TURKEY'S REGIONAL POLICY ON THE ROAD TO THE EU

Turkey is characterized by a very high level of internal disparities and the entry of Turkey, given present economic conditions, would accentuate considerably the existing imbalances within the EU between the richer and poorer regions. Traditionally Turkey has had a highly centralized system of government dating from the Ottoman Empire and consolidated by the Republic of Turkey. This centralization is reflected in its administrative structures. In light of the philosophy of EU regional policy, the author outlines the requirements for candidate countries, pointing out where Turkey currently stands and clarifying the challenges that lie ahead.

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The views in this paper are the author's and do not necessarily reflect the position of the European Commission

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The 2004 enlargement marked the entry of 10 new Member States to the European Union expanding its territorial coverage by around 700 square km and its population by 75 million.

With over 70 million inhabitants, a comparatively rapidly growing population and a territory that covers almost 800 square kilometers, the accession to the EU of Turkey would represent an expansion on the scale of that of the 10 new Member States combined, both in demographic and territorial terms.

Turkey is characterized by a very high level of internal disparities and the entry of Turkey, given present economic conditions, would accentuate considerably the existing imbalances within the EU between the richer and poorer regions. The great divide in economic terms is between the eastern and western part of Turkey. Broadly speaking, whereas the eastern half of the country accounts for 37 percent of the population, its share of GNP is only 22 percent. In contrast, the western part of the country, with 63 percent of the population accounts for 78 percent of GDP. GDP per capita ratio is 60 for eastern Turkey and 123 for western Turkey (2004 national average =100).

It is not surprising therefore that the reduction of regional disparities is a key element in Turkey's path towards EU membership. The priorities and measures for harmonization are set out in the National Programme for the Adoption of the *Acquis* (NPAA) under Chapter 21 which covers regional policy and the coordination of structural instruments. We shall return to these priorities and the measures to implement them later on. First, however, it is useful to take a look at the underlying philosophy that has conditioned EU regional policy and in turn the requirements for Turkey under this chapter of the *acquis*.

Solidarity between Richer and Poorer Regions

One of the fundamental principles of EU regional policy is that of solidarity between the more affluent and the poorer regions of the union. In economic terms the expressions of 'developed' or 'less developed' countries are common currency, but, irrespective of how developed a country is, not all its regions enjoy the same levels of development or prosperity. Regional disparities are a fact of life in the most developed countries of the world including those of the EU.

The Treaty of Rome, which marks the foundation of the European Communities addressed the need to "promote throughout the Community a harmonious, balanced and sustainable development of economic activities, a high level of employment and of social protection" as well as "raising the standard of living and quality of life, and economic and social cohesion and solidarity among Member States." The aim was of course to make it possible for all regions to benefit to their full extent from the opportunities offered by the single market. This concept of solidarity is underpinned by the provision of Community level assistance to narrow the gap between the richer and poorer regions and help those regions which are "lagging behind" to overcome their disadvantage and catch up.

The Maastricht treaty of 1992 reinforced the solidarity principle by making economic and social cohesion one of the Community's priority objectives. By laying down criteria for economic and budgetary convergence for the Member States, this treaty imposed tight controls on public deficits. For the less well off countries, this meant establishing strict budgetary policies and at the same time increasing investment in infrastructure to speed up development. It was clear that the newer Member States such as Spain, Greece, Ireland and Portugal would not be able to achieve this without EU support. As a result, the Community set up the Cohesion Fund, to show solidarity with these less prosperous Member States

Between 2000 and 2006 one third of the Community budgets which is made up of contributions from Member States will be spent on regional policy, targeting the regions which are most in need of assistance. The financial instruments by which this solidarity drive to help the least favored regions is implemented, are the Structural Funds and the Cohesion Fund.

Priority Objectives for Structural Funds

For the implementation of Structural Funds the Objectives in the current period, which covers 2000 to 2006, target regions as follows:

- Objective 1 targets those regions whose average per capita GDP is less than 75 percent of the European Union average. This objective also covers the most remote regions. Two thirds of Structural Fund operations are concentrated on Objective 1. Prior to enlargement this covered 20 percent of the Union's total population.
- Objective 2 targets support for the economic and social conversion of regions in structural difficulties that do not qualify for Objective 1 status. This covers declining rural areas, those suffering from declining industries and urban areas experiencing difficulties.
- Objective 3 gathers together all the measures for human resource development outside the regions eligible for Objective 1.

The total budget for the Structural Funds amounts to €195 billion in 2000-2006, not including the Cohesion fund, of which around 70 percent goes to Objective 1 regions (€135.9 billion), 11.5 percent to Objective 2 and 12 percent to Objective 3. The four main principles underpinning the operation of the Structural Funds are that assistance must be part of a programme, that as many parties as possible must be involved, that community assistance must not replace national funds (this principle, called *additionality*, is a cornerstone of EU funding for both Member States and candidate countries), and that spending of the funds must be properly managed, monitored and evaluated, with proper controls on payments.

Programming is based on the preparation of multi-annual development plans which involve a partnership based decision making process, in several states, until the measures are taken over by the public or private bodies entrusted with carrying them out. Development and conversion plans must be based on national and regional priorities. The

concept of partnership has been expanded to include regional and local authorities and, like that of solidarity, is fundamental to the formulation and implementation of regional policy.

Partnership with Regions is Part of Good Governance

The enlarged EU of 25 Member States now includes some 250 regions and around 100,000 local authorities and the process of decentralization has gathered pace with more services being devolved and the regions and cities looking for ways to strengthen the democratic process through new and more participatory models of governance. The traditional top down approach is not consonant with demands for greater transparency in government from Europe's citizens nor with the growing interdependence between central government and regional and local authorities.

In its Lisbon agenda of 2000 the European Commission, promised to make better government a key priority for its actions. This commitment was set out in its July 2001 White paper on Regional Governance which opened up new ways for participation of local and regional authorities. It recognized the need to take into account the multi layered nature of public action in the EU involving European, national, regional, and local authorities, not just in implementing, but also in shaping European policies and regulations. The White Paper set out the principles of good governance which can be summarized as openness, participation, coherence and effectiveness.

When adopting its report on European governance, the Commission also committed itself to establishing a more systematic dialogue with European and national associations of regional and local government right from the early stages of policy formulation. The purpose of this dialogue is to deepen the consultation process particularly in major policy initiatives that will have a significant direct or indirect regional and local impact.

In 2003 the Commission engaged in a three month long process of public consultation which generated a very substantial response from European and national associations of local authorities and contributed significantly to the drafting of the final communication on the dialogue. This emphasized that the dialogue is additional and complementary to all other methods used to consult regional and local authorities. Its aim is twofold: firstly to involve regional and local actors by offering them the opportunity of voicing their views even before the formal decision making process starts and, secondly, to make the activities of the EU more transparent to the public by ensuring a better understanding of EU policy guidelines and legislation. Since regional and local authorities in the EU are democratically elected and "close to the ground," they have a vantage point when it comes to informing citizens. In turn, the regional and local authorities that have been more closely involved in shaping policies in the first place will also be more inclined to give support to their implementation in practice. Partners in the dialogue will be chosen on the basis of the subsidiarity principle which means that decision making within the EU should be taken at the closest practical level to the citizen.

The White paper therefore emphasizes that the quality of EU policy proposal will largely depend on wide participation throughout the policy chain, "from conception to implementation" taking into account regional and local knowledge and conditions, and involving the relevant authorities and bodies.

Turkey's Steps toward Greater Decentralization and Participation in Regional Policy.

Whilst the trend towards decentralization has spread rapidly across Europe and is now very advanced in several Member States, in Turkey it is still in its very early stages. Traditionally Turkey has had a highly centralized system of government dating from the Ottoman Empire and consolidated by the nationalist government of the new Republic of Turkey. This centralization is reflected in its administrative structures. Tentative moves towards regionalization have been opposed in the past for fear they might undermine national territorial integrity which is enshrined in the Turkish constitution.

But recent years have witnessed a transformation and the style of governance has undergone change driven both by internal and external pressures not least of which is the drive towards harmonization with the EU in preparation for accession. The constitution of Turkey has been amended several times in the last five years and these amendments have brought about a reexamination of the administrative structures. This is reflected in a greater support for self-government at the provincial level over the past decade. In spite of this, however, Turkey's public administration remains highly centralized.

The momentum of reform of state institutions has increased since Turkey gained EU candidate status at the end of 1999 and according to Turkey's current five year development plan; there is a commitment to create a fully democratic government system to meet EU criteria which will involve the further modernization of the public administration system.

These issues have been addressed in the comprehensive public administration reform package the current government put together and which has been partially adopted to date.[1] It does not confine itself to a simple division of tasks between central and local government, but also aims to introduce good governance principles such as transparency, accountability and participation as well as elements of subsidiarity by no longer allowing central government to assume the responsibilities that have been specifically entrusted to local administrations. The latter, on the other hand, are given the competence to decide

[1] The law on Public Financial Management and Control (PFMC) was passed in 2003, but the implementation of some provisions is postponed until 2006. The Law on Special Provincial Administrations was passed in June 2004 and then vetoed by the president, but then finally passed in 2005. The Constitutional Court is reviewing some of its provisions. The Law on Municipalities was passed in July 2004 and vetoed by the President. It was passed again in June 2005. The Constitutional Court is reviewing some of its provisions.. The Law on Metropolitan Municipalities was passed in June 2004 and secondary legislation is in preparation and the Law on Association of Local Governments was passed in July 2005. A number of laws are still pending including the Law on Public Administration Principles or Framework Law, the Law on Civil Service, the Law on Regional Development Agencies and the Law on the Turkish Court of Auditors.

and to act on local issues using participatory tools that include broader consultation with civil society.

Nevertheless, in spite of these innovations, the laws do not emphasize local democracy and decentralization of power and the hand of central government will still be firmly on the tiller. For example, the head of the executive organ of the Special Provincial Administrations (SPAs) are not elected, although SPAs are described as local government. The SPA is headed by a Governor of the province who is appointed by, and represents, central government. Similarly the General Secretaries of the SPAs and of the metropolitan municipalities are appointed by the Interior Ministry. Moreover, local governments will largely depend on central government funding and there will be limited local tax revenue.

Harmonization with EU is Strong Driver for Turkish Regional Policy

In Turkey, local authorities have a vital role to play not only in the democratization process, but also in the economic development of the regions. Their role both as service providers to citizens and as one of the main links in the participatory approach to government is all the more important because of the absence of any regional policy making structures or indeed any administrative tier at the intermediate level between central government and the provinces. In most EU Member States structures exist not just at local level, but also at a higher level and play a key role in the economic life of the regions, particularly those that are eligible to benefit from the structural funds. Turkey has taken the first steps towards creating new structures at regional level.

In the absence of any dedicated agency or ministry for regional policy at national level, responsibility for this sphere of competence has been assumed by the State Planning Organization (SPO), whose main task over the past 40 years has been to prepare 5 year development plans, largely on a sectoral basis. Regional policy has therefore had to be superimposed on its traditional vertical, sectoral approach to provide a horizontal, regional dimension. New departments have been created within the SPO to accommodate changing realities and to undertake the task of managing the implementation of EU funded regional development programmes.

In its National Plan for the Adoption of the *Acquis*, Turkey has committed itself to institutional changes that will contribute to alignment with EU regional policy.

Regional Policy is covered by a framework regulation laying down general provisions on the Structural Funds[2] as well as by a series of implementing regulations and decisions, which do not require transposition into national legislation. However, upon accession, the candidate countries will have to comply with certain requirements, which are addressed in the context of accession negotiations. These include the need to have the appropriate legal framework allowing for the implementation of the specific provisions in this area. Turkey has already complied with the requirement on *territorial organization* with the

[2] Council Regulation (EC), 1260/1999.

establishment of 26 NUTS II[3] regions and partially with the requirement on programming capacity with the preparation of a preliminary National Development Plan (pNDP).

The pNDP was prepared as a multi-annual programming exercise for the 2004-2006 period to provide the framework for EU financial assistance spending on economic and social cohesion measure. The pNDP identified in its regional development axis, 12 priority regions for development.

In terms of the institutional framework and administrative capacity, candidate countries have to define clear tasks and responsibilities of all the bodies and institutions that will be involved in the preparation and implementation of Structural Funds and the Cohesion Fund and they have to ensure appropriate administrative capacity and an effective inter-ministerial coordination. However, how the specific structures for the practical management of Structural and the Cohesion Funds look like is left to candidate countries. In practice, the administrative structures to be put in place differ quite considerably between countries, e.g. small candidate countries without regionalization and big candidate countries with strong regionalization.

Candidate countries need also to comply with the specific control provisions applicable to the Structural Funds and Cohesion Fund. Furthermore, they need to provide information on their co-financing capacity as well as on the level of their public or equivalent expenditure for structural actions.

In addition, candidate countries are expected to ensure the implementation of the partnership principle at the different stages of programming, financing, monitoring and evaluation of assistance and to comply with the specific monitoring and evaluation requirements, in particular as regards the ex-ante evaluation of the development plan.

Since structural funds are implemented at regional level, it is essential therefore that adequate administrative capacity be put in place at this level. In compliance with the requirement identified in successive Regular Reports, which monitor harmonization with the EU, Turkey plans in part to fill the administrative gap at regional level with the establishment of 26 regional development agencies, or one for each NUTS II regional level.

Regional Development Agencies (RDAs): New Structures for Turkey at Regional Level?

The law was being debated in the National Assembly before the summer recess, but had not been adopted. The debate will resume after parliament reconvenes in October 2005. Since there is no European "model" agency and RDAs in the EU are characterized by very substantial variety in terms of size, structure and responsibilities, Turkey has had

[3] For statistical purposes regions in Europe are divided into NUTS (Nomenclature of territorial units for statistics) levels I, II and III. Where Turkey is concerned, provinces correspond to NUTS III whereas a new NUTS level II was created in 2002 when Turkey grouped the 81 provinces into 26 NUTS II regions for statistical purposes only.

wide scope for designing RDAs according to its conception. In the draft law the duties and responsibilities to be performed by these development agencies are standard for agencies throughout Europe. The structure of each agency will depend in part on the secondary legislation setting up each one. The draft law indicates that there will be mixed sources of funding, ranging from transfers from central budget, to income generation by the RDAs themselves. The sustainability of RDAs will largely depend on the funds and revenue they are able to access to provide quality services.

But, just as with SPAs, the hand of central government is very evident in the administrative structure of the RDAs. The draft law forwarded to the EC for information indicates that they will be under the direct control of a governor who will be chairman both of the Development Council and of the Administrative Board.

These administrative reforms are, as we have seen, preparatory for access to Structural Funds on joining the EU. This preparatory phase is being supported by the EU through pre-accession assistance to support Turkey during the harmonization process.

EU support for Regional Development Programmes

In recent years the EU has provided support through technical assistance contracts to the State Planning Organization in introducing and EU style approach to participatory programming and preparation of programming documents.

More institutional support will be coming on stream over the next few years with the implementation of institution-building projects to strengthen administrative capacity and inter-ministerial coordination.

EU support for Turkey in the field of regional development is not limited to institutional and capacity building. The lion's share of funds is actually directed at the implementation of projects. The reduction of regional disparities is a priority issue raised each year in the Regular Report, and the EU is assisting Turkey in addressing this problem through funds for regional development programmes that target the poorest regions of Turkey in per capita GDP terms. The pNDP identified the priority regions for funding in the 2004-6 period, although funding for regional development actually started before this. There are four major regional development programmes currently at a more or less advanced stage of implementation.

The GAP Regional Development Programme (€ 47 million budget and 5-year duration) can be described as the first EU-funded regional development initiative for Turkey although it was not conceived as an integrated programme but rather as three individual components that complement the activities carried out under the Turkish government's major GAP development scheme for Southeast Anatolia, which envisages the construction of 19 dams and 22 hydroelectric power stations. The GAP scheme started as a series of ad hoc projects in the late 1970s, which were all brought together under one umbrella with the setting up of the GAP administration in 1989, which, since then, has been the only regional administration in the country. According to the draft law on

RDAs, the GAP Administration will eventually be replaced by regional development agencies.

The three components of the EU-supported GAP programme include: SME development, rural development and cultural heritage. The first of these is implemented via a grant contract with UNDP for the support of GIDEM (GAP entrepreneur support centers) offices which were already operating in the region prior to the EU funded project.

The rural development component encompasses mainly poverty alleviation measures and is to be implemented through a grant scheme. A grant scheme has also been put in place for the cultural heritage component. The latter aims at the restoration of cultural heritage sites and buildings with a view to boosting tourism activity in the local economy. Two technical assistance teams are supporting the GAP Administration which is the counterpart of this project.

The Eastern Anatolia Development Programme - EADP (€45 million and 3-year duration) covers four provinces around lake Van (Van, Hakkari, Bitlis and Mus) that later became one NUTS II region. EADP was intended to be the first integrated regional development project in Turkey. Its main components are agriculture and rural development (including livestock), SME development, tourism and environment. It also includes a social component.

The aim of the first component, agriculture and rural development, is to help farmers in the region improve their skills and knowledge base, their production methods, diversify income generating activities, form cooperatives and improve marketing. The assistance will be delivered through a grant scheme coupled with training.

The SME component consists of consultancy and training, as well as an SME grant scheme, to assist micro and small enterprises with their investment needs.

The aim of the tourism and environment component is to raise the profile of the region as a tourist destination and to promote tourism and conservation initiatives through a grant scheme, as well as to carry out feasibility studies for infrastructure projects in the region for future funding. The construction of a waste water treatment plant in Tatvan forms part of this component.

The social component consists of the procurement of four mobile health units to reach particularly women and children in the more remote villages and a small grant scheme for the support of vulnerable groups, especially amongst women and children.

Both the GAP and the EADP programmes came under MEDA assistance for the Mediterranean countries. When Turkey became a candidate country, new regulations came into force to govern pre-accession assistance specifically to assist Turkey with the harmonization process. Subsequent regional development programmes have come under these regulations which involve implementation by the Turkish authorities with the

European Commission taking a "back seat." Another departure is the requirement for co-financing of the investment part of the projects.

The Samsun, Kastamonu, Erzurum NUTSII Regional Development Programme (with a €52.33 budget of which the EU contribution is €40 million and a 2-year duration) was the first of such regional programmes, although in terms of content and delivery mechanism it is not very different from the earlier programmes.

This programme covers ten provinces in three NUTSII regions. More in line with the approach to Structural Funds than EADP, the 2003 programme contains only technical assistance and grant schemes (three in each region) to support local development initiatives, small scale infrastructure and SME development. Under the first item, projects to develop human resources, to increase tourism, to promote rural development and similar initiatives are encouraged. Under the second, it is the local authorities that are targeted. Funds will be directed towards such things as repair of defective drinking water systems, improvement of public areas and the like.

Under the 2004 EU budget for Turkey €70 million were allocated for the Malatya, Agri, Konya, Kayseri NUTS II regions, comprising 13 provinces. Turkey will provide a further € 20million in co-financing. The content of the programme is similar to that of the above programme, but will also include extensive training for the agricultural sector.

It is too early to make an assessment of the impact of these programmes in the regions concerned, but it is evident that programmes of this nature cannot in themselves reduce regional disparities. What they can do, however, is give a welcome stimulus to regional economies and, above all, encourage a participatory approach to regional development, by inviting local stakeholders to think about regional needs and potential, and to design appropriate projects responding to these for the benefit of local communities.

Changes in the approach to regional development are in store for the near future, however, with the introduction of new concepts both for the Structural Funds and for pre-accession assistance. As changes to the latter cannot be separated from the former, it is useful at this point to consider the revisions to Structural Funds envisaged for the period 2006-2013.

Impact of Enlargement on EU Regional Policy Instruments.

The enlargement of the EU to 25 Member States, with Bulgaria and Romania set to join in 2007, has dramatically increased disparity levels across the EU. The new Member States have markedly lower levels of income per head and lower employment rates than other EU countries. At the same time, in recent years they have also shown dynamic growth both in terms of GDP and productivity.

With enlargement, regional disparities almost doubled. In the Europe of 15 Member States, 48 regions, which make up 18 percent of the total population (or 68 million inhabitants), had a per capita income less than 75 percent the Community average. In the

Union of 25, the number of such regions has risen to 67 (or 25 percent of the population - around 116 million persons- two thirds of which are in the new Member States). Only 30 regions in the EU of 15 Member States (12 percent of the population i.e. around 47 million people) remain under the threshold for 75 percent and would continue to be considered less favored areas.

It is worth remembering that however great the disparities are between new and old Member States, these are dwarfed by the disparity between Turkey and the EU. Under current Structural Fund criteria, for example, the whole of Turkey (including its most affluent regions) would qualify for Objective 1 status. Yet these figures mask the enormous internal disparities between Turkey's more developed and its most disadvantaged regions. For example, GDP in the region of Agri in 2003 was less than 10 percent that of Kocaeli.

Reducing disparities between the richer and poorer regions will therefore continue to be one of the recurring themes of the EC's Regular Report on Turkey's progress.

It is obvious that with enlargement and the sharp disparities between "old" and "new" Member States, a revision of the Structural Funds had become necessary. Essentially, the strategy and resources of cohesion policy in 2007-2013 will be grouped into three new priority Objectives for structural actions: 1) convergence; 2) competitiveness and employment; 3) cooperation. These will be covered by three financial instruments[4] rather than six under the current regulations.

The current "Objective 1" regions, or those lagging behind in development, will be replaced in 2007 by the "Convergence" regions for which around 79 percent (€ 264 billion) are proposed, the bulk of the effort being in favor of the new Member States. The purpose is to speed up the economic convergence of the less developed Member States and regions, by improving conditions for growth and employment, by investing in human and physical capital, through innovation and the development of the knowledge society; by encouraging adaptability to economic and social change; by protection of the environment; and improving administrative efficiency. The Convergence Objective will concern first and foremost those Member States and regions whose per capita gross domestic product (GDP) is less than 75 percent of the average for the enlarged EU, calculated on the figures available for the three years prior to adopting the Regulation.

The second objective under the new Regulations will be that of Regional Competitiveness and Employment. Around 17 percent or EUR 58 billion, are earmarked for this. Outside the least developed Member States and regions, the Commission proposes a two-fold approach: First, regional development programmes will help regions to anticipate and promote economic change by strengthening their competitiveness and attractiveness. Second, interventions will aim at creating more and better jobs by adapting the workforce to economic change.

[4] European Regional Development Fund, European Social Fund and the Cohesion Fund.

The third area of intervention will entail supporting cooperation of regions at cross border, transnational and interregional level to further develop the balanced integration of the Union's territory. Around 4 percent, or EUR 13.2 billion, will be spent for this priority.

Revision of Pre-Accession Assistance to Form a Bridge with Structural Funds

As described earlier, assistance for candidate countries like Turkey is driven by the pre-accession process. Yet accession is at best a medium term goal and assistance therefore operates in a medium rather than a long term perspective unlike traditional development aid. This assistance can be viewed as a precursor to the Structural Funds. Currently Turkey's instruments for pre-accession have the same scope as Phare regulations for the former candidate countries in Eastern Europe as well as Bulgaria and Romania, namely assistance for the implementation of the *acquis*, investments in economic and social cohesion, cross-border cooperation.

In parallel with the need to revise the Structural Funds, enlargement (including the prospect of Bulgarian and Romanian accession in 2007) has brought about a review of pre-accession assistance. A new instrument for pre-accession (IPA) will come into force, within the context of the revision of the External Aid framework also covering the period 2007-2013. Essentially, IPA will replace the other instruments and aim to reinforce the *bridging function* towards the adoption of the rules and principles of Structural Funds management. Candidate countries are thus given the opportunity to "practice" the Community rural and cohesion policies by applying rules as closely as possible to the Structural funds before accession.

Under the IPA framework regulation there will be five main components: transition assistance and institution building; regional and cross-border cooperation; regional development; human resources development; and rural development.

The rationale of these components is that Candidate Countries will be confronted with exactly the same situation in the Community's agricultural and cohesion policies after accession. Under the regional development component this means giving the beneficiary country the highest possible approximation to Structural Fund practice under External Aid rules. It therefore aims to support policy development as well as preparation for the implementation and management of the Community's cohesion policy and in particular the preparation for the European Regional Development Fund and Cohesion Fund.

The priority areas under the regional component cover environment, energy, transport, education and health and aid to SMEs, reflecting the priorities of the convergence objective under the structural fund.

It is clear, because of the prospect of increased funding, that the mechanisms so far used for assistance under regional development will no longer be adequate under IPA. Alignment with the *acquis* will entail very considerable investment in areas such as

environment and transport infrastructure. Such investments will run in parallel with continued efforts to boost administrative capacity in order to increase absorption capacity for the funds available and to adapt national and regional structures in preparation of the Structural Funds. With the opening of negotiations with Turkey on October 3, it can be expected that the process of harmonization will accelerate considerably over the coming years and that regional policy will take a more center stage position in the economic development of the country.