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Trade and conflict: the dyad of Greece and Turkey

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This article discusses the relation between conflict and international trade. In particular it applies basic theoretical arguments and extensions of the so-called "liberal" approach to conflict and trade to the relation between Greece and Turkey. The purpose is to inform the policy debates that have dominated the public sphere in both countries in recent years regarding Greco-Turkish relations and Turkey's accession to the European Union.

"If our trade volume with Greece reaches US$5 billion, then our bilateral political problems with vanish." – K. Touzmen, Turkish Minister of State, 21 May 2006.

In 1980, Solomon Polachek – representing the so-called "liberal" school of thought regarding the conflict-trade relation – built a formal model to explain how trade may cause cooperation, reduce conflict, and advance peace.[1] In his model a state's overall consumption and "hostility" positively affect its utility, that is, nations are thought to have a "taste" for hostility.[2] A nation's terms of trade are expected to be negatively affected by hostility: export prices fall and import prices rise. Optimal hostility levels toward a trading partner are found as a nation (actor) maximizes its utility function for a given level of trade (i.e., trade affects conflict). The model's implications are relatively straightforward: the development of trade relations between two countries creates a form of mutual dependence which increases the cost of potential conflict (in the form of foregone benefits), thereby raising the incentive for choosing lower levels of hostility, or more cooperation and peaceful coexistence. Hence the model predicts that nations will be less prone to engage in conflict with trade partners. In contrast, "realists" – mainly political scientists rather than economists – argue that international trade causes conflict, or at best has mixed effects on it.[3] Trade is viewed as a zero-sum game, leading countries to compete over the securing of scarce resources; even if trade is a positive-sum game, conflict may result as trading partners fight over maximizing relative trade gains.[4]

Numerous empirical studies provide partial support for either of the conflicting hypotheses.[5] More research is needed to shed light on the conflict-trade relation, and the literature has identified a number of additional issues that need to be studied. These include the direction of causality in the presence of simultaneity bias (trade affects conflict but conflict affects trade); the appropriateness of the units (actors) of observation to account for differences in behavior and goals; the need to use disaggregated data to account for differences across different trading goods with varying strategic importance and elasticities; taking account of peculiarities in dyadic differences rather than assuming a common, universal relationship; and introducing dynamic elements.

A recent theoretical study offers a possible explanation for why increases in trade may nonetheless *not* necessarily lead to a reduction in conflict.[6] The explanation revolves around asymmetries in the increasing costs between the trading partners. Specifically, country A's probability of settling a trade dispute with B increases as its costs relative to B rise. But the asymmetric change (reduction) in the relative cost causes country B's probability of settling to diminish. Since the probability of a conflict is the product of the two countries' probability of not settling, it is quite possible for the overall probability of conflict settlement to fall even when joint costs (i.e., foregone trade benefits) rise.[7] Thus, higher conflict costs may not necessarily lead to less conflict. By providing a more general theory of the relation between conflict and trade, this model might reconcile the "liberal" and "realist" schools of thought: while conflict and trade are generally thought to be negatively related, a region might exist where rising costs with greater trade gains may raise conflict and reduce cooperation.

Conflict and trade: seven propositions

Polachek and other contributors to the "liberal" paradigm literature have derived a number of propositions regarding the conflict-trade relation.[8] This section reviews and explains them; the next applies them to Greece and Turkey.

The *first proposition* states that "the greater is an actor country's level of trade with a target, the smaller the amount of conflict that the actor will have with the target country."[9] If trade raises cooperation and lowers conflict then a basic policy implication would be to take the required steps and establish mutual trade dependencies aimed at the diminution of hostility. This basic conflict-trade paradigm has been extended to include third party effects, tariffs, foreign aid, contiguity, and country size.[10] Additional extensions look at the effect of a country's democratization, type of trade, and foreign direct investment (FDI).[11] By way of summary, the liberal paradigm finds that (i) democracies are less likely to fight and more likely to cooperate, (ii) trade in agriculture, fisheries, and energy is more cooperation-inducing than trade in minerals and manufactured goods, i.e, the type of trade matters, (iii) higher FDI raises cooperation and reduces conflict, (iv) larger countries have smaller incentives to trade and cooperate, (v) trade with a friend-of-a-friend or with an enemy-of-an-enemy decreases conflict, while trade with a friend-of-an-enemy or with an enemy-of-a-friend increases conflict, (vi) lower tariffs and higher foreign aid reduce conflict by raising trade gains, and (vii) trade among neighbors mitigates the natural proneness of neighbors to have disputes.

As regards *democratization*, the evidence is that democracies cooperate more than

autocracies do. The democratization effect is probably a proxy for trade (democracies tend to trade more than autocracies and hence engage in less conflict as they try to protect their trade gains), but whether a "democratic" conflict-deterrent effect is direct or indirect (through trade), democracies seldom seem to fight each other.[12] As to *type of trade*, the strategic nature of the traded product is expected to affect the conflict-trade relation: the more inelastic (price-insensitive) the import demand and the export supply functions for a given country, the larger are the corresponding expected trade losses, leading to a greater sensitivity of conflict to trade changes.[13] This is expressed in a *second proposition* of the conflict-trade paradigm: the more inelastic (elastic) an actor country's import and export demand and supply to a target country, the smaller (larger) will be the amount of conflict that the actor will have with the target country.[14] For example, import demand for energy and agricultural products is expected to be more inelastic than for consumer goods and manufactures, predicting a higher dampening effect of trade in such goods on conflict.[15]

With regard to *foreign direct investment*, the international movement of capital has acquired an increased importance in the past 10 to 15 years compared to the trade in goods and services. Multinational corporations have been playing an increasingly bigger role in international affairs, and countries are more receptive to foreign capital inflows and compete in attracting foreign funds. Standard economic theory predicts that FDI generates benefits to the parties involved and higher amounts of FDI would raise conflict costs, increasing the incentives for cooperation.[16] Evidence of a dampening effect of FDI on conflict has been found.[17]

In terms of *country-size effects*, smaller countries have greater incentives to trade[18] and hence cooperate as improving terms of trade increase an actor's country welfare more when trading with a larger country than with a smaller country. In a recent study, a theory of optimal country size is derived that balances the trade-off between achieving economies of scale and controlling managerial costs; it also predicts that larger countries have a greater tendency for self-sufficiency and less trade.[19] The relationship then between country-size and conflict can be summarized by a *third proposition* – the cost of conflict for an actor with a larger target country is greater than the cost of conflict with a smaller country – and a corollary: increased trade gains result in a greater reduction in conflict for a small actor trading with a larger target than for a large actor trading with a small target.[20]

As to *third-party effects*, a country will in general have numerous trading partners and hence the conflict-trade paradigm is affected by third-party relations. The relation between alliance conflict and dyadic trade has been studied in a model in which third-party, external costs in the presence of allies and foes are introduced.[21] The formal incorporation of third-party effects in the basic conflict-trade model leads to a *fourth proposition*: an actor country with improved terms of trade with a target country will decrease conflict with a third party if both the third party and the target are friends, or "a friend of a friend is a friend."[22] Put differently, the expectation is that more trade with a friend of a friend leads to more cooperation. Similarly, it can be shown that "a friend of a rival is a rival," "a rival of a rival is a friend," and "a rival of a friend is a rival."

Regarding *tariffs*, the standard analysis in international trade predicts that in general tariffs (import taxes) raise gross prices in the country that imposes the tariff and reduces net prices in the other country,[23] thereby lowering trade gains and cooperation. This leads to a *fifth proposition*: an actor's conflict toward a target decreases when the target decreases its import tariff. As an extension, tariff reduction by several countries toward an actor will increase the actor's gains from trade more than a tariff reduction by a single country.[24]

With respect to *foreign aid*, studies have looked into the effect of foreign aid on bilateral relations.[25] Within the conflict-trade model, foreign aid would take form of transfer payments that enable the recipient to purchase the donor's products and hence are beneficial to raising trade volumes and therefore cooperation. Direct and indirect effects on conflict are expressed in a *sixth proposition* – the reduced import prices brought about by the target's aid to the actor reduce the actor's conflict toward the target – and its corollary: if country A provides foreign aid to an actor, the actor decreases the amount of conflict toward country B when countries A and B are friends.[26]

Finally, *contiguity*. In classic Disney comic strips, Donald Duck was in near continuous conflict with his neighbor Jones: friction creates tension. Thus, analyses predict a dampening effect of distance on conflict: the greater the distance the lower the amount of conflict.[27] Conversely, distance has a dampening effect on trade: the greater the distance the lower the amount of trade due to higher trading costs.[28] There is no contradiction between these findings. The conflict-trade model expresses this in a *seventh proposition*: while the direct effect of contiguity increases conflict, the indirect effect of reducing trade costs tends to increase trade benefits and hence to mitigate the direct effects; contiguous countries would fight even more in the absence of trade. The corollary is that an actor country exhibits less conflict toward friends of neighboring countries.[29]

The conflict-trade paradigm finds that (i) democracies are less likely to fight and more likely to cooperate; (ii) trade in agriculture, fisheries, and energy is more cooperation-inducing than trade in minerals and manufactured goods, i.e, the type of trade matters; (iii) higher FDI raises cooperation and reduces conflict; (iv) larger countries have smaller incentives to trade and cooperate; (v) trade with a friend-of-a-friend or with an enemy-of-an-enemy decreases conflict, while trade with a friend-of-an-enemy or with an enemy-of-a-friend increases conflict; (vi) lower tariffs and higher foreign aid reduce conflict by raising trade gains; and (vii) trade among neighbors mitigates the natural proneness of neighbors to have disputes.

Greece and Turkey

Since the late 1990s, Greco-Turkish relations have entered a period of *rapprochement*. Official Greek policy has slowly shifted from outright suspicion to supporting Turkey's accession to the EU so long as Turkey meets fully the accession criteria. Greece acceded to and became a full member of the European Economic Community – the forerunner of the EU – in 1981. Turkey applied for full membership in 1988 and was given a date to start accession negotiations in June 2006. Despite a recent setback and partial freeze of negotiations in December 2006[30] over a dispute regarding Turkey's refusal to open its sea and airports to Cypriot traffic, Turkey still remains on track, albeit not on a strict time line, to negotiate and fulfill all EU criteria toward full membership. Turkey already enjoys Customs Union status with the EU, upgraded from Associate Union status in 1995.

Trade data[31]

Greece has a 53 percent trade-to-GDP ratio (2003-2005); the comparable figure for Turkey is 61percent. Both countries joined the World Trade Organization in 1995. For Greece's merchandise trade, manufacturing products make up the bulk of its exports (56 percent), followed by agricultural (24) and fuels and mining products (18). Imports are dominated by manufacturing (66), followed by fuels and mining (21), and agriculture (13). For Turkey, exports are heavily dominated by manufacturing products (81), followed by agriculture (11) and fuels and mining (6). Manufactures make up 67 percent of its imports, followed by fuels and mining (24) and agriculture (6).

The European Union is the major trade partner for both countries. Greece sends 53 percent of its total exports to the EU, followed by Bulgaria (5.8) – an EU country as of 1 January 1 2007 – Turkey (5.4), and the United States (5.2). Greece's imports from the EU make up 56 percent of its total imports, followed by the Russia (7.7), Saudi Arabia (4.1), and China (3.9). As to Turkey, it exports to the EU 55 percent of its total exports, followed by the United States (7.7), Russia (2.9), and Iraq (2.9). Turkey's imports from the EU amount to 46.6 percent of its total imports, followed by Russia (9.3), the United States (4.9), and China (4.6).

By the late 1980s, merchandise trade between Greece and Turkey was very limited: the ratio of Greek exports to Turkey to total Greek exports stood at only 1 percent, while the ratio of Greek imports from Turkey to total Greek imports was a minuscule 0.3 percent. (The combined ratio of Greek trade with Turkey to the total value of Greek trade was 0.7 percent.) But since 1990, the total value of trade between Greece and Turkey has increased from $223 million to $2.2 billion in 2006,[32] and 4.31 percent of total Greek exports now go to Turkey, while Turkish imports into Greece represent 2.24 percent of total Greek imports. Table 1 lists bilateral Greek-Turkish merchandise trade data for the period of 1996-2005.[33]

Table 1: Bilateral Greek-Turkish merchandise trade data, 1996-2005

Year	*GX ($)*	*GM ($)*	*(GX - GM) ($)*	*(GX + GM) ($)*
1996	284,958,914	236,463,911	48,495,003	521,422,825
1997	430,780,094	298,236,607	132,543,487	729,016,701
1998	319,751,386	370,038,895	- 50,287,509	689,790,281
1999	287,555,576	406,794,147	-119,238,571	694,349,723
2000	430,812,980	437,725,190	6,912,210	868,538,170
2001	266,253,783	476,095,465	-209,841,682	742,349,248
2002	312,462,301	590,381,620	-277,919,319	902,843,921
2003	427,743,333	920,400,913	-492,657,580	1,348,144,246
2004	594,350,617	1,171,203,001	-576,852,384	1,765,553,618
2005	720,679,499	1,122,108,994	-401,429,495	1,842,788,493

GX: Greek exports to Turkey; GM: Greek imports from Turkey; (GX - GM): Greek trade balance with Turkey; (GX + GM): total trade volume between Greece and Turkey.

Tourist ties have been growing as well: Greece occupies the eighth spot on the list of foreign tourists visiting Turkey. In 2004 Turkey welcomed a total of 480,000 Greek tourists, an increase of 23.3 percent when compared only with 2003, and the numbers grow continuously. Fewer Turkish tourists visited Greece, a number close to 25,000.

In addition to trade in goods and services, financial capital has also started to flow between the two countries. In 2004, 76 Greek companies invested in Turkey, with total invested capital amounting to $65 million, covering a wide spectrum of goods and services but with a notable preference in the Turkish banking sector, especially in 2006 to early 2007. There is less investment in the other direction, with only six Turkish companies operating in 2004 in Greece.[34]

Bilateral policy: predictions and implications

If one follows the propositions of the basic conflict-trade model outlined earlier, the mutual dependence between Greece and Turkey would be expected to grow as Turkey becomes more integrated into the EU, with lower tariffs and eventual economic unification leading to higher trade levels. According to the model's *first proposition* such an economic integration will raise the degree of mutual dependence and thus the cost of conflict. As compared to the alternative state of economic isolation, this creates an environment where peaceful coexistence between Greece and Turkey will not be the result of a "balance of terror," but the natural outcome of economic

cooperation and internalization of the cost of conflict through the creation of an economic unit. Further policy implications and conclusions flow from the other six propositions. Specifically, as regards *democratization*, Turkey is neither a typical Western state nor a fundamentalist Islamic state; secular and Islamic elements vie for political domination. A recent example, in April 2007, was the fierce opposition of secular forces in Turkey – as represented by the Army and the Constitutional Court – to Mr. Abdullah Gul, a member of the governing moderate Islamic party, accessing to the presidency.[35] It is paradoxical that while the governing moderate Islamic party has been following a European orientation, the custodians of the secular state are more nationalistic.[36] Since democracies appear to cooperate more than autocracies, the EU should continue to pressure Turkey on full democratization of its institutions (e.g., role of the Army in political affairs, human rights, minority rights, urban terrorism), as a fully democratic Turkey would be a greater guarantee for peace.[37]

With regard to the *type of trade*, Tables 2 and 3 record bilateral merchandise trade data by category.[38] Energy and farm products made up approximately half of Greece's exports to Turkey in 2005, while Turkish exports to Greece are more evenly distributed, with the bulk made up of semi-processed and manufactured products. While the importance of energy and farm products in Turkish imports from Greece would contribute to Turkey lessening hostility directed toward Greece, more research is needed in calculating import demand and export supply elasticities of particular commodities.

Until a few years ago, *foreign direct investment* (FDI) flows between the two countries were minimal. But as already pointed out, recently bold moves toward more Greek FDI in Turkey have been made: these include Eurobank's purchase of the Turkish bank Tekfenbank and the much-discussed buying of Finansbank by the National Bank of Greece, the latter constituting an investment of €4.5 billion. At the same time, there are Greek-Turkish joint ventures to do business abroad – e.g., AKTOR and ENKA to build a city in Oman in the amount of €12 billion – and the €100 million Aegean Greco-Turkish Bank, capitalized by Greek and Turkish funds (35 percent each), with the remainder coming from the United States. Bilateral interdependence will be further enhanced by the construction of a natural gas pipeline system that is to pass through Turkey and Greece.[39] As FDI and joint ventures continue to increase and the two economies become more financially integrated, interdependence will be enhanced and parties on both sides with mutual interests will pressure their respective governments to increase cooperation and solve bilateral problems amicably.

Another proposition regarded *country-size effects*. In 2005, Greek GDP amounted to $261 billion as compared to Turkey's $612 billion (both in current purchasing-power parity dollars), with Turkey's population reaching 72 million and Greece's 11 million. Since the cost of conflict for Greece with a larger country like Turkey would be greater than the cost of conflict with a smaller country, and since increased trade gains result in a greater reduction in conflict cost for a small actor trading with a larger target than for a large actor trading with a small target, Greece would have a greater incentive than Turkey to trade and cooperate. The opposite would apply for Turkey. Hence, the relative imbalance in conflict costs could be mitigated by Greece's support of Turkey's accessing to the EU. From Turkey's point of view, the EU as a unit would constitute a large target, raising Turkey's cost of conflict by raising its total trade gains. Greece's relative bargaining position would be improved if Turkey faced the EU rather than facing only Greece.

As to *third-party effects*, any bilateral analysis would be incomplete if it were to

Table 2: Greek exports to Turkey (2005), most valuable categories

Item description	*Value ($)*	*% of total*
Mineral fuels and oils	179,219,347	25
Cotton	172,495,184	24
Plastics and articles thereof	126,589,537	17
Machinery	24,906,285	3.5
Iron and steel	22,638,402	3
Aluminum and articles thereof	19,803,223	3
Raw hides and skins	14,943,409	2
Paper and paperboard	14,874,211	2
Wood and articles of wood	12,917,916	2
Oil seeds, misc. grain, etc.	12,724,232	2
Total exports	720,679,499	100

Table 3: Greek imports from Turkey (2005), most valuable categories

Item description	*Value ($)*	*% of total*
Iron and steel	140,736,511	12.5
Machinery	79,798,972	7
Electrical machinery, equipment	79,773,141	7
Articles of iron or steel	74,220,601	6.5
Vehicles	69,645,773	6
Apparel articles, not knit	64,065,998	6
Apparel articles, knit	41,509,263	3.5
Furniture and lamps	40,302,277	3.5
Plastics and articles thereof	39,140,323	3.5
Edible fruits and nuts	33,709,356	3
Total imports	1,122,108,994	100

neglect the role of Greece's membership in the EU. A Turkey with improved terms of trade with the rest of the EU will decrease conflict with Greece, given that Greece and the rest of the EU are friends (recall the dictum that "a friend of a friend is a friend"). Hence, as Turkey becomes fully integrated with the EU, conflict with Greece is expected to decrease. This "friendship effect" adds to the "country-size" effect, making it even more important for Greece to support Turkey's accession to the EU.

Regarding *tariffs*, Turkish conflict toward Greece is expected to decrease when Greece decreases its import tariffs and, as an extension, tariff reductions by several EU countries toward Turkey are expected to increase Turkey's gains from trade more than a tariff reduction by Greece alone. As the EU is a customs union, Turkey's full accession to the EU and elimination of all trade barriers will induce it toward cooperation and reduced conflict. Once more it follows that Greece should support Turkey's accession to and integration in the EU as the effect on cooperation would be greater as when compared to mere bilateral trade liberalization.

The conflict-trade model also speaks to *foreign aid effects*, i.e., EU transfer payments. Reduced import prices brought about by EU transfer payments to Turkey are expected to reduce Turkish conflict toward the EU. As an extension, as the EU provides foreign aid in the form of transfer payments to Turkey, Turkey will be expected to decrease the amount of conflict toward Greece, since the EU and Greece have friendly relations. Full accession to the EU would entitle Turkey to receiving larger transfer payments, and hence the incentives for cooperation with Greece will also increase.

Finally, with respect to *contiguity*, we would expect from the conflict-trade model that as neighboring countries Greece and Turkey would tend to exhibit more conflict with each other than if they were distant from each other. But the beneficial secondary effect of reduced trade costs due to contiguity would tend to raise trade benefits and hence mitigate any negative direct effects. In the absence of trade, Greece and Turkey would tend to exhibit even more conflict than they do. As an extension, Greece or Turkey would tend to exhibit less conflict toward each other's friends. Taking contiguity between Greece and Turkey as a given, which gives rise to the aforementioned territorial disputes between Greece and Turkey, higher levels of trade will tend to mitigate the "natural" tendency toward conflict and increase the chances for a "natural" peace between the two neighbors.

Conclusion

A major issue in the current public policy debate in Greece concerns bilateral relations with Turkey and Greece's stance with regards to Turkey's accession to the EU. To derive policy rules for how Greece should approach its bilateral relations with Turkey, this article uses not only the basic theoretical conclusions of the liberal conflict-trade model but also other factors that affect the degree of trade gains. Given the qualifications set out beforehand, and without claiming that bilateral relations are not affected by other considerations as well, the liberal conflict-trade paradigm and its extensions predict that Greece will continue to pursue a policy of *rapprochement* with Turkey conducive to increasing their bilateral trade and investment levels.

At the same time, Greece will continue to support Turkey's prospective move toward full accession to the EU under full compliance by the Turkish side to EU expectations and conditions, alongside with pressing Turkey to fully democratize its institutions. The political crisis which erupted in Turkey in spring 2007 on the occasion of the presidential vote between the governing moderate Islamic party and the military and judicial establishments, which see themselves as custodians of the secular state and which represent a significant portion of Turkish society, will test the democratic foundations of its political system and will send a signal to Europe about Turkey's ability to resolve political impasses by democratic means.

Rather than isolating Turkey, such an integratory approach would tend to internalize conflict cost for both countries as they participate in an integrated Europe. The "European effect" for Greece is quite significant, as a Turkey trading with the European Union (large target) is expected to reduce conflict by more when compared to a Turkey trading only with Greece (small target). Similarly, widespread tariff reductions, European aid programs, and third-party effects enhance further the European influence on minimizing conflict.

Notes

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1. See Polachek (1980). The school's intellectual debts date back to Adam Smith, Immanuel Kant, J.M. Keynes, J. Schumpeter, and G. Blainey. The quote in the text box is taken from Tsiordas (2006).

2. Those unfamiliar with economic modeling may perhaps better appreciate the point by likening a "taste" for hostility to supporters of one football team having a "taste" for disliking another team.

3. See, e.g., Ashley (1980); Sayrs (1989).

4. Grieco (1988); Mastanduno (1991); Gowa (1994).

5. For example, Polachek (1980; 1992; 1997); Oneal and Russett (1997); Mansfield (1994); Gasiorowski (1986); Vries (1990); Barbieri (1996); Morrow, *et al*. (1998).

6. Pantsios and Polachek (2002).

7. For example, if state A's probability of conflict settlement is 0.5 and B's is 0.5 as well, then the joint probability is 0.5 x 0.5 = 0.25. But if the benefits of more trade changes A's probability of settlement to, say, 0.8, this may induce B to "hold out" and lower its probability to, say, 0.2. Now the joint probability of settlement is 0.8 x 0.2 = 0.16.

8. These are captured in a recent major review piece by Polachek and Seiglie (2006), a working paper that has since been published as Polachek and Seiglie (2007).

9. Polachek and Seiglie (2006, p. 13).

10. Polachek, Robst, and Chang (1999).

11. Democratization: Polachek (1997); type of trade: Polachek (1980); Polachek and McDonald (1992); Reuveny and Kang (1996; 1998); foreign direct investment: Polachek, Seiglie, and Xiang (2005).

12. Polachek (1997). While some studies have found no support for the "democratic" deterrent effect on conflict (Weede, 1984; Vincent, 1987; Domke, 1988), Chan (1984) offered a methodological explanation to reconcile the conflicting findings based on dyadic rather than monadic-based statistical tests. He finds support for the expected democratic dividend on cooperation.

13. Polachek (1980).

14. Polachek and Sieglie (2006, p. 13).

15. Reuveny and Kang (1996, 1998).

16. Thompson (2003).

17. Polachek, Seigle, and Xiang (2005). The FDI elasticity of conflict has been estimated as -0.31: a one-unit increase of FDI is associated with a 0.31 unit reduction in conflict.

18. Ethier and Ray (1979).

19. Alesina and Spolaore (2003).

20. Polachek, Robst, and Chang (1999, pp. 415-416).

21. Feng (1994).

22. Polachek, Robst, and Chang (1999, p. 411).

23. Vousden (1990).

24. Polachek, Robst, and Chang (1999, p. 412).

25. See, e.g., Orr (1989/1990); Cashel-Cordo and Craig (1997).

26. Polachek, Robst, and Chang (1999, p. 413).

27. Barbieri (1996), Diehl (1985).

28. Gowa (1994).

29. Polachek, Robst, and Chang (1999, p. 414).

30. The freeze involved eight out of a total of thirty-five negotiating chapters. On 23 March 2007, the EU approved the partial resumption of the accession negotiations.

31. Data in this section are taken from The World Trade Organization's web site. See http://www.stat.wto.org/CountryProfiles [September 2006].

32. Greek export volume to Turkey: $950 million; Greek import volume from Turkey: $1.2 billion.

33. Source: Balkan Regional Center for Trade Promotion: www.balkantrade.org.

34. The bilateral trade, financial, and commercial data were taken from KEEM (Panhellenic Exporters Association Research Center), ELKE (Hellenic Center for Investment), and the web site of the Hellenic Ministry of Foreign Affairs at www.mfa.gr.

35. As those lines are written, Turkey has entered a period of political instability. Following the controversial decision of Turkey's Constitutional Court to annul the first round of voting for President by Parliament on ground of a need for a two-thirds quorum, Turkish Prime-Minister Recep Tayyip Erdogan called this decision a "bullet in the heart of democracy," asked for early parliamentary elections in the summer 2007, and initiated the process for a Constitutional Amendment to elect the President through popular vote. This followed the withdrawal of Mr. Abdullah Gul's candidacy after a failed second round of Parliamentary voting.

36. It must be added that while Turkey shares many Western democratic characteristics, it has a history of an active involvement of the military in state affairs: since the 1960s, the Army has ousted a total of four elected governments from office and continues to play an important role in Turkey's political system.

37. It will be interesting to see how the recent election of Nicolas Sarkozy to the presidency of France, who as a candidate opposed Turkey's accession to the European Union, will shape official policy of the EU toward Turkey.

38. Source: Balkan Regional Center for Trade Promotion: www.balkantrade.org .

39. Tsiordas (2006).

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