TURKEY AND NORTH AFRICA: CHALLENGE AND OPPORTUNITY

This article aims to give an overview on Turkey's improving relations with the countries of North Africa, a region that is increasingly important for bilateral trade, energy relationships and increasingly important for the U.S. and Europe. It focuses on the relationship between the region's continued integration into the Western economic system and the significant improvement registered in Turkey's trade relations with Algeria, Morocco, Tunisia, Libya, Morocco, and Tunisia, and argues that the continuation of these trends would benefit Turkish companies and strengthen Turkey's aspirations to become a regional economic power. It concludes that an increasingly integrated North Africa will also benefit Turkey politically contributing to regional stability and security, and Turkey's EU accession process.

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The economic prospects for the countries of North Africa, namely Algeria, Morocco, Tunisia, Libya, and Egypt, looked favorable at the end of 2004. Regional GDP growth stood at 5 percent - with Algeria and Tunisia leading the course with 6.1 percent and 5.1 percent respectively. Libya, the region's oil giant – long excluded – took steps to integrate into the world economy, offering lucrative contracts in a number of oil fields. Exports increased by 23.5 percent in Tunisia and 15.2 percent in Morocco, with Libya, Algeria and Egypt registering 30.2 percent, 28.8 percent and 25.6 percent growth respectively thanks to rising oil prices (see Table 1).

Table 1. Exports from North Africa, 2002-2004

	Exports (annual, $ billion)		
	2002	**2003**	**2004**
Algeria	19.5	24.96	32.16
Egypt	7.0	8.759	11.0
Libya	11.8	14.32	18.65
Morocco	8.2	8.466	9.754
Tunisia	6.8	8.035	9.926

Source: CIA World Fact Book (2005)

The region has gained increased strategic importance since the September 2001 attacks, after which U.S. policy towards the region has taken a new direction. The region has also continued increased economic integration with the European economic system. The European Union (EU) has decided to establish in 2003 a European Neighborhood Policy (ENP) with 14 countries that surround its immediate borders including the five Northern African countries.

But a considerable amount of risks remain in the region. The upsurge in oil prices has benefited oil revenues and strengthened the fiscal position of Algeria, Egypt, and Libya, although it remains to be seen whether the consequent economic growth will be sustainable in the longer-term via continued economic liberalization reforms. Increased liberalization of trade with the U.S. and the EU, as well as the elimination of the global quotas on multi-fiber products, puts heightened competitive pressure on domestic small and medium enterprises. Social unrest, corruption and youth unemployment remains high, making it difficult for the governments to reform their overstaffed public sector and reduce state presence in the national economy.

The countries of Northern Africa, with their growing economies, young and dynamic population, and strengthening links with U.S. and Europe, are set to become increasingly significant for Turkey over the next decade as the later makes progress towards fulfilling its EU membership aspirations. This article aims to give an overview of the current state of risks and opportunities facing the economies in the region and the scope of Turkey's trade relations that will be crucial to further engage with the region. It also focuses on the economic and political benefits that increased integration within the region and between the region and the Western economic system would provide to Turkey.

A New European Neighborhood

The initial discussions over a "neighborhood" that would establish the EU's relations with the Southern Mediterranean countries were held simultaneously in early the1990s with EU plans to admit Central and Eastern European countries as full members. The EU and its southern neighbors, including the five Northern African countries[1] as well as Cyprus, Malta (both currently EU members,) Turkey, Israel, Jordan, Lebanon, the Palestinian Authority and Syria, launched the Barcelona Process in 1995. This aimed to reassure Northern African countries that the EU's enlargement towards the east would not upset its relations with its southern neighbors.

The EU continued to strike a string of Euro-Mediterranean Association Agreements for economic and trade cooperation with almost all Mediterranean countries during the late 1990s and early 2000s. Meanwhile, the EU's Common Foreign and Security Policy (CFSP) Representative Javier Solana and European Commissioner Chris Patten outlined a new "proximity policy" – a basis for the ENP – which initially focused on three new eastern neighbors, i.e. Belarus, Moldova, and Ukraine. But soon enough, in an effort primarily driven by its President-then Romano Prodi, the European Commission announced in March 2003 the new strategy named "Wider Europe – Neighborhood: A New Framework for Relations with our Eastern and Southern Neighbors" (ENP) that included the EU's southern neighbors as well.

ENP seeks to create a Common European Economic Space that includes EU's eastern and southern neighbors without the presupposition of accession as a prerequisite. The main economics and trade-related elements of the proposal included the expansion of the EU internal market to include the surrounding regions, preferential trade relations and increased access to the EU market, perspectives for legal immigration and movement of persons, assistance for inclusion in the international trade system (particularly membership to the World Trade Organization (WTO), which the EU has supported for Algeria) and new sources of financing.

Alongside new financing instruments that are specific to the Mediterranean, such as the creation of a Euro-Mediterranean Bank, the ENP also envisages a great Euro-Mediterranean Market to encourage foreign direct investment inflows to the region, which remained at low levels historically due to geopolitical uncertainties, regulatory shortcomings and political instability. This will be significant for the region in terms of income levels in Northern African countries, where average nominal GDP per capita was USD 5760 in 2004, nearly 22 percent of the average among 25 EU countries. The countries are also likely to benefit from enhanced access to the enlarged EU Single Market through the expansion of common regimes and regulatory frameworks as well as greater export opportunities to relatively newer members of the EU, where rising income levels will boost domestic demand. In addition, the ENP will also encourage free trade agreements (FTAs) between the Southern Mediterranean countries themselves and with other associated countries.

Regional Response Generally Favorable

The perceptions of the ENP among associated countries have varied, although it was generally received positively in Algeria, Egypt, Morocco, and Tunisia, which already had an evolving trade relationship with the EU. On the other hand, while the potential positive impact of the ENP was unambiguously welcome, the complications related to unifying the EU's external relations with a vast number of countries under a single umbrella has caused concern. There remain concerns among Northern African countries that it will be challenging for the EU to demonstrate a coherent strategy for the Mediterranean under the ENP umbrella. While Spain and Morocco, for example, have important commercial relations, Eastern EU neighbors such as Ukraine are of more importance to Poland. Nevertheless, the ENP envisions the same targets

[1] Libya was admitted as a passive observer in 1999, and could become a full partner of the Barcelona Process if it were to accept the full Barcelona acquis.

with the Barcelona Process, such as the establishment of a free trade area, EU guidance for political and market reforms in associated countries and perhaps more importantly increased EU financing to facilitate transition.

Strong Trade Links with Turkey

The ENP does not affect the status of Turkey's EU membership candidacy. Despite a visible "enlargement fatigue" that appears to have come with the accession of ten Central and Eastern European and Mediterranean countries to the EU in May 2004 and widespread public opposition across Europe against the admission of a poor yet populous Muslim country, the European Council decided in December 2004 to begin negotiations with Turkey aiming at full membership. It is therefore the current Accession Partnership framework that constitutes the basis for EU-Turkey relations.

Any Turkish government would be vocally opposed to the inclusion of Turkey in the ENP (provided that membership negotiations would not be suspended due to political developments in Turkey or the EU), as this would be perceived as a new attempt to impose an alternative to membership. In the meantime, the ENP provides an anchor for associated countries, and strengthens the current trend of increased integration of Northern Africa into the European economic system, which seems to have benefited Turkey's trade relations with the countries. Turkey's trade with Northern Africa has increased rapidly in the past years, with exports growing by 40 percent in 2004, exceeding USD 2.2 billion, around 4 percent of Turkey's total exports and 19 percent of exports to all Arab countries.

Recent numbers from the first three months of 2005 indicate a continuation of this trend with exports to Libya and Morocco leading the course, with 80.1 percent and 65.1 percent increase respectively (See Table 2).

Table 2. Turkey's Trade with Northern Africa

	Exports (January-March; $ 1000)			**Imports (January-March; $ 1000)**		
	2004	**2005**	**Change (%)**	**2004**	**2005**	**Change (%)**
Algeria	157,214	186,002	18.3	373,351	422,358	13.1
Egypt	96,819	149,841	54.8	37,836	55,329	46.2
Libya	53,005	95,446	80.1	402,058	497,183	23.7
Morocco	66,677	110,054	65.1	20,200	34,015	68.4
Tunisia	51,153	67,650	32.3	15,717	10,891	-30.7
TOTAL	**424,868**	**608,993**	**43**	**849,162**	**1,019,776**	**20**

Source: ANKA Review, May 2005

Turkey concluded FTAs with Morocco and Tunisia and is currently in talks with Algeria and Egypt for new FTAs. Visiting Morocco in March, Turkish State Minister Kürşad Tüzmen said that the number of projects on which Turkish contractors were working in Northern Africa had doubled in 2004 and that the projects that were completed so far has amounted to USD 15 billion.

Algeria: A Promising Start

Characterized by diminishing internal tensions, a dwindling insurgency, the reduced influence of the "Pouvoir," the military and civilian junta that controlled national politics, and strengthened political institutions, 2004 was a banner year for Algeria. President Abdelaziz Bouteflika was elected to a second term in what were seen by the international community as largely free and fair elections; the military has taken a step back from national politics in the run-up of the voting, giving the elections additional legitimacy. The ruling coalition in parliament includes the relatively young Islamist Movement for a Peaceful Society, signaling a renewed confidence among the political elite that Islamists can productively engage in politics.

While the government hopes to attract foreign investment in the electricity and telecom sectors, the energy sector remains the engine of economic growth for the foreseeable future. Record high energy prices increased hard currency reserves to USD 36 billion and bolstered Algeria's fiscal position. Despite the fact that hydrocarbons earnings are set to climb ever higher, the government's 2005 Finance Law reflected a restrained and conservative approach to government spending.

A former socialist economy, Algeria has an overstaffed public sector and continues to lack a transparent and efficient market structure. The 40 percent increase in crude oil production was the driving force behind the impressive 6.1 percent GDP growth in 2004. Exports from the Salah gas project, which came on stream in mid-2004, will support this trend, while the Amenas gas project will begin production by early 2006. President Bouteflika's recent cabinet shuffle indicated his confidence in his consolidated political position to proceed with economic reform and diversification programs. But even with market-oriented officials in key economic posts, administrative and implementation-related problems, particularly in the fields of banking, insurance, privatization and foreign direct investment, hound Bouteflika's ambitions. There is no foreseeable solution at the moment to systemic problems including corruption and incompetence in the lower and middle ranks of Algeria's bureaucracy and public sector companies.

In the meantime, the recently ratified Algeria-EU Association Agreement, which envisions a gradual establishment of a free trade area, constitutes a challenge for the Algerian economy. Algeria hopes that the subsequent competitive pressure on its domestic market will be balanced by a sizeable increase in foreign direct investment from EU countries. The agreement, which aims a two-track institutional dialogue on political and economic areas, removes customs duties for Algerian industrial product exports to the EU, and in return envisions a three-stage removal of customs duties on a wide range of EU exports to Algeria.

Algeria has also seen a boost in its relations with the US since the 11 September 2001 terrorist attacks. The US' renewed focus on the Muslim world following the attacks makes Algeria a more important ally for the US, given the Sahara region's position as a center of militant Islamist activity and Algeria's long experience of dealing with radical Islamism.

Turkey and Algeria are currently in negotiations to conclude a FTA and have friendly relations. During Foreign Minister Abdullah Gül's visit to Algeria last April, Bouteflika said that Algeria earmarked USD 55 billion for reconstruction of the country over the next five years and would give priority to Turkish companies. He went as far as suggesting the establishment of a structure similar to the British Commonwealth of Nations to include countries that once formed the Ottoman Empire.

Egypt: Old Friends, Old Challenges

Egypt, the most populous country in Northern Africa with 75 million has traditionally protected its domestic market with high customs and complex investment regulations. Since coming to power in mid-2004, Egyptian Prime Minister Ahmed Nazif's government has implemented an ambitious economic reform program, which envisions the lifting of protectionist barriers to free trade and sharp reduction of the traditionally high income and corporate taxes. Although known to be a cautious politician, President Hosni Mubarak has lent strong support to the government's reform program. Public opposition against a number of far-reaching privatization initiatives and the reduction of government subsidies may complicate the reform effort.

Egypt continues to see regular demonstrations calling for major political reforms, but such protests represent little threat to the regime. The US calls for democratic change in Egypt probably had a more important influence on Mubarak's decision in February to open presidential elections to other candidates. The regime pursues its own program of political change at its own pace. The absence of meaningful candidates for presidential elections means that the elections are unlikely to have much lasting impact on the government. Presidential elections and parliamentary elections in October and November 2005, respectively, will likely see further cabinet-level changes.

Egypt signed a free trade agreement with the EU in 2001 after years of heated discussions, particularly on provisions related to the agricultural sector. The agreement took effect in 2004. The EU is Egypt's main trading partner. Egyptian exports to EU countries accounted for 40 percent of all exports in 2002, worth an estimated USD 1.6 billion. The government also signed an Egypt-Israel-US trade agreement in December 2004. Investment Minister Mahmoud Mohieldin hopes to restart the privatization program that stalled in 2000, and is already planning the sale of one of four state-owned banks -- probably the Bank of Alexandria -- by the end of the year. However, the economic team is still facing a fiscal deficit of 7.5 percent of GDP for the 2004-2005 financial year, and social considerations mean that the government's huge subsidy bill can only be reduced gradually.

Despite the longstanding relations between the two countries, trade cooperation between Turkey and Egypt has been limited. At 29 percent, crude oil has the largest share in Egyptian exports to Turkey, with primary export products having low value-added, such as mineral and agricultural commodities. Despite a number of bilateral agreements for the development and facilitation of trade between Egypt and Turkey, the real volume of trade between the two countries remains limited, claiming 2 percent and 1 percent of Egyptian and Turkish trade respectively. Nevertheless, the countries continue discussions on securing a free trade agreement. The draft agreement envisions a 12-year transition period for Turkish goods to enter the Egyptian market while Egyptian industrial and agricultural exports are envisioned to enter the Turkish market immediately.

The proposed free trade agreement also provides the countries with an opportunity to eliminate political tensions that have increased in the 1990s, due to Turkey's military and strategic cooperation with Israel as well as Turkish operations against the terrorist organization Kurdistan Workers Party (PKK) and the 1999 standoff with Syria over the extradition of PKK leader Abdullah Öcalan. Turkish operations in late 1990s against PKK elements in Northern Iraq also received criticism from the Egyptian government, who saw these as violation of Iraq's national sovereignty and territorial integrity.

Libya: A Difficult Partner

Libya's political and economic outlook has changed dramatically in 2003 when Muhammed Qadhafi announced that his administration had dropped its efforts to attain weapons of mass destruction, effectively enabling the country to establish trade links with the US and the EU. The US and EU lifted some of their sanctions against Libya in September 2004, following a UN Security Council decision that lifted an arms embargo and financial sanctions a year earlier, opening the way for US and EU firms to participate in Libya's oil-rich economy.

While the hydrocarbons sector is promising for international energy companies, it has yet to show its true colors. In the absence of a clear policy directive from Qadhafi, different factions within the Libyan government are struggling to advance their agendas. On the back of the strong interest in Libya's 29 January bid round for 15 oil blocks, the government apparently saw an opportunity to stiffen the licensing terms and safeguard employment opportunities for Libyans in oil producing regions. New terms to be announced in June will likely require international energy companies to meet minimum Libyan employment guarantees; currently there are no employment requirements.

The reformers are arguing for trimming Libya's overburdened bureaucracy that they see as an investment obstacle because the staff is neither sufficiently trained nor motivated to create a positive investment environment. For his part, Qadhafi has reassured his loyalists by signaling his support for the institutions that employ them, which implies that he will continue to look out for their interests while simultaneously backing the government's reform program.

Libya's return to the international community has started a dialogue between the EU and Libya, although the scope of the trade relationship remains limited. The 29 January bid clearly demonstrated a Libyan preference for US companies despite expectations that the transparency of the bid round would prevent them from privileging companies from a particular country. With the exception of Vernex/Medco, Petrobas, Sonatrach and the India Oil Company, no non-US companies – including those that already operate in Libya – won a single block. Total, Shell, Repsol, BP, and Wintershall all left Tripoli empty-handed

The relations between Libya and Turkey have been difficult at best, due to Libya's ambivalent attitude regarding Turkey's armed struggle against the PKK as well as opposition from Qadhafi against Turkey's EU bid "as it would benefit Islamist extremism." A Libya visit by Necmettin Erbakan, Turkey's Islamist then-prime minister in 1997, resulted in a high-profile diplomatic scandal triggered by Qadhafi's harsh rhetoric regarding Turkey's policies towards the Kurds, causing domestic political problems for Erbakan later on. Recently, the unpredictable president – possibly referring to the Muslim immigration trends that it can encourage into Europe – went as far as stating that Turkish membership into EU would be a victory for Osama Bin Laden, leader of the al-Qaeda terrorist network, a few days before the December 2004 EU Summit, where EU leaders gave a go-ahead for accession talks.

A sustainable improvement in political relations should thus be expected only in the longer term. The inclusion of Libya in the ENP would nonetheless improve Turkish-Libyan relations, as closer integration into the EU economic system will mean continued liberalization and deregulation for Libya's promising economy.

Morocco: Trade Ties to Improve Further

Morocco is a moderately stable country under the leadership of King Mohammed VI. The low level of economic growth has been a problem for the last decade, as annual growth in real GDP per capita averaged just 1.4 percent over the past decade, and income disparities persist. The government has made some economic progress in the past few years, strengthening property rights and carrying out business reforms.

The recently signed FTA with the US, which came into force July 2004, promises to boost Moroccan exports to the lucrative US market and raise foreign direct investment. Morocco has an Association Agreement with the EU and Morocco-EU ties are in the process of strengthening, through a number of specialized technical and political committees, which represent a gradual approach that contrasts with the rapid pace with which US and Morocco completed the FTA negotiations. The ENP also aims to set a number of benchmarks for human rights and democratization reforms. Spain and Morocco are also currently in talks to build a tunnel under the Gibraltar Strait, which would establish the first fixed link between Europe and Northern Africa.

Although many observers saw the US FTA as a great opportunity, concerns remain that free trade with both the US and EU may complicate the regulatory environment and threaten Morocco's domestic producers. The government will need to restructure the small-and medium-size enterprises to cope with increased trade liberalization. Another risk is related to the textile sector, Morocco's largest exports, which may be threatened by the elimination of global quotas on multi-fiber products. January 2005 figures, released only a month after the elimination of quotas appears to have reduced Morocco's annual textile exports by 33 percent. The EU has made promises that it would help Morocco's textile industry but only within the ENP framework, which means through trade liberalization measures rather than direct subsidies.

Since the beginning of the Barcelona Process, Morocco has played a leading role both in the Euro-Mediterranean Partnership and as a regional actor. In addition to its 2003 request for an enhanced status (rhetorically defined as "less than accession more than association") and substantial differentiation between EU neighbors, Morocco also started the Agadir Initiative with Egypt, Jordan, and Tunisia. The initiative decided in May 2001 to create a Free Trade Area on the basis of the Euro-Mediterranean Association Agreements (EMAAs) to counterbalance potential competitive trade advantages that the Central and Eastern European countries would gain through EU membership, and to attract further foreign direct investment into the region.[2] The countries concluded a regional FTA in January 2003, a significant step forward towards regional economic integration and the eventual establishment of a Euro-Mediterranean Free Trade Area.

Meanwhile, the Western Sahara issue between Morocco and neighboring Algeria continues to complicate regional trade cooperation. Morocco's insistence on permanent sovereignty over the contested territory continues to clash with Algeria's support for the independence-seeking Polisario Front. The US and the EU support a resolution of the issue, which could enable the revival of the Arab Maghreb Union, which envisions closer trade and financial co-operation between Morocco, Algeria, Tunisia, Libya and Mauritania. Annual Moroccan-Algerian trade

[2] The Moroccan initiative perhaps also stemmed from its desire to avoid its problems with Algeria, which complicated similar initiatives in the Arab Maghreb Union.

totals USD 200mn, which, although significant, does not represent the potential between the two neighbors.

Turkish exports to Morocco increased by 82 percent in 2004, compared to 2003, and reached a total volume of more than USD 330 million, even prior to the Free Trade Agreement that was signed between the two countries in April 2004. Moroccan exports to Turkey increased by 36 percent during the same period. Turkey plans to increase exports to over USD 1 billion by the end of 2005 and USD 3 billion by 2008.

Tunisia: Strengthening Partnership

Tunisia's political and economic outlook is generally stable. The success of President Zine el-Abidine Ben Ali in the presidential election and the success of his party, the Democratic Constitutional Rally (RCD), in the simultaneous parliamentary elections in October have consolidated the administration. International pressure on Ben Ali's authoritarian regime to carry our democratization and human rights reforms continues to grow, however, and may destabilize Tunisia in the longer term.

The government's 2005-2009 plan aims to increase economic growth and boost employment by attracting increased foreign investment although its economic liberalization reforms have traditionally followed a slow pace. The plan is to help domestic traditional businesses better placed to withstand the likely ramifications of greater trade liberalization. The elimination world quotas on multi-fiber products on 1 January 2005 hurt Tunisia's textile sector, as it did Morocco.

Turkey and Tunisia signed a free trade agreement on September 2004, aiming to increase trade between the two countries, which currently stands at USD 300 million. During an Ankara visit in February 2005 Tunisian Foreign Minister Abdelbaki Hermassi said that the two countries aim to increase trade volume to up to a billion dollars by 2008. Prime Minister Recep Tayyip Erdoğan visited Tunisia on 28-30 March 2005, following a trip by President Ahmet Necdet Sezer in March 2003.

Conclusion

Barring a last-minute crisis, Turkey will begin EU accession talks in October 2005. The accession negotiations are expected to be long, nonlinear and open-ended, due to continued fears across Europe about admitting a poor, populous, Muslim country. This process will nonetheless provide an anchor for Turkey to stabilize its economy and attract much-needed foreign investment. In this context, increased political and economic stability in the countries of Northern Africa, as well as closer integration with the European economic system provides an exciting opportunity.

Turkey, integrated into the enlargement process, has a real opportunity to play a key role in the application and implementation of the ENP in the Eastern Mediterranean region, with which it enjoys historical, cultural and religious links. In this regard, additional support through instruments such as technical assistance and twinning will boost the development of various forms of trade cooperation involving local and regional authorities, civil society organizations and business associations, such as the Turkish Arab Economic Forum, launched in 2005.

Since coming to power, the Turkish Justice and Development Party (AKP) government, particularly following the direction of Foreign Trade Minister Kürşad Tüzmen, has so far pursued to increase trade with neighboring countries at a considerably fast pace and is expected to continue free trade policies within the context of EU accession negotiations. Prime Minister Erdoğan also paid official visits to Morocco and Tunisia in recent months and plans to visit Algeria in September 2005. In both official visits, Erdoğan pointed out the increase in trade volumes in recent years and underlined the economic opportunities that the region presents to Turkish companies.

While the region's increasing economic and commercial ties with the European economic system as well as with Turkey has led to a sizeable jump in bilateral trade and supports Turkey's aspirations to become a regional economic power, there are also political benefits – albeit in the longer term. Increased political and economic liberalization of the region is one of the main focuses of the G-8 Broader Middle East and North Africa Initiative, in which Turkey has pledged to play an important role – most recently at Erdoğan's June 2005 trip to Washington. With a predominantly young and Muslim population and a history of Islamist radicalism, yet with strong relations with the US and the EU – putting aside Libya's unique position – the Northern Africa region provide a significant test case for the US-led initiative and at a broader sense the global war on terrorism to succeed.

The integration of the region into the Western economic system is also essential for European stability and security. The EU has a significant stake in encouraging increased trade and FDI into the region to generate sustainable economic growth, as this will be crucial to decelerate illegal immigration from the region to the EU. The influx of Muslim immigrants into Europe has become a painful social and political issue for European governments over the past decade (most recently contributing to the French and Dutch rejection of the EU constitution) and triggered social problems that have to potential to disrupt European stability and security. This was most recently observed in the Netherlands in 2004 when the killing of a popular filmmaker by a Moroccan immigrant triggered a wave of public protests and calls for limits on immigration or in Spain in 2003 when a series of train bombings turned out to be caused by local militant affiliated with the al-Qaeda terrorist network. Turkey has a significant stake in supporting closer integration of the five majority Muslim countries into the European system, which will benefit Turkey's plans to carry out a large-scale communications and public relations campaign to win the hearts and minds of groups within the EU that are skeptical about Turkish membership.