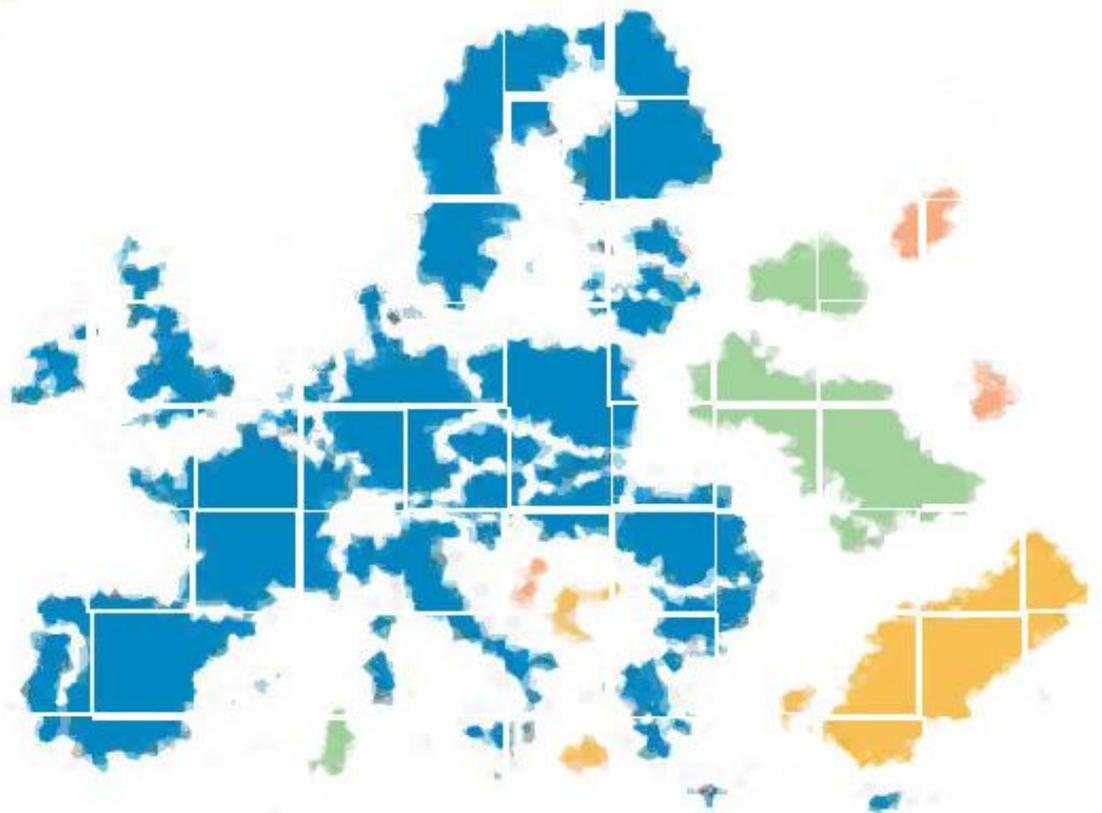


EU Frontiers

Policy Paper

Turkey is back
Turkish interest on the Western Balkans



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Turkey is back¹

Turkish interest on the Western Balkans

From the 15th to the end of the 19th century, most of the Balkans was part of the Ottoman Empire. The memories of the Ottoman past are still influencing the countries of the Balkans. While in some countries and regions (Albania, Kosovo, parts of Bosnia-Herzegovina, FYROM, the Sandzak region in Serbia and Montenegro) especially the Muslim population preserves good memories of the Ottoman times, for the majority of people the Turkish dominance awakes negative associations.

By the beginning of the 20th century the weakening Ottoman Empire, 'the sick man of Europe' as it was called, lost its power on the peninsula almost totally, due mainly to the rise of nationalism among Balkan ethnicities. The dissolution of the Ottoman Empire was completed after World War I. The new Turkish state was established in 1923 under the leadership of Kemal Atatürk.

For long decades the attitude of Turkey towards the Balkans was rather passive, the relations were aggravated by both historical and ideological controversies. The economic opening in Turkey after the 1980's was not enough in itself to reinvigorate relations. In the last decade, however, Turkish attitudes and policies towards neighboring countries and regions changed substantially.

In our study, we are going to analyze the background and results of these changes.

The Turkish “economic miracle”

The economic strategy of Turkey had been based since the 1930's on an import-substituting industrialization, subsidizing production for the domestic market and using protectionist measures against import products. As a consequence, economic ties with other countries remain underdeveloped.

The change of economic strategy after 1980 (the opening up of the economy and the liberalization process) increased the importance of exports for Turkey. The primary target countries were Western European and some Middle Eastern oil-rich countries. Accession became a core objective of Turkey, both due to economic and ideological reasons. The integration process was full of ambiguity, however. In 1996 Turkey

¹ The research was supported by the János Bolyai Research Scholarship of the Hungarian Academy of Sciences.

became member of the European Customs Union, considered by the Turkish side as a huge sacrifice that helps towards a full-fledged membership. The refusal of the EC to start accession negotiations with Turkey in 1997 (together with most of the Central Eastern European countries and Cyprus) was increasing the disappointment in Turkey.

Meanwhile, Turkey had to face growing internal political uncertainties and returning economic crises. The economic liberalization helped the expansion of exports and the integration of Turkey into the global economy, but the remaining structural problems (ineffective and debt creating state-owned companies), weak financial regulation, negative effects of capital market liberalization and shaky coalition governments all added up in economic imbalances (high rate of inflation, high budget deficit).²

The crisis in 1994 – although it had severe impacts on the economy – was not deep enough to change the former policy, and initiate reforms. By 1999, however, remaining imbalances forced Turkey to ask again for an IMF stand-by agreement to help budget restructuring and a structural adjustment of the economy. Although the agreement was concluded in a dangerous situation, it was not able to hinder an even deeper crisis. Both the weakness of the coalition government and the bad economic conditions contributed to the “twin-crisis” in November 2000 and February 2001. The Gross Domestic Product fell by 6% in 2001, the Turkish public debt and budget deficit was not financeable anymore.

As a consequence of the 2001 crisis, deep and comprehensive reforms started, lead by economic minister Kemal Dervis (who worked at the World Bank for decades). With strict fiscal and monetary policy the public debt was reduced, the privatization of state-owned companies was speeded up. Reforms in the financial sector decreased the vulnerability of the banking system.

The implementation of the reforms was supported by the extended stand-by facility of the International Monetary Fund, but similar, if not even more important factors behind the success were the increasing European political support after 2002, and the forming of a new government by the reform-oriented, moderate Islamic AK party.

The results on crisis management were convincing. The average economic growth remained over 6% from 2002 to 2007, and was able to return to this level after 2009 again. The chronically high inflation rate, a major sign of economic imbalances for decades, was reduced to one-digit levels. The stable macroeconomic environment and the prospects of closer integration to the EU encouraged foreign investments; the level of FDI grew from yearly \$1-2 bn to \$10-20 billion, flowing mostly into

² Ziya Öniş – Firket Şenses (2009): The new phase of neo-liberal restructuring in Turkey: an overview. In: Ziya Öniş – Firket Şenses (eds.): Turkey and the Global economy. Neo-liberal restructuring and integration in the post-crisis era, Routledge, London – New York, pp. 1-10.

export-oriented manufacturing.³ The competitiveness of exports was improved by the depreciation of the currency in the first years. Exports became more diversified, not just in their product structure, but concerning target-countries as well. After the growing importance of European exports in the period 2002 to 2007, the post-crisis period led to an increasing share of neighboring regions (Middle East, CIS countries, Balkans), not only in trade, but in investment relations as well.

The global crisis in 2008/2009 – despite the expectations of the Turkish government – had severe negative impacts on the Turkish economy. The falling European import-demand contributed substantially to the 6% contraction in the 2009 GDP. At the same time, however, the demand of emerging markets – not hit as deeply by the crisis – increased, and their share in the Turkish export increased. Turkish investment also grew in regions (like the Balkans) where the European (Greek, Italian, Austrian) activity fell back.

Structure of the Turkish economy

The main force behind the exploding Turkish foreign market activity was the dynamic Turkish economy with good long-run growth perspectives based on the over 70-million domestic market, still substantial labor market reserves, and improving competitiveness.

The traditional exported goods of Turkey were agricultural and textile products. After the liberalization in the eighties, export in these sectors started to increase. In case of both sectors the European market was the main target. The investments of Turks living in EU countries, launching small enterprises in Turkey (mainly in Anatolia), and their good trade networks in the European market helped the development of both sectors.

Although both sectors have still quite a substantial share in the Turkish exports, the importance of other manufacturing sectors like electronics or vehicle production grew more rapidly. In electronics especially the home appliances sector developed dynamically, where domestic producers (Vestel, Beko) are prominent representatives of the exports. Turkish products are not the top quality brands, rather low and medium price products, but there is a growing demand for them both on the domestic markets, and in neighboring regions (e.g. in the Balkans).

In vehicle production, several multinationals (Ford, Renault, Fiat, Hyundai, Toyota, Honda, Opel, Mercedes, MAN) brought part of their production capacity to Turkey, largely due to the customs union

³ Taymaz, Erol – Ebru Voyvoda (2009): Industrial restructuring and technological capabilities in Turkey. In: Ziya Önis – Fikret Senses (szerk.): Turkey and the Global Economy. Neo-liberal restructuring and integration in the post-crisis era, Routledge, London – New York, pp. 145-172.

agreement with the EU allowing a free export of products to the European Single Market. In bus production domestic brands (Otokar, BMC, Tamsa) are dominating.⁴

The construction sector's international reputation is also well-funded. Since the seventies (the age of oil boom), the Turkish contractors are present in the Middle East (first in Libya, later Iraq, Saudi Arabia, and other Gulf countries). After the nineties, Russia and other post-Soviet states (Ukraine, Azerbaijan and Central Asian countries) became important partners of Turkish construction companies, while after the millennium, the Balkans (first Romania, then other Balkan countries) also joined the list of target regions.

The actors of service sector are also present in neighboring countries, especially from the telecommunication and the financial sectors, but companies from other sectors like health, education, culture and tourism (as service export) are also taking part in growing Turkish international activities.

The new foreign policy of Turkey

The regional dynamism of Turkey is not only due to its economic "miracle" – the change in Turkish foreign policy was also playing a crucial role in it.

Ahmet Davutoğlu, a key figure of new Turkish foreign policy and foreign minister of Turkey since 2009 used to say that Turkey is a regional power forgetting its neighbors for too long. "Zero problem" became the new principle of Turkish foreign policy in the early 2000's, with steps towards normalization of relations with countries (e.g. Greece, Armenia) towards which confrontation was common before.⁵

Active mediation by Turkey in international conflicts was also part of the new policy. Turkey organized the "peace" meeting for the leaders of Serbia, Croatia and Bosnia-Herzegovina in Istanbul, which ended in the signing of a reconciliation declaration.

As a sign of growing confidence, however, Turkey is ready to take confrontation even with its strongest allies, with the US in case of Iraq, or with Israel in case of the Gaza conflict.

The US treated secular, NATO member Turkey always as its strongest ally in the region (beside Israel), and wanted to present Turkey as a positive example to the Islam/Arab world. Due to its strong western ties and pro-Israeli attitude, however, and also partly because of its

⁴ ISPAT – Deloitte: Turkish Automotive Industry Report, August 2010, www.invest.gov.tr/en-US/infocenter/publications/Documents/AUTOMOTIVE.INDUSTRY.pdf

⁵ Ahmet Davutoğlu: Turkey's Zero Problems Foreign Policy, Foreign Affairs, 20th May 2010, http://www.foreignpolicy.com/articles/2010/05/20/turkeys_zero_problems_foreign_policy

“betrayal” of Islam with adopting a radically secular state model, the popularity of Turkey was quite modest among Arabs.

In the last decade Turkey started to define itself as a pivotal regional state. And in fact, it may be a role model for neighboring countries: both with its political system, where in a functioning democratic system a party with Islamic roots governs, being an example of “muslim-democracy”; and its dynamic economy, diversified and well integrated to the global economy.

The new type of Turkish foreign policy activism is sometimes accused of being a kind of “neo-Ottomanism”. Although the official Turkish standpoint refuses it because of its negative connotations, it is obvious that the core areas of Turkish activism are in the neighboring regions once part of the Ottoman Empire: the Balkans, the Middle East, and the Caucasian region.

During his 2009 visit in Bosnia-Herzegovina, Ahmet Davutoğlu made a clear statement concerning the Balkans: “The Ottoman centuries of the Balkans were a success story. Now we have to reinvent this.... Turkey is back.”⁶

Turkish foreign policy concerning the Western Balkans was based on three main elements. First, the strengthening of good relations with traditional Balkan partners like Albania, Bosnia-Herzegovina, Macedonia and Kosovo. Second, a new opening and an improvement of relations with Serbia and Montenegro⁷, and as third element, strengthening the stability of the region by mediation and multilateral initiatives. The above mentioned Istanbul Declaration on Peace and Stability of the Balkans signed by Serbs, Croats and Bosniaks was part of this policy.

The priorities of the active policy are: high level political dialogue, security for all, envisaging mutual economic interdependence and the protection of the region's multi-ethnic characteristic.

Both historically and geopolitically the Balkans is in the sphere of interest of three regional powers, Europe, Russia and Turkey. The different spheres of interests are well characterized by the religious division of the Balkans: Roman Catholicism, Eastern Orthodoxy and Islam are all parts of the traditions and the every days. Recently, the “fight” for the Balkans – both in the political and in economic sense – intensified, the visits of top leaders (German chancellor Angela Merkel, Russian prime minister Vladimir Putin or Turkish prime minister Recep Tayyip Erdogan) being a clear sign of it.

⁶ Loic Poulain – Akis Sakellariou: Western Balkans: is Turkey back?. Center for Strategic and International Studies, 25 April, 2011, <http://csis.org/blog/western-balkans-turkey-back>

⁷ According to a Gallup poll, fewer than 15 percent of Serbians consider Turkey a friendly power. Source: Ayhan Simsek: Turkey in the Balkans. Myth, illusions and realities. <http://www.dw.de/dw/article/0,,15953307,00.html>

In case of Europe, the main attractive force for the Balkans is the promise of integration, while the Russians can offer cheap energy sources and integration to the gas pipeline network under construction. The popularity of Turkey increased substantially in the last years: the economic successes, its development path attractive for the underdeveloped countries of the region, and its growing trade and investments are all elements of it.⁸

Although some analyses and opinions⁹ see the rhetorical side of Turkish presence as the strongest without too much real economic assistance or perspective for the region's countries, the Turks have dynamically increased their economic interests and presence in almost every country of the region.

Economic and political perspectives of the Western Balkans

Three countries of the Balkans, Greece, Bulgaria and Romania are already members of the European Union. The remaining countries, the former Yugoslavian republics of Serbia, Bosnia-Herzegovina, Montenegro, Macedonia, plus Kosovo as an independent but not fully recognized state, and Albania are forming the Western Balkans.

The history of the region in the last decades was turbulent, the conflicts after the dissolution of Yugoslavia had and still have a deep impact on the perspectives of these countries. Although the possibility of an accession to the European integration is more or less open for every countries of the region, political and ethnic problems within the region, and also within some countries, and the not too bright economic perspectives cast a shadow over the perspectives of the region.

The Western Balkan countries are surrounded by EU member countries. This means that their European future is more or less evident, even if only in the longer term. Croatia is already at the end of the accession process, and is going to join the Union in 2013. FYROM, the Former Yugoslavian Republic of Macedonia, is a candidate since 2005, but was not able to start negotiations due mainly to bilateral disputes with an EU member neighbor, Greece. The dispute is to be solved before negotiations starts. The other candidates are Montenegro since 2010, and Serbia since March 2012, while Albania is still waiting for the green light. Bosnia-Herzegovina and Kosovo are still struggling for their "statehood", in case of BiH it is the lack of understanding among the three

⁸ Mesut Idriz: Balkans between two world: Turkey and Europe, Today's Zaman, 9 October 2011, http://www.todayszaman.com/newsDetail_getNewsById.action?load=detay&newsId=259260&link=259260

⁹ The Good Old Days?, The Economist, 5 November 2011, <http://www.economist.com/node/21536647>

nationalities that is menacing, while in Kosovo, even its independence is not fully accepted even by some EU members.

Generally, the whole Balkans is struggling with immense economic, social and political problems. They have huge current account deficits, high unemployment rates, the structure of their economy is weak, sometimes even underdeveloped. The lack of rule of law is widespread, while ethnic tensions exist almost everywhere in the region. It will not be easy for Europe to deal with the Balkans – but a carefully managed accession process, with well targeted economic and financial help may turn this region also into the promised zone of peace, stability, democracy, and prosperity. But it is hard for some of the countries and nationalities to accept a common European identity when they have just begun to live their own national identity. And with more and more obvious problems in the European architecture, they may look for other, alternative models as well.

Turkish economic influence on the Western Balkans¹⁰

The return of Turkey to the Balkans is marked by the intensification of economic ties and interests. Turkey signed free trade agreements with all Balkan countries (except Kosovo), and also signed visa-free agreements with all countries which by helping mobility of people foster business ties between the countries as well. The Balkan trade of Turkey increased dynamically in the last decade, from \$2.6 billion in 2001 to over \$17 billion in 2007, but dropped back during the crisis. In 2011, total Balkan trade of Turkey was over \$17 billion again, although the structure changed slightly, with smaller overall exports, and a larger share of imports. However, Turkey's ambitions in Southeastern Europe are limited by a lack of resources. Indeed, despite a long-term increase, the share of the Balkans in Turkish trade is still low, 6-7% in exports and 3-4% in imports. The largest trade partners on the Balkans are the three EU countries, Romania, Bulgaria, and Greece, representing 77% of Turkish Balkan exports, and 91% of imports.

In case of Turkish foreign direct investments, from \$28 billion invested abroad in 2009, 4.6 billion (16%) went to Balkan countries, mainly to investments in infrastructure (communication, finance, retail trade, road construction).¹¹

¹⁰ Data sources – if otherwise not indicated – are: export and import data from the Turkish Statistical Institute (<http://www.turkstat.gov.tr>), contracting and investment from Turkish Economic Ministry (<http://www.economy.gov.tr>)

¹¹ Turkish-Balkan Commercial Ties, TRT English, 8/4/2011
<http://www.trtdari.com/trtworld/en/newsDetail.aspx?haberkodu=614458a7-0cc6-4c64-95bc-2c0d8c435dde>

Table 1
Turkish exports and imports towards Balkan countries, in million USD

| | Exports | | | Imports | | |
|------------|---------|------|------|---------|------|------|
| | 2001 | 2007 | 2011 | 2001 | 2007 | 2011 |
| Greece | 476 | 2263 | 1553 | 266 | 950 | 2569 |
| Bulgaria | 299 | 2060 | 1623 | 394 | 1952 | 2475 |
| Romania | 392 | 3644 | 2879 | 481 | 3113 | 3801 |
| Croatia | 30 | 355 | 242 | 17 | 77 | 311 |
| Bosnia-H | 28 | 445 | 269 | 5 | 21 | 90 |
| Serbia | 81* | 475 | 355 | 7* | 70 | 213 |
| FYROM | 90 | 272 | 299 | 9 | 56 | 92 |
| Montenegro | * | 20 | 27 | * | 0 | 15 |
| Kosovo | * | 120 | 266 | * | 3 | 10 |
| Albania | 73 | 295 | 271 | 4 | 23 | 126 |

Source: Turkish Statistical Institute

Turkey is a latecomer to the region. The most important trade partners for the Western Balkan countries are from the EU, with total trade amounting to over EUR40 billion. EU countries already have investments in crucial sectors (like German Deutsche Telekom in the telecom sector, or Greek OTE in banking sector). Greece keeps on playing a key economic role in the region, even though it has been particularly hit hard by the global financial crisis. Turkey has lagged at targeting strategic sectors, being undercut also by Russian plans in the energy industry.

Let's take a look now at Turkish interests in individual Western Balkan countries.

Albania

The free trade agreement between the two countries was signed in 2006. The trade volume has tripled in the last decade, Turkish goods exports reached \$271 million in 2011 (iron and steel, textile products, cereals and electrical machinery), while imports from Albania to Turkey were at \$126 million (mainly iron and steel products). Turkey had a significant trade surplus of \$145 million in 2011.

Turkey is the third largest investor in Albania (after Italy and Greece), more than 80 Turkish companies are active in the country. The most important of them is Çalik Holding, largest shareholder of the Albanian national telecommunication company Albtelecom. Çalik, together with its partner Turk Telecom bought 76% of the Albanian company in 2007 for

€120 million. Albtelecom has one third of Albanian households as its partner, and more than 50% of the internet connections. Albtelecom is the owner of Eagle Mobile, the third largest mobile network operator in the country. CETEL (a Çalik affiliate) invested more than €70 million in the first three years in Eagle. Another Çalik acquisition is BKT, one of the two largest banks in Albania, with a market share of 18%. Çalik bought 60% of the shares in 2006, and the remaining 40% in 2009.

In contracting, Turkish firms held and are holding 19 projects in Albania with a total value of \$717 million.

Bosnia-Hercegovina

Turkey signed several bilateral agreements with BiH, the Free Trade Agreement dates back to 2002. Trade volume was \$360 million in 2011, with a Turkish surplus of \$180 million. In 2011, Turkish exports was around \$270 million (textile yarn, clothing, electrical machinery, vehicles), while imports from Bosnia stand around \$90 million (metaliferrous ores, paper, chemical products).

Turkey is the fourth largest investor in BiH (after Austria, Slovenia and Germany)¹², with a stock of \$138 million between 2002 and 2011.

Established in 1997, Turkish Ziraat Bank Bosnia was the first foreign-owned bank in Bosnia, and still is among the largest players in the sector. In 2008, Turkish Airlines bought 49% of the Bosnian national airline BiH Airlines.

In contracting, Turkish firms held and are holding 9 projects with a total value of \$80 million.

Bosnia-Hercegovina is the second largest beneficiary of Turkish aid in the Balkan. In last years, Turkish activism in Bosnia was criticized by Bosnian Serbs, even in mediation activities between the Bosnian ethnics the role of Turkey has decreased recently.

Croatia

Turkey exported \$242 million in 2011, mainly road vehicles, electrical machinery and apparatus, iron and steel products, and textile products. Turkish goods imports from Croatia totaled \$311 million (metalliferous ores, fertilizers, petroleum products). Turkey has a trade deficit with Croatia.

¹² Maja Sostaric: Bosnia, Revisited: Turkey's Gains, Challenges and Future Aspirations. Balkananalysis.com, 2011. július 12., <http://www.balkananalysis.com/turkey/2011/07/12/bosnia-revisited-turkey%E2%80%99s-gains-challenges-and-future-aspirations/>

In contracting, Turkey held/is holding 3 projects with a total value of \$787 million. A possible area of Turkish investments can be tourism, where Turks have both experience and interests.¹³ Turks are also interested in the textile sector, as recent events prove.¹⁴

In August 2012, Caliskan offered to take over Dina Petrokemija and restart production in that plant on the island of Krk. The Turkish company is to invest a total of 20 million euros, and the investor also aims to settle debt agreements with suppliers that claim over €61 million.¹⁵

Kosovo

Turkey is the fourth in the rank of trade partners of Kosovo, after Macedonia, Serbia and Germany. Bilateral trade volumes grew dynamically, from €91 million in 2008 to €300 in 2010 (and €270 in 2011). The top export categories of Turkey to Kosovo are clothing, textile yarn, and electrical machinery. Turkish imports from Kosovo totaled \$10 million in 2011, creating a Turkish trade surplus of \$260 million.

An increasing activity of Turkish business interests was registered by APIK (Foreign Investment Promotion Agency of Kosovo): more than 400 Turkish companies and 2300 Turkish employees were registered, mainly in construction, education, tourism, the health sector, telecommunication and trade.¹⁶

The most active companies are Bechtel Enka, Limak Group (both in construction), TEB and BKT (both banks). Turkish investments of \$1 billion were realized by the end of 2011. The management rights of the two international airports in Pristina were bought by Limak (together with Aeroport de Lyon), planning to invest €100 million to build new terminals.¹⁷ Turkish companies are interested in the privatization of the Kosovo Post and Telecommunication Company, and other state-owned companies. Turkish firms held 4 projects in Kosovo until 2011, with a total value of \$502 million. Bechtel Enka is the winner of a €700 million tender to build a motorway between Pristina and the Albanian Dures.

¹³ Silvana Srdoc: Croatia is perfect for everything. Interview with Turkish ambassador. daily. tportal, 3 August 2012, <http://daily.tportal.hr/207648/CROATIA-IS-PERFECT-FOR-EVERYTHING.html>

¹⁴ Seventeen Turkish textile companies were represented at the Croatian-Turkish business forum in May 2012. Turkish businesses have show great interest in cooperation and investment in Croatia and the textile industry. Turkey sees Croatia's location as being very attractive. Source: Croatian Times (2012): Turks looking to invest in Croatia. http://www.croatiantimes.com/news/Business/2012-05-31/27407/Turks_looking_to_invest_in_Croatia

¹⁵ Source: <http://daily.tportal.hr/207496/Gov-t-gives-guarantee-for-advance-payment-of-Turkish-investor-for-Dina.html>

¹⁶ Linda Karakadu: Turkish Businesses makes inroads in Kosovo, Albania, SETimes, 3 July 2011, <http://www.eurasiareview.com/03072011-turkish-businesses-make-inroads-in-kosovo-albania/>

¹⁷ Muhamet Brajshori: Pristina's international airport under new Turkish management, SETimes.com, 21 April 2011, http://www.setimes.com/cocoon/setimes/xhtml/en_GB/features/setimes/features/2011/04/21/feature-03

Turkish companies are present in the education and the health system, Turkish Medicana agreed with Kosovan authorities to build an International Hospital.

Turkish companies are popular in Kosovo, a lot of young people speak or study Turkish and see an opportunity in employment in Turkey.

Macedonia/FYROM

For several years the Former Yugoslavian Republic of Macedonia was not a major trade and investment partner for Turkey, despite the fact that it belonged to one of its closest political allies in the Balkans, and despite the bilateral free trade agreement signed already in 1999. As a paradox, the economic ties between the FYROM and Greece – a political enemy hindering the country's EU accession process due to the dispute over the country's name – are much stronger. Greece invested €380 million in the FYROM until 2010, while Turkey only €50 million. Greece obtained several concessions in the last decade: for example in 1999, Hellenic Petroleum bought the oil refinery near Skopje. In trade the tendencies were similar: Greek exports were much higher than Turkish.

Real Turkish economic interests toward the FYROM rose only after 2005. TAV obtained the management rights of Skopje and Ohrid Airports for 20 years, and a further €200 million of investments (reconstruction, new cargo buildings) are also to be launched. Turks are interested in the revitalization of Macedonian Airlines.¹⁸ The Turkish company Cevahir Holding started to build the largest residential complex in Skopje's Aerodrom city.¹⁹ Turkish firms held and are holding 21 projects in Macedonia with a total value of \$832 million up to 2011.

The bilateral trade volumes increased from the 2005 €200 million to €400 million, with both Turkish exports (to €300 million) and import (to €100 million) doubling. The top export products of Turkey to Macedonia are textile yarn, electrical machinery, metal products and road vehicles, while top imports categories were iron and steel.

Serbia

Serbia is the most important trade partner from the Western Balkans: Turkish exports were at €355 million (textile yarn, road vehicles, vegetables and fruit, electrical machinery), imports at €213 million in 2011 (petroleum products, iron and steel, metalliferous ores, rubber,

¹⁸ Darko Duridanski: Macedonia-Turkey: The Ties that Bind, BalkanInsight, 10 February 2011, <http://www.balkaninsight.com/en/article/macedonia-turkey-the-ties-that-bind>

¹⁹ The residential complex with a business and shopping centre spread over 280,000 square meters and consists of four 42-floor (130 m tall) towers. Source: Menekse Tokyay – Biljana Lajmanovska (2012). Turkish investment furthers co-operation with Macedonia, Southeast European Times, 30/07/2012, http://www.setimes.com/cocoon/setimes/xhtml/en_GB/features/setimes/features/2012/07/30/feature-05

cereals). Turkey has a (decreasing) trade surplus with Serbia. Improving political relations, the signing of free trade agreement in 2010, and the possibility of visa-free travel all help the development of bilateral trade relations still far below potentials.

Currently there are Turkish direct investments totaling around \$32 million in Serbia, mainly in the textile and food sectors, in retail trade and in entertainment. In construction, Turkish firms are holding one project with a total value of \$120 million.

Turkish investors are interested in the privatization process just started in Serbia. The main potential targets are JAT Airways, Telekom Srbija, the largest car and van producer FAP Korporacija, and international airports.

Beside privatization, Turkish investors have strong interests in the Sandzak region. For Serbia, foreign investors are welcome in heavily underdeveloped regions, although it may raise political risks in ethnically mixed areas.²⁰

Three Turkish companies are going to participate in the construction, and partly the financing of the 445 kilometer motorway between Belgrad and Bar (Montenegro), leading through the Sandzak region.

Montenegro

Montenegro is not a primary target country of Turkish goods and investments, bilateral trade amounted to €40 million, although the free trade agreement (2008) and the visa-free travel agreement may result in some increase in trade volumes. Investments are also of a low level (3-4 million euro annually), mainly in tourism, retail sales, construction and infrastructure.

Turkish goods exports was \$27 million in 2011 (road vehicles, clothing, electrical machinery), imports \$15 million (metalliferous ores, iron and steel).

The Turkish foreign direct investment stock in Montenegro was \$11 million between 2002 and 2011. Turkey's Toscelik, part of the Tosyali Holding, will invest \$43.9 million in the next three years in the Montenegrin steel mill Zeljezara Niksic. The mill was declared bankrupt last year with debts of more than \$200 million.²¹

²⁰ Anec Alis: Second Ottoman Occupation, or Much-Needed Investment?, ISAINTEL, 16 November 2011, <http://www.isaintel.com/2011/11/16/second-ottoman-occupation-or-much-needed-investment/>, and Athina W. Tesfa-Yohannes: The growing Turkish-Serbian Alliance in Curbing Domestic Regional Conflict, Bilgesam, 8 July 2011.,

http://www.bilgesam.org/en/index.php?option=com_content&view=article&id=365:the-growing-turkish-serbian-alliance-in-curbing-domestic-regional-conflict&catid=95:analizler-balkanlar&Itemid=140

²¹ Reuters: Montenegro sells bankrupt steel mill to Turkish firm, 30 April 2012, <http://af.reuters.com/article/metalsNews/idAFL5E8FU6Y020120430>

The cultural factor

Turkey's presence and growing influence on the Balkans was characterized not only by foreign policy activity and rising trade and investments. Surpassing conventional diplomacy, Turks used the means of "cultural diplomacy" as well: increased cooperation with religious networks and charities allowed Ankara to reach out into the micro-level of community organizations and grassroots politics.²² Official organizations like the Turkish International Cooperation and Development Agency²³ (Türk İşbirliği ve Kalkınma İdaresi Başkanlığı, TİKA), and different private institutions and NGOs participated actively in this field.

In culture, Turkish activity in many ways was more visible than in politics or in the economy. Turkey gave financial support to organizations related to Muslim identity and Osman cultural heritage (e.g. monuments).²⁴ For the more than 9 million Muslims living on the Balkans (in almost every country of the region), Turkey can give important support in their struggle to find their identity.

Turkey is taking part in the education system by establishing schools and even universities (in Kosovo, Albania, FYROM and Bosnia-Herzegovina), and by giving scholarships to talented students in the region. Several associations have been present in the Balkan countries since the early nineties, the Gülen movement alone runs now more than 20 institutions in the region. The Turgut Özal Education Company has been operating a system of Turkish primary and high schools in Albania since the early nineties. In Albania the political elite's children tend to be educated in these private schools.

²² Loic Poulain – Akis Sakellariou: Western Balkans: is Turkey back?. Center for Strategic and International Studies, 25 April, 2011, <http://csis.org/blog/western-balkans-turkey-back>

²³ The Turkish International Cooperation and Development Agency (TIKA) was established on January 24, 1992 in order to "[provide] development assistance foremost to developing countries where Turkish is spoken and countries that border Turkey as well as [improve] cooperation through projects and programs in economic, commercial, technical, social, cultural and educational arenas". (from TIKA's homepage, quoted by <http://publicdiplomacy.wikia.com>)

²⁴ The Good Old Days?, The Economist, 5 November 2011, <http://www.economist.com/node/21536647>

Conclusions

After long decades, the Turks are again on the Balkans, this time not with military force as occupiers, but as the most dynamically growing economy of the region, as an attractive country that may serve even as an engine of the countries of the Balkans. And not only for the countries with a Muslim majority – since 2010, Serbia, the largest Western Balkan state, came to the forefront of Turkish interests.

However, competition in the struggle for the region is strong. The European Union can offer accession perspectives that are still very attractive for the Balkan countries, and Russia also has its (fading) historic/religious ties plus its gas resources.

Turkey's possibilities to be attractive for the region are weaker, but its geographical position and its dynamic and relatively (compared to the Western Balkan countries) developed economy gives Turkey a distinguished position in the future of the Balkans. The issue has several open problems to be solved: how the relations between the European Union and Turkey will develop, what the future of Western Balkan accession will be and in general, what will happen to the future enlargements of the EU and how sustainable and long term is the economic growth and expansion of the Turkish economy.

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