An Alternative or Embedded in the Mainstream:

Political Economy of Turkey's Involvement in the Balkans

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Abstract

This study aims to provide an analysis of the political economy of Turkish foreign policy towards the Balkans from a critical perspective. Turkey has been actively involved in the region since the end of the Cold War, yet her involvement had only a weak economic dimension. The changing dynamics in the 2000s allowed Turkey to be actively involved in the region, economically as well. This involvement assumed a new phase with attempts at increasing Turkey’s trade and Turkish foreign direct investment within the region. Most of the studies evaluating the 2000s approach from the mainstream of international political economy perceiving economic developments and actors as enabling factors (or reinforcing factors) for achievement of Turkey’s national interests. These studies display the liberal claim that economic relations increasingly constitute the core of foreign policies and create peaceful political relations. Policy issues of external trade and foreign direct investment form the basis of the neo-liberal transnationalisation process. By attempting to detail Turkey’s attempts to expand its trade and foreign direct investments in the Balkans region, the study questions whether trends in Turkey’s involvement stand out as an alternative, in competition with the West (major international actors) or complementary in nature. Turkey’s involvement in the Balkans is in line with the international systemic processes, using similar instruments and concentrating on similar sectors/areas. This, indeed, helps diffuse the neo-liberal ideas within the region.

Keywords: Turkish Foreign Policy, Balkans, Political Economy
Introduction

In recent years, there has been an increasing interest in economic factors in the study of Turkish foreign policy. Despite the growing literature on the political economy of Turkish foreign policy, there has been relatively little research on the political economy of Turkey’s Balkan approach. These studies mainly analyse Turkey’s economic involvement on a bilateral perspective. They consider economic dimensions of Turkey’s involvement in the Balkans as part of the Justice and Development Party’s (Adalet ve Kalkınma Partisi - AKP) broader strategy of engagement with neighbours with an aim to establish deeper economic, societal and cultural links which would reinforce the regional and global role of Turkey. These studies display the liberal claim that economic relations increasingly constitute the core of foreign policies and create peaceful political relations. The main aim of this study, accordingly, is to embed Turkey’s involvement in the Balkans within the broader perspective of global and regional conjuncture of changes and developments surrounding the region. Thus, the first part of the study intends to identify the nature of hegemony and social structure at the global level, the inherent historically specific forms of power relations in the global order and how these are reflected upon the Balkans. In this endeavour, the study pursues a critical political economy approach that defines neoliberalism as the new form of development. The second part, then, will look into the development of the approach and policy instruments Turkey has employed during the AKP period. The aim here shall be to place Turkey’s economic involvement in the region through trade and investment relations within the power relations and thus the historical roots of social relations of power surrounding transformation processes in the region. An analysis of Turkey’s involvement vis-à-vis the international context shall provide insights into whether Turkey’s approach is an alternative to or embedded into the mainstream.

Framing the International Context: A Critical Political Economy Approach

The changing social relations since the late 1970s lend itself to a restructuring of social organisation of production on the one hand and social self-understandings and political organisation on the other, which is reflected upon the transformation processes in Eastern Europe, including the Balkans region. Indeed, the coincidence of the transformation trajectories with a long search for new ways of restoring productivity and economic growth in the global capitalist economy had important consequences on the process of political and socioeconomic change in the region.

The emerging neo-liberal approach in the capitalist global political economy led to a redefinition of the role of the state and the ultimate emergence of a new mode of development which is constructed around a radically different pattern of relations between private economic activity and the role of the state. This process is signified in the internationalisation of production and finance and the increasing acceptance of free trade and foreign direct investment as important instruments of development. Capital, in this context, increasingly became used as an instrument of power, restructuring the nature of hegemony and social structure at the global level and the inherent historically specific forms of power relations in
the present global order. This is reflected in the changing pattern of intervention, especially in restructuring the developing world to accommodate production and finance capital, and on the form of state and international arrangements.

States create the conditions for the dominance of particular modes of social relations (Cox, 1987: 399). The search for a new form of state amounted to a restructuring of states’ regulatory, supervisory as well as its constitutive roles in the domestic and international realms. Indeed, after the mid-1970s, the emerging form of state has been acting in support “to the opening of the world to global finance and global production” (Cox, 1992: 516) actively involved in the disintegration of state structures and integration of the new structures of relations. Far from eroding the role of the state, the neo-liberal globalisation drive has been constituted through and even by the state itself (Panitch, 2000: 14). The state, as a structure that materialises and concentrates class struggles, becomes “the nub of any revolutionary strategy” (Poulantzas, 1978: 38) including that of internalising the neo-liberal project, a structure through which hegemony functions.

The state, in a parallel process, has been profoundly restructured and became more subordinated to the changes in global political economy through the internationalisation/transnationalisation of production and finance. These processes deeply affected the political and institutional forms of the state by including them in a system of interconnections, i.e. transnationalisation of production systems, which goes beyond a consideration of external pressures (Poulantzas, 1978: 73). The notion of the internationalisation of the state “captures this dynamic [of transnationalisation] by referring to the way the transnational processes of consensus formation have been transmitted through the policy-making channels of governments” (Bieler and Morton, 2003: 487). The notion indicates a process whereby national policies and practices are adjusted to the exigencies of the global political economy (Cox, 1987: 253). As Jessop (2002: 95) points out this was to be “a distinctive form of state concerned to promote economic and extra-economic conditions deemed appropriate to the emerging post-Fordist accumulation regime”. Bieler and Morton (2003: 487), commenting on the arguments of Poulantzas, indicate that “internationalisation, or transnationalisation, of production and finance capital does not represent the expansion of different capitals outside the state but signifies a process of internalisation within which interests are translated between various fractions of classes within states”. Thus, states support the reproduction of capital under the domination of Western capital, each state “attempting in its own way to latch onto one or other aspect of this process” (Poulantzas, 1978: 73).

The process of ‘internationalisation of state’ is even more evident in the case of transformation in Central and Eastern Europe. The state has been the major agent and structure in the processes of transformation in the countries of the region. While managing the conditionality imposed from outside, the states of Central and Eastern Europe tried to balance different and divergent set of local interests. The emphasis on the ‘return to Europe’, which enforced political credibility and thus popular support among the electorate by presenting transformation as a break with the past and the ‘evils’ of communism, united the closely associated processes of democratisation, marketization and European integration. Conceived in this way, the state serves as an arena for the institutionalisation of class relations around a
particular configuration of production relations. Thus, the internationalisation process is important in understanding the integration processes in Eastern Europe as the relations of power and authority in these countries has been constructed through interaction with social forces beyond the national context.

Increases in volume of trade and levels of foreign direct investment help explain structural changes in production and societal relations. Direct investments, especially, provide important clues on concentration and centralisation of capital and on the changing forms of international division of labour. Indeed, globalisation of finance and productive capital and trade are complementary not contradictory in reproducing, reforming and transforming social relations of production. In the neoliberal conjuncture corporations sought to build up global production networks by investing in locations that promised higher profits where they could produce, promote/market and sell for regional as well as global markets (van Apeldoorn, 2002: 57). There have been substantial increases in FDI flows since the 1980s, especially in the second half 1980s and 1990s and mid-2000s, which also mark important conjunctures in the case of European level restructuring and integration. States have played an important role in welcoming and encouraging the growth of FDI within the framework of the neoliberal model of development. Governments and in the case of the EU, the Commission as the supranational authority of the Union have greatly been facilitating the growing importance of FDI and complex networks of international production in the world economy by encouraging liberalisation, privatisation policies, and incentives in order to promote FDI (van Apeldoorn, 2002: 58). The neo-liberal hegemonic project was paralleled by a reconfiguration of international financial institutions’ involvement in the global political economy that enabled them to back the opening of markets for both production and finance capital at a global level though demands on structural adjustment with regards to restructuring in production, trade and finance. Although international financial institutions played a vital role, the EU was the crucial actor in embedding the transformation processes into the wider context of neoliberal restructuring through its enlargement process.

The EU enlargement process put emphasis on restructuring through market oriented development and interlinked trade, investment, aid and accession through conditionality and enriched the mechanism through mechanisms such as bench-marking and gatekeeping. In this respect, the EU approach embraced the totality of political and economic elements of reform that were advocated by the West in the early 1990s as well as the second generation of political and economic conditionality with respect to reforms. Conditionality played an utmost role in the transmission of hegemony by bringing changing forms of coercion and consent together or rather by presenting changing forms of coercion within forms of consent portrayed as the normalisation of external relations or as the universal social practices. The EU approach, thus, proved crucial in disciplining, shaping and maintaining the neo-liberal policies of the governments in the region. It should also be emphasised that policies such as the Maastricht criteria with respect to the EMU had important implications for the states in Central and Eastern Europe that endeavoured to be members. Thus, the EU has proved to be a crucial structure and an actor that promoted the globalisation process via the enlargement process that it has been pursuing towards the region.
The Balkan countries were well entrenched into this framework following the 1999 Helsinki Summit of the European Union as will be elaborated in more detail below. The EU decided to open accession negotiations with Romania and Bulgaria on the one hand and to initiate the stability and association process with other Balkan countries, on the other. The framework was also important for the fact that states in the Balkans, similar to the states of Central and Eastern Europe, prioritised integration into the global capitalist economy and the European Union from late 1990s onwards as their major foreign policy objectives. This gave the EU the leading role in promoting economic development besides stability and security through encouraging normalisation of external relations among the countries of the region. The EU role was further strengthened by encouraging trade liberalisation in the region first through bilateral free trade agreements between countries of the region and then through the extension and expansion of the existing Central European Free Trade Agreement (CEFTA) as a complementary process to the stabilisation and association process. The attempts at trade liberalisation throughout the first half of the 2000s and the 2003 Thessaloniki Summit of the EU which placed the countries of the Balkans as candidates or potential candidates reaffirmed the features of the neoliberal project. Regional integration rested on an imagery of prosperity and security which, as argued by the mainstream would be attained, in the wider sense, through the establishment of neo-liberal social relations. It may well be argued that although conditionality did not work as smoothly within the Balkans as it did for Central and Eastern Europe, it still is an important instrument in keeping the Balkan states attached to the hegemonic structure. The membership of Croatia and the role the EU played in bringing talks between Serbia and Kosovo to a point of ‘normalisation of relations’ is a good example presenting the importance of the EU within the region.

It would be misleading to argue for an increasing role or influence in the region without placing Turkey’s involvement within the historical context of developments that has briefly been defined above. One of the main aims indeed is not to argue for increasing influence or lack of it but rather point to the dialectical nature of Turkey’s interactions with the region and dwell into the nature of this involvement.

**Embedding Turkey’s Involvement in the Balkans: Reproduction of the Global?**

It is widely argued that Turkey’s involvement in the Balkans has moved gradually from assisting the peacekeeping operations, therefore from a political/military dimension in the 1990s to contributing to the reconstruction and reconciliation in the Balkans through economic involvement in the 2000s. The dominant perception contended that Turkey pursued a national-security centred understanding of foreign policy which was a result of instability and insecurity reigning within Turkey and Turkey’s immediate neighbourhood (Kirişçi, 2009: 45). Indeed, the collapse of the communist regimes, the subsequent transition to liberal democracy and free market economy in Eastern Europe and the disintegration of Yugoslavia were important factors influencing the policy formation of Turkey towards the Balkans. The disintegration of Yugoslavia, above all, led Turkey to prioritise a political, diplomatic and security based approach towards the Balkans in search of ways to end first the war in Bosnia
and then the conflict/war in Kosovo. Turkey followed a dynamic foreign policy approach elaborating on bilateral and multilateral mechanisms to find solutions to the problems in the region within a conjuncture that was primarily shaped by the United States (Uzgel, 2006: 223-236). Turkey, in this respect, intended to prevent any other regional power from establishing a dominant position within the region and especially from mid-1990s onwards, supported the integration of the Balkan countries into the Euro-Atlantic structures (Türkeş, 2008: 254-264).

Turkey’s economic relations with the countries of the region increased despite the fact that economy was not a central or coordinated element of Turkey’s approach towards the region and despite the questions of Turkish economic capacity given Turkey’s own economic problems because of the recurrent economic crises in the 1990s. Turkey’s trade volume with the Balkan countries increased from 1.68 bn. Euros to 3.66 bn. Euros between 1996 and 2002. Turkey concluded free trade agreements with Romania (1997), Bulgaria (1998) and Macedonia (1999) liberalising trade in industrial goods partly as a requirement of the 1995 customs union agreement with the EU (Bechev, 2012: 136). Turkey’s main trading partners in the region were Romania, Bulgaria and Greece. In 1996, these three countries accounted for 78 per cent of Turkey’s exports to the region and 91 per cent of its imports from the region; in 2002 they accounted for almost 80 per cent of exports and 97 per cent of imports.

In the latter half of the 1990s and early 2000s, Turkish direct investments in the region were limited and largely concentrated in Romania and Bulgaria, in line with international trends, amounting to US$ 125 million and US$ 39 million respectively by 2002 (UNCTAD, 2012: 16). Bosnia and Herzegovina, Albania and Macedonia, hosted Turkish investments including state-owned Ziraat Bank and Halk Bank investments, yet they were not perceived as viable destinations for investment by Turkish business actors. Trade and investments during the first phase of transition in the 1990s was low in most of the Balkan countries largely due to the unstable political environment. Political conflicts - including wars in Bosnia and Kosovo as the most serious among others - created a negative image leaving deep traces and unresolved political problems that even persist today. These political conflicts had important economic implications on especially the successor states of Yugoslavia as the disintegration process led to the break-up of traditional economic and trade links, negatively influenced political and economic structures, and delayed attempts to reform. Romania and Bulgaria, on the other hand, were bigger in size as compared to other small countries in the region, politically stable and had presented better business opportunities given they were part of the EU enlargement process. In the Balkans, indeed, Turkey contributed to the institutionalisation of a rule based contractual approach through the free trade agreements and bilateral investment treaties for the protection and promotion of investments prioritising business activity that extended the neoliberal approach.

The gradual approach of the EU, initiated at the EU Helsinki Summit in 1999, aiming to integrate the Balkans into the global political economy presented Turkey’s involvement in the region with various opportunities and constraints. The EU differentiation, in the 1990s, prioritizing Central and Eastern European countries meant that the Western Balkan countries were to carry out transformation programmes under the lead of international financial institutions, the IMF and the World Bank. The international involvement through the
international financial institutions was not able to avert political risk and establish the necessary institutional framework for economic stabilisation and liberalisation (see Türkeş et. al., 2012). The EU took the leading role in transforming the Balkans with the Stability Pact for South-Eastern Europe emphasising the importance of economic restructuring in facilitating and ensuring sustainability of peace and security in the region, in line with the approach of the international financial institutions (Donais, 2005: 16). Transformation of Greek foreign policy and Greek rapprochement with the Balkan countries, including Turkey, were the triggering factors in the increasing importance of the EU in the region. Using the advantages of being an EU member, Greece sought to follow a trade and investment policy to increase its economic presence. Greek attempts to place itself as a regional power which could both boost the region’s economic relations with the EU and lead the region to the Euro-Atlantic structures led to the marginalisation of Turkey within the region in the early 2000s (see Uzgel, 2006: 237-252).

The stability pact followed the examples of attempts to establish good neighbourly relations between the Central and Eastern European countries to overcome ethnic conflicts and territorial disputes in early 1990s. The approach, in this sense, tried to address the shortcomings in the region given the experiences of the enlargement policy towards Central and Eastern European countries. It was argued that the European integration process would be a better ‘anchor’ not instead of but in collaboration with the international financial institutions in transforming and integrating the Balkan countries within the global structure. Trade liberalisation and regional cooperation would establish a structure and a business environment conducive to attracting foreign direct investments connecting the Balkan economies to the global political economy through internationalisation of production and finance. This was perceived as the nexus of reconstruction and rebuilding of economies, the only developmental opportunity of the Balkan countries, the only way to increase their international competitiveness and the only way to overcome societal problems such as unemployment and increase living standards, which were exacerbated as a result of political conflicts.

Concrete steps were taken in September 2000 when the EU granted the Balkan countries preferential access liberalising over 95 per cent of EU’s trade with the region and later in June 2001, when the EU oversaw the signing of a memorandum of understanding (MoU), in Brussels, among the countries of the region which aimed at the conclusion of a network of bilateral free trade agreements by 2002 liberalising at least 90 per cent of trade among the states of the region. In the meantime, the EU initiated the Stabilisation and Association Agreements (SAAs) intending to prepare the Balkan states to EU membership based on individual merit. The first SAAs were signed with Macedonia in April 2001 and Croatia in October 2001. Turkey also signed free trade agreements with Croatia and Bosnia Herzegovina in 2002 and with Albania in 2006 to complement the regional integration process.

The EU approach led to increases in the region’s trade, more with the EU than the rest of the world. Romania and Bulgaria benefited more - 67 per cent and 52 per cent increase in trade with the EU between 2001 and 2005 respectively - than the Western Balkan countries - 39 per cent increase - which the EU argued highlighted the importance of the EU accession
process (European Commission, 2006). This precipitated the EU to provide the countries of the region with a membership perspective at the 2003 Thessaloniki summit presenting trade liberalisation and regional integration as the cornerstone of the EU’s stability and association process (European Commission, 2003: 5). This move was accompanied with the proposal to expand and update the CEFTA with the inclusion of Balkan countries. CEFTA was signed in December 2006, intending for simplification. Despite increases in trade, the web of free trade agreements in the region were perceived as limiting the trading potential of the Balkan countries and therefore inhibiting the flow of foreign direct investment towards the region (European Commission, 2006: 2). Regional cooperation -with added emphasis on regional cooperation and visa facilitation- was perceived more positively in further facilitation of trade and investments as it created a single larger market as opposed to the often small size of individual markets; a single set of rules instead of a trade arrangement based on thirty one bilateral free trade agreements; and countries benefiting from privileged access to the EU market: a more promising environment within which private activity could flourish.

These measures were progressively incorporated in the Stabilisation and Association Agreements that were also extended to Albania in June 2006, Montenegro in October 2007, Serbia in April 2008 and Bosnia and Herzegovina in June 2008. Clearly the reform performance of the Balkan countries was a pre-condition to the signing of SAAs and progress in membership. Although the EU approach neither amounted to full inclusion of the region in the integration process nor signalled the possibility of rapid integration of the Balkans in the near future (Türkeş and Gökgöz, 2006; Gomes, 2009), it consolidated the role of the EU in including the Balkans into the on-going process of systemic restructuring at the global and at the regional/European level through the internationalisation of historical forms of power and domination. The EU approach also consolidated foreign capital as a central feature of modes of accumulation in the Balkans, as in the case of Central and Eastern Europe. Foreign capital, with only a few exceptions, controls the sectors of the economy in the region.

Trade volumes in the Balkans increased with the EU commitment and expanded especially after 2003. A close look at Western Balkans, the non-EU members of the Balkans – Albania, Bosnia and Herzegovina, Macedonia, Montenegro and Serbia – indicates the importance of the EU role in their foreign trade. Exports from the region to the EU increased from 1.67 bn. Euros in 2002 to 10.77 bn. Euros in 2012. The Eurozone crises negatively influenced exports in 2009, yet the value of exports from 2010 onwards were higher than their pre-crisies level in 2008. Accordingly, trade volume with the EU increased from 6.5 bn. Euros in 2002 to 30.55 bn. Euros in 2012 (European Commission, 2013: 4). Turkey was one of the benefiting countries increasing its trade relations with the Western Balkan countries. During the same period Turkey’s trade volume with the Western Balkan countries increased from 263.39 mn. Euros to 1.55 bn. Euros, where increases in the exports of western Balkans, from 26.93 mn. Euros in 2002 to 425.02 mn. Euros, were relatively higher.¹ Indeed the trade liberalisation process consolidated the EU presence in the region, where the EU accounted for 69.1 per cent of the regions external trade in 2012, and Turkey, a mere 3.3 per cent (European

¹ Details on trade statistics on Turkey were calculated by the author based on data from Turkish Statistical Institute database.
Commission, 2013: 9). In 2012, Turkey’s main trading partners from the greater Balkans region were still Romania, Bulgaria and Greece, account for more than 77 per cent of Turkey’s exports and 92 per cent of Turkey’s imports from the Balkans. Turkey was the first most important export destination for Greece, second most important export destination for Bulgaria and fourth most important destination for Romania.

The changes in Turkey’s relations with the region are related to the dialectical interaction of the international/European and the domestic conjuncture. First, the 2000s was a period of relative stability and global expansion in both trade and investments. The trade volume at a global level expanded from US$10.95 trillion in 1996 to US$13.24 trillion in 2002 to US$36.80 trillion in 2012. The global expansion of trade in the 2000s, in this sense, provides an important trend that benefits Turkey’s trade relations, in general. Second, Turkey entered a new period of acceleration of its integration into the global economic structure from early 2000s onwards. Turkey faced increasing pressure from the EU to push forward with political and economic reforms after receiving the status of a candidate state in 1999 at the EU Helsinki summit. The EU process largely dominated Turkey’s domestic and external relations until the start of Turkey’s accessions negotiations in October 2005. This process was complemented by the implementation of the IMF supported three-year economic recovery program launched after the 2001 economic crisis strongly laying the basis of a neoliberal restructuring in Turkey. The political and economic turmoil of the late 1990s and early 2000s led to the ascendance to power of the AKP as a dominant single party government after November 2002 elections. The AKP embraced the economic programme and aggressively sought to achieve a breakthrough in Turkey’s integration process by continuing the comprehensive reform programme and by reconsidering Turkey’s external relations. Indeed, for the AKP, commitment to and support of the international structures were important in strengthening the party image abroad as well as providing legitimacy and strengthening its power base at home.

The main architect of Turkish foreign policy during the AKP period was Prof. Dr. Ahmet Davutoğlu despite the fact that he assumed office as the Minister of Foreign Affairs in May 2009. Davutoğlu’s foreign policy reading is, indeed, based on a geopolitical and geocultural framework within which he basis Turkey’s foreign policy and political influence in the Balkans to the Muslim groups in the region. He argues that strengthening and sustaining the cultural, economic and social infrastructure of the Muslim groups that form the basis of Turkey’s historical heritage in the region would in turn strengthen Turkey’s presence and power in the region at all times (Davutoğlu, 2001: 317). For him, within such a framework, Turkey’s priorities should be to strengthen Bosnia, Albania and Macedonia in a structural, multilateral context. Yet, he perceives the EU and UN frameworks as platforms that would limit Turkey’s influence in solving conflicts in the region and emphasises the need to associate problems with NATO (Davutoğlu, 2001: 321). He presents a strictly realist approach which was criticised to follow a realist approach with an Islamist tone (Türkeş, 2008) or with a neo-Ottomanist outlook (Uzgel, 2009).

Political economic aspects do not appear to be a central concern of Davutoğlu’s foreign policy approach. Yet, two important emphases are relevant with respect to the
political economy of Turkey’s involvement in its neighbourhood, therefore the Balkans: Economics, first, plays an important role in the context of a state’s power capabilities and more importantly in conflict resolution (Davutoğlu, 2001). Davutoğlu’s zero-problems policy can, indeed, be considered as a form of good neighbourly relations that the EU instrumentalised in order to establish stability and security in the candidates and immediate neighbouring eastern European countries. In this sense, the AKP approach in the Balkans complemented the general understanding that the free movement of people and the creation of free trade areas could foster greater economic activity and integration in the region. Turkey elaborated on regional ownership, regional integration and the importance of European integration process as the policy principles within which Turkish foreign policy operated when Turkey assumed South-East European Cooperation Process (SEECP) chairmanship in 2009-2010. Turkey’s visibility increased at a time when the EU had to deal with its own internal problems because of the Eurozone crisis. The fact that Turkey was less influenced from the global economic crisis created an image of economic prowess and thus, subsequently leading to calls from the leaders of the region for Turkish investments. The AKP emphasised political dialogue, deepening economic interdependence and cultural and intellectual interaction as aspects that would enhance regional stability. As such, resolving disputes with neighbours was perceived as vital in terms of promoting trade and investments (Kirişçi, 2009: 41). The belief was that greater stability and security would indeed serve Turkey’s (and the regions) business and trade interests much better than a region stuck in conflict and instability.

The inability of the EU and the US to broker a deal in the Butmir process, alongside the global crisis created a space of manoeuvre for Turkey. Turkey took the initiative to enhance dialogue and cooperation through mediation between the conflicting states in the region, especially through the trilateral consultation mechanisms – Turkey-Bosnia and Herzegovina-Croatia and Turkey-Bosnia and Herzegovina-Serbia – complementing the western attempts at normalising relations among the states of the region. The trilateral mechanisms contributed to the ease of tensions in Bosnia and Herzegovina and strengthened its regional relations. The mechanisms were indeed made possible with Turkey’s Serbia rapprochement which defines Serbia as central to regional stability. President Abdullah Gül’s visit to Serbia in October 2009, accompanied by businessmen among others, was rather symbolic challenging the Turkish image as “exclusively focused on Balkan Muslims” (Bechev, 2012: 141). However, Turkey’s space of manoeuvre proved to be limited as was exemplified in the case of its inability to mediate between Kosovo and Serbia, as the two sides preferred EU moderation towards a solution.

In the latter half of the 2000s Turkey concluded free trade agreements with Montenegro in 2008 and with Serbia in 2009 after the two completed their process of separation and with Kosovo in 2013 following the Kosovo-Serbia deal on normalisation of relations. Aside singing free trade agreements with the last countries of the region Turkey sought to follow an open door policy through lifting visa requirements to boost economic relations with its Balkan partners. Visa liberalisation programme of Turkey was largely carried out during the course of 2009-2010 with the expectation of increasing not only trade but also investments in the region allowing for the diffusion of market values as business
people move back and forth. In this respect, the AKP foreign policy approach tried to establish a level of coordination with the business actors. Attempts at establishing links between the state and business actors were pursued not only through the inclusion of the businessmen in official visits but also through bringing together businessmen with Turkish ambassadors on various occasions (see DEİK, 2013).

Turkish business actors proved to be important in the process of change and increasingly favoured internationalisation from mid-1990s onwards. The associations were particularly influential in promoting Turkey’s EU integration process; also through business circles such as the European Roundtable of Industrialists (ERT) which increasingly lobbied for enlargement. This important process of internationalisation that the Turkish businesses were involved in, in an accelerating manner in the early 2000s, was increasingly reflected in Turkey’s relations with its neighbourhood including the Balkans. Business associations were part of the official visits to the region and advocated the process of internationalisation arguing for the importance of economic interdependence. Besides, the long-term AKP rule brought higher levels of wealth to business circles close to the party, dubbed the Anatolian tigers, who sought international links to strengthen their economic power base vis-à-vis the Istanbul based bourgeoisie. Seeking international links, in this context, was important for the AKP to strengthen its power base and direct/influence capital accumulation to include business groups that supported the party. However, in the specific case of the Balkans, Turkish officials faced difficulties in persuading businessmen who still perceived the Balkan countries small and not fully stable (Balkan Günlüğü, 16.11.2013).

Increases in Turkish foreign direct investments in the region in the recent years and the presence of Turkey as one of the top investors in Kosovo and Bosnia created an image of increasing Turkish economic presence and influence in the Balkans. In fact, a brief analysis of Turkey’s foreign direct investments in the region in a broader context reveals the limits of Turkey’s economic presence in the region; without of course undermining their importance for the region.

Foreign direct investments towards the region substantially increased after 2003. Investments have been driven by improved general political and economic environment and the EU accession and negotiations process both in the Central and Eastern Europe and subsequently in the Balkans. The EU approach in the Balkans since 1999 created a perception of an improving business environment, and a momentum by providing a membership perspective with the Thessaloniki Summit in 2003 and the opening of negotiations with Croatia in 2005. This led to an upward trend in the flows towards the region especially between 2003 and 2008. Foreign direct investment stocks in the region amounted to US$ 29.45 bn. in 2000, US$ 56.50 bn. in 2003 and US$ 180.62 bn. in 2008. In Albania, Bosnia and Herzegovina, Montenegro, Serbia and Macedonia – non-EU member western Balkans – foreign direct investment flows amounted to US$ 2.89 bn. in 2000, US$ 6.88 bn. in 2003 and 37.76 bn. in 2008. There was a sharp drop following the crisis: Foreign direct investment stocks in 2012 amounted to US$ 206.83 bn. in the whole region and to US$ 51.18 bn. in the Western Balkans (UNCTAD Database). Foreign direct investment flows to the Balkans have mainly been horizontal market seeking type and the privatisation processes were the main
driving factor, similar to the case of Central and Eastern European countries (Estrin and Uvalic, 2013: 8, 18). There was a clear regional differentiation where capital favoured those countries that were advanced in the process of EU accession and those that had a bigger market size, primarily focusing on Romania, Bulgaria and then Croatia. This process was specifically important in establishing foreign capital as the mode of accumulation in the transition economies of the Balkans and the concentration in the hands of/dominance of Western/European capital in the region as the main investors in the region are transnational corporations from the EU countries. Turkey, indeed, was one of the target countries the internationalisation process where the EU process led to substantial increases in foreign direct investment flows in the 2000s; an increase from US$ 18.80 bn. in 2002 to US$ 181.07 bn. in 2012 (UNCTAD Database).

Turkey became more actively involved in foreign direct investments in the region from 2007 onwards. In the early 2000s main investment flows from Turkey were towards Romania and Bulgaria and investments in Western Balkans were very limited. In 2007, Turkish foreign direct investment stocks amounted to US$ 162 mn. in Romania, US$ 52 mn. in Bulgaria whereas they amounted to US$ 34 mn. in Bosnia and Herzegovina and US$ 2 mn. in Albania (UNCTAD, 2012: 16-17). Foreign direct investment flows towards the region have increased from 2007 onwards yet they have been uneven and inconsistent. Between 2008 and 2012, foreign direct investment flows from Turkey amounted to US$ 16 mn. in Albania, US$ 121 mn. in Bosnia and Herzegovina, US$ 168 mn. in Croatia, US$ 10 mn. in Montenegro, US$ 92 mn. in Macedonia, and US$ 35 mn. in Serbia. The sectors favoured by Turkish investors were communications, banking, construction, mining and retail sectors – domestic market oriented services – which presented a similarity with the general trend of foreign direct investment flows towards the region (see Estrin and Uvalic, 2013: 20-23).

The global crisis created a space for Turkey to manoeuvre, leading to a perception that Turkey’s involvement in the region was aggressively increasing. After the crisis, foreign direct investment flows towards the region sharply declined by 35 per cent in 2009 and 46 per cent in 2010 as the main investors in the region from Austria and the Netherlands held back their investments or withdrew their loans form their affiliates in the region in order to strengthen their position back home (UNCTAD, 2013: 66). Albania was the only country which recorded increases in foreign direct investment flows after the global crisis which was attributed to an improving business environment and opening up of privatisation deals (UNCTAD, 2013: 66). Yet, Turkish investments are very modest when considered against a background of total foreign direct investments in the region. When considered on the basis of non-EU Balkan countries where Turkey enjoys friendly relations Turkey is the fifth major investor in Albania (accounting for 9.28 per cent of total investments) and in Kosovo (accounting for 7.14 per cent of total investments), however the ninth major investor in Bosnia and Herzegovina (accounting for 2.66 per cent of total investments) and the tenth major investor in Macedonia (accounting for 3.21 per cent of total investments). Therefore, there appears to be an exaggeration of Turkey’s foreign direct investment profile based on the road and airport projects that are proposed by Turkish officials and implemented by Turkish officials.

\[2\] The shares are calculated by the author based on data from the national banks of respective countries.
companies. Besides, economic involvement is perceived as an instrument of achieving Turkey’s foreign policy priorities and strengthening its soft-power within the Balkans region at the expense of the outside powers affecting Balkan politics (Ekinci, 2013: 26) which leads to opposition or concerns on Turkish economic involvement. In this respect, foreign direct investments flows from Turkey are perceived as a positive contribution as long as they do not crowd out the flows from the EU in the long run.

In the 2000s, thus, the political economy of Turkey’s foreign policy is very much influenced by its own domestic reform and restructuring process which strongly embraced a neoliberal model of development. The AKP approach followed a policy that favoured inclusion of Turkish economy into the global structures of production and finance. This experience has largely been reflected in Turkey’s approach in creating economic interdependencies as part of creating a soft power leverage fore Turkey in its relations with the neighbouring regions, including the Balkans.

**Conclusions**

The critical political economy perspective used to establish a framework for the study provides insights on the nature of neoliberal global restructuring and how the EU has been a crucial actor in embedding the Balkans into the wider context of neoliberal restructuring through regional arrangements and its enlargement process. The EU approach towards the Balkans shaped the concentration and centralisation of capital in the region through the reproduction of western capital. Turkey’s involvement in the Balkans within this context reveals how Turkey was an important actor in internalising trade and investments as integral elements of development in the region. There appears to be no doubt that international conjuncture provided an environment within which Turkey could expand and diversify its involvement in the region. The move from security dominated issues to issues of low politics – an aim to use soft power through broadening its involvement/foreign policy instruments in the region – presents how Turkey reproduces the neoliberal model of development. The AKP’s rhetoric and policy implementation favours the expansion of global economy and the internationalisation of production and finance by extending the rule based relations it has with the EU to the countries in the Balkans.
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