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▶ **TIME FOR A POSITIVE  
AGENDA IN EU-TURKEY  
RELATIONS: START WITH  
A GREEN DEAL TURKEY**

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*TEPAV Managing Director*

**InBrief Series**

## TIME FOR A POSITIVE AGENDA IN EU-TURKEY RELATIONS: START WITH A GREEN DEAL TURKEY.

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“The challenge of working with allies is that sometimes they develop opinions of their own” said Winston Churchill at a secret meeting during WWII.

I find that alliances are much like marriages. They’re very complex, and it’s hard to identify a single factor that makes them work. We do know, however, that some things work better than others: More talking and less guessing. More engagement, less finger pointing. More coordination, less discretion.

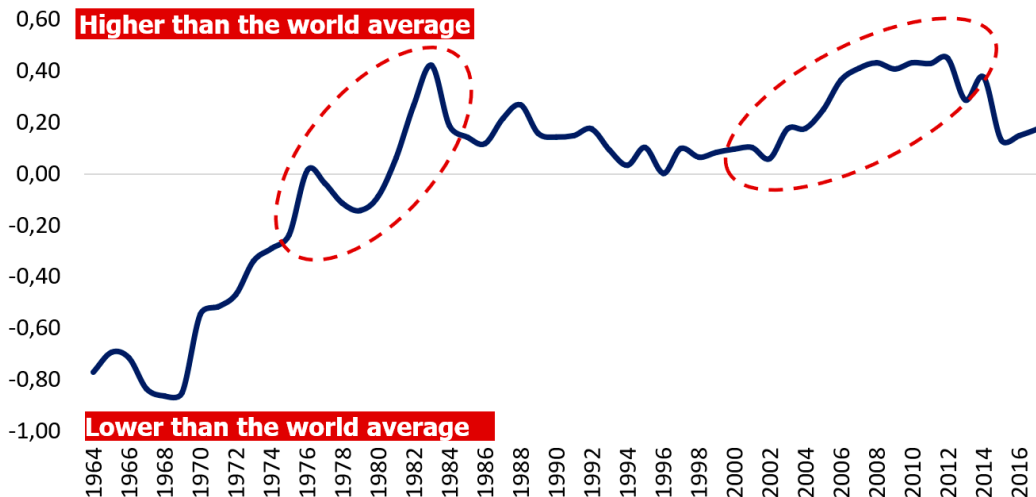
Good alliances cannot form unless statesmen take the long view. To do that, they need to understand the concerns and regional problems of their allies.

The long view on Turkey has not changed for centuries: Europe ends on Turkey’s eastern borders. Turkey is part of the West. This is true in terms of security as well as economics.

For evidence, have a look at how the competitiveness of the Turkish economy has fared over the years. Graph 1 shows the export sophistication of the Turkish economy, the latter reflects the knowledge intensity of exported products. If its export basket contains more sophisticated products, it means that Turkey is converging towards the export baskets of richer countries, meaning it is becoming more competitive. Less sophistication diverges the country from the export basket of richer countries, meaning that it is becoming less competitive. Export competitiveness of the German economy could be taken as a benchmark for evaluation.

### Evolution of Turkey's export sophistication, 1964-2017

*Export sophistication reflects the knowledge intensity of the exported products.*



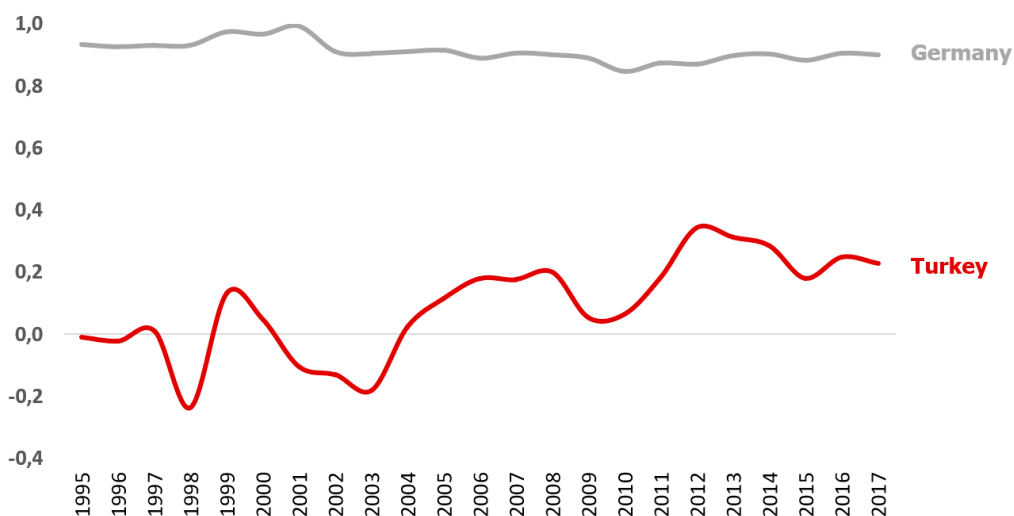
Source: MIT The Observation of Economic Complexity

Turkey has become more competitive in two periods: the first is with the 1980 liberalization reforms, the second is the EU reform process starting in the early 2000s, and culminating with the start of formal accession talks in 2005. Transparency and opening up have always made Turkey more competitive and richer.

Note that Turkey started to lose its economic competitiveness in 2007. Why? With President Sarkozy in France, Europe started to disengage from Turkey, and clashes within Turkey's ruling bloc got the country further distracted. The result has been a loss of competitiveness, as the graph shows.

### Evolution of Turkey's export sophistication, 1995-2017

*Export sophistication reflects the knowledge intensity of the exported products.*



Source: MIT The Observation of Economic Complexity

Turkey's relationship with Europe is a marriage of reason. That is still the case. Despite all the odds, Turkey's continuing economic and social transformation is good for European security in general, and energy security in particular.

Ironically now COVID-19 opens new prospects for a positive agenda between the EU and Turkey.

With the virus, the world has become an even more uncertain place. As the number of cases surge, economies across the world are slowing down. If left to themselves, markets and individual companies will only exacerbate the economic devastation of the pandemic. They will invest more in digitalization and robotization to deal with declining profit margins. This will inevitably lead to more unemployment and greater global and regional inequalities.

There are instances where cooperation between agents, not competition amongst them, brings better solutions to the problems at hand. With the pandemic, we have a classic collective action problem à la Mancur Olson, the author of "The Logic of Collective Action." Finding a solution to a collective action problem at this scale requires public sector leadership and strong public investment programs.

The Green Deal is the new growth strategy of Europe to find a solution to the collective action problem at hand. Note that more than fifty percent of Turkish exports are still destined for the EU market. This level of connection means that Turkey needs its own green transformation program. Specifically, there are two factors to consider here.

One is that any carbon equalization tax on Turkish products is going to be costly for the Turkish recovery process in the COVID-19 world, as export performance will be negatively impacted. Second is that European value chains already operating in Turkey, and those that might start

thinking about moving to Turkey in the post COVID-19 world will want to see a green transformation program there as well.

A new growth strategy is needed for Turkey to jumpstart job creation anyway. A green transformation program in Turkey, comprising energy transition and efficiency, digital transformation and smart, sustainable cities, working together with the EU's Green Deal appears to be essential. A mutually beneficial green transformation agenda appears to be a new positive agenda item between the EU and Turkey. Energy transition in Turkey could be a good starting point for the discussion, together with a program for smart sustainable cities.

Note that a green transformation program for Turkey has become only more urgent with the COVID-19 pandemic. As the pandemic is squeezing growth and job creation, 3.6 million migrants hosted in the country are going to become an even heavier burden to bear.

Under pandemic conditions, integrating forcibly displaced immigrants into Turkish labor markets and turning Turkey from a transit into a destination country (as agreed in the EU-Turkey deal) is becoming more and more difficult. Because COVID-19 turns migration into a domestically contentious political substance, it has a negative impact on Turkey's growth prospects. This, in turn prevents local leadership from implementing coherent integration policies.

Let me finish with another Churchill quote. Just about a month before the war ended in 1945, Churchill said "there is only one thing worse than fighting with allies, and that is fighting without them." A good reason for more engagement, less finger pointing and more cooperation. Just like in a marriage.

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