkey's EU candidacy, with a fairly broad consensus among Italian business and the country's major political parties. After the elections of february of 2013, the formation of a coalition government with Enrico Letta as Prime Minister, is good news for Ankara; since Emma Bonino, notably in favor of Turkish membership to the EU, was appointed Minister of Foreign Affairs. In fact, being a supporter of Turkey, an advocate of the EU integration project, and very committed to the defence of human rights, Ms. Bonino may have a significant influence in the European debate about Turkey.

Like in Spain, the centre-right and centre-left parties use different arguments in order to support the Turkish candidacy: the former put forward security or economic reasons, while the latter focus more on symbolic, cultural and identity issues¹⁹. There is not total consensus in Italy. The far left show concerns over human rights and how Turkey has handled the Kurdish issue, while the far right and the

¹⁶ Data available on the website of the Turkish Statistical Institute, <http://www.turkstat.gov.tr>

¹⁷ William Chislett, "Turkey's Economy Slows Down: Will this Affect Spain's Burgeoning Trade and Investment?", *Análisis del Real Instituto Elcano* no. 2, January 2013.

¹⁸ Paulo Gorjão, "Portugal-Turquie: une relation de plus en plus riche", *Turkey Policy Brief Series* no. 7, IPLI-TEPAV, 2012.

¹⁹ Emiliano Alessandri and Ebru Canan, "Mamma Li Turchi!: Just An Old Italian Saying", in Natalie Tocci, (dir.), *Talking Turkey in Europe: Towards a Differentiated Communication Strategy*, Rome, Istituto Affari Internazionali, 2008, pp. 14-15.

Legia Nord have often resorted to identity-based rhetoric to express their opposition.

This isolated opposition has not harmed economic relations between the two countries, which are stronger than ever. In 2008, Turkey was Italy's third-biggest economic partner and enjoyed a very healthy trade balance. Luca Cordero di Montezemolo, the former head of Italian employers' association Confindustria, claimed Turkey was "already in Europe"²⁰. It is hard to argue with this assertion when you look at the economic changes by sector: many Italian companies are present in Turkey, in sectors as varied as banking, cars and energy (UniCredit, FIAT, ENI). Only Italian farmers feel threatened by Turkish competition, especially if Turkey were to benefit from the Common Agricultural Policy²¹.

As we can see, Turkey enjoys good political and economic relations with Spain, Portugal and Italy. However, public opinion in these three countries has recently qualified its traditional support for EU enlargement. Support across Europe for EU expansion in general, and for Turkish accession in particular, has been reducing gradually over the last few years. Comparing responses to the Eurobarometer surveys of 2008 and 2012 (see Table 3) shows that opposition to EU enlargement has increased by 14 percentage points across the Union. This trend is particularly clear in countries severely affected by the crisis, such as Cyprus (+25 points) and Spain (+23), and in countries such as the Czech Republic (+25), Finland (+21) and Slovakia (+21), where strong Eurosceptic movements and political opposition to bailouts for southern Europe have emerged.

²⁰ Emiliano Alessandri and Sebastiano Sali, "Turkey-EU Relations: A View from Italy", in Sait Akşit, Özgehan Şenyuva and Çiğdem Üstüñn (dir.), *op. cit.*, pp. 58-73.

²¹ Emiliano Alessandri and Ebru Canan, *art. cit.*, pp. 22-23.

Table 3: Change in opposition to new enlargements (2008-2012)

	EB 69 (2008)	EB 77 (2012)	Change
AT	63%	73%	+10
BE	48%	61%	+13
BG	8%	22%	+14
CY	23%	48%	+25
CZ	26%	51%	+25
DE	58%	74%	+16
DK	41%	50%	+9
EE	25%	44%	+19
EL	38%	48%	+10
ES	16%	39%	+23
EU27	39%	53%	+14
FI	50%	71%	+21
FR	60%	70%	+10
HU	23%	35%	+12
IE	31%	47%	+16
IT	37%	52%	+15
LT	16%	27%	+11
LU	59%	66%	+7
LV	26%	41%	+15
MT	15%	32%	+17
NL	46%	62%	+16
PL	12%	26%	+14
PT	31%	41%	+10
RO	8%	18%	+10
SE	36%	45%	+9
SI	21%	38%	+17
SK	21%	42%	+21
UK	50%	59%	+9

Source: Eurobarometer 69 (2008) and Eurobarometer 77 (2012)

Public opinion in the EU is particularly opposed to Turkish accession (see Table 4). The most recent figures available for this question date back to the end of 2010, but we can once again see that the sharpest increases in opposition came about in countries most affected by the crisis: Ireland (+14), Spain (+14) and Portugal (+9). Despite this increase, opposition levels in these countries (46% in Spain, 50% in Portugal and 56% in Ireland) are still well below those in Austria (91%) and Germany (78%). Nevertheless, should the trend continue, Turkey could lose the little support it still has among European public opinion. It must be stressed again that the problem is not just with Turkey but with European integration as a whole. People

in southern European countries have become extremely distrustful of the EU. In Eurobarometer 78 (2012), 81% of Greeks and 72% of Spaniards said they had no confidence in the EU; before the crisis (EB 67/2007), these respective figures were 37% and 23%.

Table 4: Change in opposition to Turkish accession to the EU (2008-2010)

	EB 69 (2008)	EB 74 (2010)	Change
AT	85%	91%	+6
BE	63%	69%	+6
BG	38%	49%	+11
CY	85%	82%	-2
CZ	55%	60%	+5
DE	77%	78%	+1
DK	62%	66%	+4
EE	53%	56%	+3
EL	78%	76%	-2
ES	32%	46%	+14
EU27	55%	59%	+4
FI	64%	71%	+7
FR	71%	66%	-5
HU	40%	40%	=
IE	42%	56%	+14
IT	58%	61%	+3
LT	45%	40%	+4
LU	75%	70%	-5
LV	50%	54%	+4
MT	43%	47%	+4
NL	55%	62%	+7
PL	41%	44%	+3
PT	41%	50%	+9
RO	15%	16%	+1
SE	45%	44%	+1
SI	46%	47%	+1
SK	61%	63%	+2
UK	49%	55%	+6

Source: Eurobarometer 69 (2008) and Eurobarometer 74 (2010)

The impact among European governments, experts and leaders has been less significant, and there are even some calls to kick-start negotiations with Turkey and to ensure that Europe does not miss the opportunity to use enlargement as a way to transform neighbouring countries or even as a tool to emerge from the crisis. With regard to Turkey, there are initiatives such as the one put forward

by the five so-called Friends of Turkey (an informal group comprising Sweden, Finland, the UK, Spain and Italy), which in October 2011 proposed a three-step plan to revive accession talks. Several months later, 11 EU foreign ministers signed a letter calling on the EU to refrain from "turning its back on its neighbourhood", highlighting the economic and strategic importance of Turkey and the advantages of accession²².

In addition, certain member states have individually reaffirmed their support for Turkey's candidacy. In 2010, for example, British Prime Minister David Cameron warned the EU not to shut Turkey out²³. For its part, in March 2010, Sweden announced an increase of 27 million Swedish Kronas (just over €3 million) in its programme of support for reforms in Turkey²⁴. Lastly, at the fourth Hispano-Turkish summit in November 2012, Spanish Prime Minister Mariano Rajoy reaffirmed his support for Turkey's candidacy provided that Turkey meets the required conditions²⁵. Finally, in Italy, Emma Bonino as a new Minister of Foreign Affairs, has played an important role in addressing the crisis of the Euro-Turkish relations after the popular protests that took place in June of 2013 in Turkey. Rome is clearly aligned with other Member States positions, such as Sweden, who advocated for a greater engagement with Turkey. Indeed, the Italian minister said that recent events in Turkey are a serious test for strengthening the Turkish democracy and for the accession process. She also affirmed that instead of blocking new chapters of negotiation, it is necessary to open new ones such as justice and human rights.

Despite these declarations, Turkish accession talks are in a comatose state and the EU's enlargement policy has run out of steam. There has been considerable political decline in some of Turkey's allies. Spain and Italy, in particular, must focus their efforts on managing the economic crisis; therefore, Turkish accession, and foreign policy in general, is no longer at the heart of their European policies. Lastly, the UK, which is Turkey's strongest ally, is increasingly isolated in Europe and even plans to hold an in/out referendum on EU membership by 2017. As a result, the UK's authority to dictate EU enlargement policy is somewhat limited.

²² Audronius Ažubalis et al., "The EU and Turkey: Steering a Safer Path Through the Storms", *EUObserver*, 11 December 2011.

²³ Nicholas Watt, "David Cameron warns EU not to shut Turkey out", *The Guardian*, 27 July 2010.

²⁴ Official website of the Swedish government, "Sverige stärker stödet till Turkiets EU-anslutningsprocess", 19 March 2010.

²⁵ Official website of the Spanish government, "President of the Government confirms that Spain supports European aspiration of Turkey", 27 November 2012.

The Eastern Mediterranean: Mixed Messages

The eastern Mediterranean is one of the most sensitive areas of Europe, marked by frozen conflicts and the particularly severe impact of the eurozone crisis on countries such as Greece and Cyprus. Indeed, Greece is the perfect example of the brutality of the economic crisis. The crisis has shaken the Greek political landscape, forcing the government to introduce severe budgetary cuts and to implement a large-scale privatisation programme. Unemployment has risen exponentially and social conflict has spilled over into the streets. During the most severe moments of the crisis, the media and leading European politicians have even speculated on the so-called 'Grexit', i.e. the possible expulsion of Greece from the eurozone or even from the EU. Moreover, the Greek disease has spread to Cyprus as a result of the overexposure of the Mediterranean island's financial system to Greek sovereign debt. The situation became untenable in March 2013, and the clumsy handling of the Cypriot bailout drew everyone's attention to the island.

The nature and intensity of the impact of the economic crisis on Greek-Turkish relations and on the Cyprus dispute have been quite different compared with the impact on relations with Madrid, Rome and Lisbon. These are countries with which Turkey has historically strained relations, open conflicts and multiple differences of opinion. Despite their geographical proximity, these countries have few (in the case of Greece) or virtually no (in the case of Cyprus) economic ties with Turkey. Moreover, many Greeks and Cypriots see Turkey as a threat, and relations with the country remain a controversial and hot topic of political and social debate.

It should be remembered that, more than a decade ago, **Greco-Turkish relations** entered a period of détente which started when earthquakes hit the two countries in the summer of 1999, resulting in mutual aid. Since then, cooperation has increased in sectors such as commerce, tourism and infrastructure²⁶. Political relations have also improved, with both the socialist PASOK and Néa Dimokratía governments, although not to the extent of resolving the many bilateral differences: the delimitation of territorial waters and air space in the Aegean Sea; the exploitation of the continental shelf; the

²⁶ Ekavi Athanassopoulou, "Turkey's Global Strategy: Turkey and Greece", *IDEAS Reports - Special Report*, LSE, 2011.

demilitarisation of the Aegean Islands; the status of Muslim and Greek minorities in Greece and Turkey respectively; and the respective positions over Cyprus.

Relations between Turkey and **Cyprus** are even more strained, still marked by the division of the island and by the presence of Turkish troops in the north. Following the failure of the UN's Annan Plan, which proposed a federal solution that was rejected by Greek Cypriots in a 2004 referendum, there have been many attempts to resume talks over a reunification of the island, but the results have been disappointing thus far.

Can the economic crisis currently affecting Greece, and which has spread to Cyprus, be a catalyst for resolving these many disputes? Or, will it reduce room for manoeuvre for those who wish to see a period of détente? Countries facing financial difficulty often have additional incentives to resolve open conflicts with their neighbours so they can focus all their energy on internal issues and reap the financial benefits of peace. The Cyprus issue could be a perfect example of such a dynamic, since resolving the conflict would enable the exploitation of recently discovered gas reserves in disputed waters and the rapid sale of this gas to Europe via Turkey²⁷. Turkish deputy Prime Minister Ali Babacan suggested in March 2012 that the crisis could represent an opportunity for rapprochement with Greece, claiming that the only way Greece could emerge from the crisis was to intensify its trade links with Turkey²⁸. Nevertheless, if the economic situation remains extremely difficult and austerity measures seriously impair living conditions, governments in the region may be tempted to pursue even more nationalistic policies in order to distract people from their economic problems.

For the moment, there are mixed messages from Athens and Nicosia and mixed responses from Ankara, suggesting that the future could entail a period of détente or an escalation of tensions. There are five areas worthy of closer inspection: the arms race; disputes over the delimitation of territorial waters and the continental shelf; border management; the Cyprus conflict; and EU accession.

The annual Greek military budget has fallen by 26% since 2008, according to estimates from the Stockholm International Peace and Research Institute (SIPRI). Before the crisis, military spending amounted to €7,612 million, or 3.2% of GDP²⁹. Despite the budget cuts, Greek military spending remains among the highest in Europe

²⁷ International Crisis Group "Aphrodite's gift: Can Cypriot Gas Power a New Dialogue", *Europe Report* no. 216, April 2012.

²⁸ Ayla Albayrak and Joe Parkinson, "Turkey Urges Greece to Boost Trade Supplies", *Wall Street Journal Blogs*, 23 March 2012.

²⁹ Stockholm International Peace and Research Institute, Background paper on SIPRI military expenditure data 2011, 2012.

and the second highest in NATO (2.1% of GDP), just behind the US³⁰. There are three reasons for this: the fall in GDP since 2008; the retention of a security culture, depicting Greece as still under threat from its neighbours, especially Turkey; and the fact that a sharp reduction in Greek army numbers would inflate an already sky-high unemployment rate³¹. European and international institutions have advocated budget cuts in this area. Turkey's repeated proposals for a mutual reduction in defence spending have not really taken off; although such an agreement would ease Greece's budgetary problems, it could be seen as a sign of weakness and further damage the image of the Greek government in the eyes of its people.

This continual climate of mistrust also hinders the possibility of resolving dormant territorial disputes between Greece and Turkey. The delimitation of territorial waters and air space has been the subject of bilateral negotiations since the start of the *détente* in 1999³². This dispute has taken on another dimension in the wake of the economic crisis. The economic problems affecting Greece and Cyprus have forced the two countries to accelerate their efforts to exploit the gas wells discovered in the Aegean Sea and, above all, in the eastern Mediterranean. Turkey contests the delimitation of exclusive economic zones proposed by Athens and Nicosia, and the Turks are threatening to begin exploration works in disputed waters on behalf of Turkish Cypriots³³. The situation is made more complex by the involvement of other countries such as Russia, which has big interests in the Cypriot financial and energy sectors, and Israel, with which Turkey has had strained relations since 2009³⁴.

At the same time, the Greek economic crisis has magnified the importance of the migration issue and border controls. Over the last decade, a large number of migrants have entered Greece, most of them illegally through Turkey. Increasing numbers of the Greek population are demanding tougher immigration policies. To date, the government's response has focused on cooperation with FRONTEX, the European border control agency, with a view to sealing the land border in the Evros region. Despite this, the tide of migrants has not been stemmed, and they are now coming by sea³⁵. In Turkey, criminal networks of people smugglers (*kacakci*) are emerging, and the cost of crossing the border is rising as border controls tighten³⁶. In Greece,

³⁰ See Paul Haydon, "Greece's austerity doesn't extend to its arms budget", *The Guardian*, 21 March 2012 and also Judy Dempsey, "Letter from Europe: Military in Greece is spared cuts", *The New York Times*, 7 January 2013.

³¹ According to *The Military Balance 2012* by the International Institute for Strategic Studies (IISS), the Greek military numbered more than 145,000 people.

³² International Crisis Group, *op. cit.*

³³ "Turkey to continue Cyprus gas drill", *Hürriyet Daily News*, 3 October 2011.

³⁴ Cooperation between Israel, Cyprus and Greece has become much more diverse in recent years. In addition to the existing agreements to connect Israel's power grid to Europe, the three countries are now looking at how to exploit the gas wells at Tamar and Leviathan.

³⁵ Nicolaj Nielsen, "Land border sealed, Greek police chief says", *EUObserver.com*, 27 December 2012.

³⁶ Nicolaj Nielsen, "2013, Istanbul: smuggler capital for EU-bound migrants", *EUObserver.com*, 7 January 2013.

there are increasing numbers of unemployed illegal immigrants, and their situation is made even more precarious by a growing intolerance towards them, forcing the government to adopt some draconian measures³⁷. The lack of dialogue and cooperation between Turkey and Greece in this area could add another layer to the existing disputes between the two countries, broaden the field of activity of the criminal networks and fuel rising populism and racism.

The division of Cyprus remains the Achilles heel of stability in the eastern Mediterranean. This dispute is one of the major obstacles to renewing Turkey's EU accession talks, and it also hinders cooperation between the EU and NATO on several levels. There have so far been four knock-on effects of the economic crisis on the Cyprus conflict. First, as we have seen, the Cypriot government has been forced to exploit the gas wells discovered off the southern coast of the island. Second, the AKEL party's defeat in the elections of February 2013 is an example of how most European governments have been severely punished for their handling of the economic crisis. The new president, Nicos Anastasiades, is seen as more likely to encourage reunification talks with the Turkish Cypriot authorities, and he has advocated a change of strategy in the negotiation process on several occasions³⁸. However, the stated priority of emerging from the crisis and the unpopularity of the bailout agreed in March 2013 could considerably undermine Mr Anastasiades' authority to kick-start reunification talks. Third, and one of the least well-known effects of the crisis, is the fall in popularity of the government of the Turkish Republic of Northern Cyprus (TRNC), which has also been forced to implement austerity measures and privatisation against the backdrop of a bailout offered by Turkey. Indeed, as explained by Rebecca Bruant and Christalla Yakinthou³⁹, Turkey has become the equivalent of the IMF for Northern Cyprus. While the Troika is the target of people's discontent in southern European countries, Turkey - or more particularly the ruling AKP party - is on the end of criticism in Northern Cyprus for the effects of its economic policies. The economic problems in the south of the island and Europe's handling of the bailout plan in March 2013 could make Turkish Cypriots reconsider their desire to join the EU via reunification and focus more on the benefits of keeping things as they are.

Lastly, there are mixed repercussions of the economic crisis on the Greek and Cypriot governments' stances on Turkish accession. The Greek political system has been shaken to the core, with the decline of the two centrist parties, multiple splits and the emergence of more extreme groups. Politicians are focused on how to respond to the economic crisis, meaning that Turkish accession remains on the back

³⁷ For example, the Xenios Zeus operation led to the arrest of more than 1,500 people in the centre of Athens in just a single weekend. See: AFP, "Greece: 1.595 arrestations durant la chasse aux sans-papiers du week-end", 6 August 2012.

³⁸ "Turks favor Anastasiades in Greek Cyprus elections", *Today's Zaman*, 10 February 2013.

³⁹ Rebecca Bryant and Christalla Yakinthou, *Cypriot Perceptions of Turkey*, TESEV Publications, Istanbul, 2012.

burner. Nevertheless, the rise of extreme nationalists and openly anti-European groups could affect the debate in the years ahead. The Turkish issue was also superseded by economic matters in Cyprus during the 2013 electoral campaign. In theory, the Cypriot parties are in favour of Turkish accession provided Turkey meets the conditions set down by the EU, including resolution of the Cyprus dispute and recognition of the Republic of Cyprus. However, it is highly likely that the bailout approved in March 2013 will foster short-term nationalist and even anti-European sentiments in Cypriot society. The key question is therefore whether the Cypriot government will be able to renew reunification talks and whether Turkey will respond to these efforts by introducing measures that might remove certain obstacles to accession.

Outlook

The current crisis in southern Europe has several negative consequences for Turkey and its relations with the EU which, in any case, are in a critical situation. First, a prolonged recession in Europe makes it harder to restore pre-crisis growth levels and magnifies Turkey's macroeconomic imbalances. Second, it diminishes the attractiveness and transformational capability of an accession process already blighted by years of delay, political obstacles and identity-based discourse. Third, it politically weakens Turkey's allies such as Spain and Italy, reducing their influence on the European stage. Fourth, it can fuel anti-expansion sentiment across Europe, particularly in the worst-affected countries. Lastly, it increases the importance of open and dormant conflicts in the eastern Mediterranean on the basis that the crisis can either be perceived as an opportunity to resolve these disputes, or it can result in more populism and nationalism, thereby heightening tensions in an already unstable region.

The effects of this crisis will remain over time. There are increasing discussions on how the paralysis in Europe will affect Turkey, on Turkey's place in a post-crisis Europe, on the cost of Turkey staying out of the EU, and on the possible revitalisation of Euro-Turkish relations⁴⁰. Any prospective analysis must take into account how the crisis in southern Europe is managed as well as the possible solutions. Depending on how the current crisis is resolved, the EU which Turkey joins will be more or less appealing, more or less inclusive and more or less demanding. At this stage, there appear to be three possible scenarios:

1. The first scenario involves the European crisis, including the one in the south of the continent, being resolved as part of a stronger and more united EU, with quick progress towards political and banking union. These developments would reinvigorate Euro-Turkish relations or speed up the accession process only if they

⁴⁰ These topics are respectively discussed in more detail in: Soli Özel, "Turkey and the European Sclerosis", *The Euro Future Project Paper Series*, German Marshall Fund of the United States, September 2012; Dimitar Bechev and Natalie Tocci, "Will Turkey Find Its Place in Post-Crisis Europe?", *Global Turkey in Europe Policy Brief*, no. 5, Istanbul, Mercator, IAI/IPC, December 2012; William Chislett, "The Cost of Turkey's Non-integration into the European Union", *EU-Turkey Monitor*, Vol. 7, no. 2/3, September 2011; Diba Nigar Göksel, "Turkey And the EU: What's Next?", *GMF On Turkey Analysis*, 5 December 2012.

were accompanied by progress on the resolution of the Cyprus conflict and of Greco-Turkish differences. Overcoming the crisis in Europe would restore faith in European integration, renew the appeal of accession to Turkey's leaders and its general public, and once again make enlargement an EU priority. In this scenario, countries such as Italy and Spain would continue to support Turkey's candidacy and could join forces with the likes of Sweden and the UK. Even if France and Germany were to retain concerns over the feasibility of and timetable for accession, it would at least be possible to resume talks. Moreover, if Turkey's bilateral disputes with Greece and Cyprus start to get resolved, those member states still expressing concerns over Turkish accession would no longer be able to hide behind the position of Greece or Cyprus.

2. The second scenario is one of progression towards a variable-geometry Europe that could banish part of southern Europe to its fringes and open the door to new, stronger partnerships. Such a development would not necessarily be detrimental to Turkish interests. Turkey could play a less controversial role in a more flexible, different-shaped Europe. However, this scenario brings with it three underlying risks: (i) the marginalisation of southern Europe could be accompanied by deep recessions in Italy and Spain; (ii) the governments historically sympathetic to Turkish wishes thus politically weakened; and (iii) the dilution of the European project create new tensions in the eastern Mediterranean and fuels populism and nationalism in Greece and Cyprus. This scenario would therefore give Turkey a back-door pass to European integration. However, Turkey would no longer be able to rely on its traditional allies at the heart of Europe, and Greece and Cyprus could take a much tougher line with regard to Turkey.

3. The third scenario is harmful to Europe and also problematic for Turkey. It involves a prolonged economic, political and social crisis that brings serious structural problems to European integration. This would create a Europe under threat of being pulled apart, with several countries leaving the euro (and maybe even the EU) and populist and nationalist groups gaining ground, particularly, but not only, in southern Europe. It would not be in Turkey's interest to join such a crumbling organisation. Those still advocating Turkish accession would struggle to drum up support in Europe or in Turkey. Certain European countries would remain key partners of Turkey, but predominantly through bilateral agreements. With Europe not its only, or indeed number-one, priority, Turkey would explore alternative ties with the US, Russia, emerging economies and Middle Eastern countries. This could anger some of Turkey's allies in Europe, and one of the main worries would be the eastern Mediterranean becoming a battleground for conflicts involving an increasing number of players in the region.

The choices made by European decision-makers in 2013 will be crucial in determining which of these scenarios emerges as the most likely. Turkey will not drag the EU down one path or another, but it will certainly be affected by what this crisis-hit continent decides to do and not to do. As President Gül said in December 2012: "...as an integral part of Europe with EU membership as a strategic objective, Turkey is not an indifferent bystander."⁴¹ Thus, more attention should be given to southern Europe as it finds itself immersed in a political and economic crisis with major consequences for European integration, including EU-Turkish relations.

⁴¹ Abdullah Gül, "Crisis and Transformation", *Project Syndicate*, 31 December 2012.