# IS TURKEY READY TO JOINT THE EUROPEAN FISCAL UNION?

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***Abstract**: Since Turkey was officially recognized as a candidate for full membership in 1999 and negotiations were started in 2005 its membership bid has become and still is a major controversy in the ongoing enlargement process. This controversy contributes not only to the valuation of modern Turkey's social, cultural, political but also its economic situation. Most statements are based on scenarios derived from the perspective on how Turkey's membership would influence the EU as a whole and/or some of its member states. The development of Turkey as EU member was rarely researched. In particular it was not studied how Turkey's membership would change Turkey and how these changes would re-influence the development of the EU in a longer run. The present financial, debt crisis in the EU led to intensified short-term oriented analyses on just financial aspects. In order to define and discuss pros and cons of Turkey's accession it is not sufficient anymore to focus almost exclusively on the effects of Turkey's accession to the EU. Turkey is to be analyzed from three further perspectives and scenarios: 1) How will Turkey develop as non-member state? 2) How would Turkey develop as a member-state? And 3) How would Turkey as a member state re-influence the EU? As the present economic crisis of the EU (for instance about 46 % of young people in Spain are jobless) is aggravated by a major financial crisis in the Euro zone, the economic and financial perspectives of development have to be moved into focus. The "Europe 2020 Strategy" points the way, as it provides indicators to measure the EU's development from a long-termed perspective. Growth "at EU and national levels" has to be "smart", "sustainable" and "inclusive". Accordingly, "five targets were identified: (1) 75 % of the population aged 20-64 should be employed, (2) 3% of the EU's GDP should be invested in R&D, (3) The "20/20/20" climate/energy targets should be met, (4) The share of early school leavers should be under 10% and at least 40% of the younger generation should have a tertiary degree or diploma, (5) 20 million less people should be at risk of poverty.*

*In the following paper it will be discussed, if or how Turkey could meet these aims and if the EU could meet them if Turkey would become and be a member state. The EU's strategy targets will be complemented by financial targets, as the EU recently pushes ahead with a fiscal union. It will be checked if Turkey could become a Euro-country or at least join the fiscal union within the next decade. This will be investigated by looking at the Maastricht Criteria as well as the possibility to implement and meet the restrictions of the debt brake.*

***Keywords:*** Europe 2020 Strategy; debt brake; Fiscal Union; Maastricht Criteria.

**JEL Classification Codes: O16, O23, O52**

## 1. INTRODUCTION

In its conference held in Helsinki on 10 and 11 December 1999, the European Council (EC) declared:

> "Turkey is a candidate State destined to join the Union on the basis of the same criteria as applied to the other candidate States. Building on the existing European strategy, Turkey,

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like other candidate States, will benefit from a pre-accession strategy to stimulate and support its reforms."[2]

Turkey, therefore has the status of a European Union (EU) candidate country and benefits from this status. Nevertheless, Turkey's membership is still questioned by many EU member states. The present German government as well as the President of France are still against a full membership for Turkey and try repeatedly to offer a "privileged partnership" instead. This of course upsets Turkey. On the other hand, the unsolved Cyprus conflict upsets the EU. So, the accession process and the negotiations between EU and Turkey are endangered.

The EU membership of Turkey is not only a political but also economic risk. The population of Turkey is more than 70 million people. In 2011 this population generated a GDP of more than 550,000 million EUR (forecast).[3] This is the sixth-highest figure behind Germany, France, United Kingdom, Italy and the Netherlands, but ahead of Spain and all the other EU member states.[4] Due to both its population and its economic power, Turkey would have a major influence on the EU27, politically and economically.

## 2. EUROPE 2020 STRATEGY TARGETS

On 3 March 2010, the European Commission (EC) announced its strategy for the decade from 2010 to 2020 and labeled it as "Europe 2020, a strategy for smart, sustainable and inclusive growth". The decision was justified by pointing out that:

> "Europe can succeed if it acts collectively, as a Union. We need a strategy to help us come out stronger from the crisis and turn the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion. Europe 2020 sets out a vision of Europe's social market economy for the 21st century."[5]

Europe has to act collectively, i.e. each member state has to act as a part of the EU. So, if Turkey would join the EU, it would have to meet the strategy targets as all other member states. Due to the major controversy in the ongoing enlargement process about Turkey's membership, we will assess Turkey's importance and effectiveness by considering the Europe 2020 Strategy Targets. By doing so, we will have a solid basis to see if Turkey is ready and to what extent.

The Europe 2020 strategy is defined by "five EU headline targets" aiming at the creation of "jobs and smart, sustainable and inclusive growth".[6] In the following Turkey's economic situation and development will be described and analyzed against each of the "EU level targets" that "have been agreed for the whole EU."[7]

### 2.1 Employment

The first target aims at the employment. It indicates that "75 % of the population aged 20-64 should be employed".[8] TurkStat indicates that Turkey falls short of this objective. In the first 9 months of 2011, the labor force participation rate was about 50 %.[9] Although this result is far behind the target, Turkey is making good progress as far as just males are concerned.

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[2] The Council of the European Union, 2001, p. 13
[3] On basis of the first three quarters of 2011 according to TurkStat, Nr. 252, 2011
[4] According to Eurostat, 2011, Gross domestic product, current prices
[5] European Commission, 3 March 2010, p. 5
[6] Eurostat, 2011, Headline Indicators
[7] European Commission, 2011, Europe 2020 targets
[8] Eurostat, 2011, Headline Indicators
[9] TurkStat, 2011, Nr. 258

Because there is a huge difference in the labor force participation rate between males and females: The rate "was realized as 72.2 % with 1.1 percentage points increase for male compared to the same period of the previous year and realized as 29.5 % with 1.6 percentage points increase for female."[10] This reflects the gender policy of the ruling party, AKP. According to Erdoğan each woman should give birth to at least three children ("en az 3 çocuk").[11] This is to exploit "the demographic advantage".[12] Erdoğan is convinced that Turkey's, "success, our power […] results from our young population."[13] Although the share of younger people in the society is an important social-economic factor, the increase of the share of younger people becomes contra-productive, if the economic situation does not develop. Particularly the eastern provinces still characterized by their semi-subsistence agriculture cannot provide enough jobs.[14] This illustrates the internal migration from the eastern to the western provinces, particularly to Istanbul (in table 1):

**Table 1. Net migration and rate of net migration by statistical region (2009-2010)[15]**

| Region (Level 1) | Net migration | Rate of net migration (‰) |
|---|---|---|
| **Total (balance)** | **0** | **0.00** |
| İstanbul | 102,583 | 7.77 |
| Western Anatolia | 39,128 | 5.59 |
| Eastern Marmara | 37,579 | 5.51 |
| Western Marmara | 14,599 | 4.62 |
| Mediterranean | 5,479 | 0.58 |
| Aegean | 0,955 | 0.10 |
| **In-migration (net total)** | **200,323** | |
| Eastern Black Sea | -22,703 | -8.98 |
| South-eastern Anatolia | -28,917 | -3.80 |
| North-eastern Anatolia | -30,104 | -13.58 |
| Central-eastern Anatolia | -33,255 | -9.08 |
| Central Anatolia | -34,624 | -8.95 |
| Western Black Sea | -50,720 | -11.16 |
| **Out-migration (net total)** | **200,323** | |

From 2009 to 2010 nearly 2 million people (ca. 2.7% of the population) left their home regions.[16] As Table 1 shows, Istanbul benefitted most from the internal migration movements.

[10] TurkStat, 2011, Nr. 258, p. 1
[11] Erdoğan, 16 May 2011; translated by the author
[12] Gündem.tv, 04 February 2012
[13] Erdoğan, 2011
[14] iMOVE, 2011, p. 15
[15] TurkStat, In-migration…, 2011

Even the Western Black Sea region was not attractive enough to compete with Istanbul. This region was the region with the highest net out-migration. According to TurkStat 132,326 people left this region; 49,510 of them (ca. 37%) moved to Istanbul.

Furthermore, the analysis of the other key indicators of the Europe 2020 Strategy will show that the AKP's gender policy is disastrous and not limited to just the enormous migration movements towards the west.

## 2.2 Investment in R&D

The Europe 2020 strategy indicates that at least "3% of the EU's GDP should be invested in R&D".[17] This is a very challenging target, as it is almost 1 percentage point above the world average and surpassed only by two European countries, Finland and Sweden that achieved that level in 2007 (as table 2 shows):

**Table 2. Research and development expenditure (% of GDP) in 2007[18]**

| Country Name | |
|---|---|
| Cyprus | 0,45 |
| Slovak Republic | 0,46 |
| Romania | 0,53 |
| Greece | 0,57 |
| Poland | 0,57 |
| Latvia | 0,59 |
| Malta | 0,59 |
| **Turkey** | **0,72** |
| Lithuania | 0,81 |
| Hungary | 0,96 |
| Estonia | 1,11 |
| Italy | 1,18 |
| Portugal | 1,21 |
| Spain | 1,27 |
| Ireland | 1,28 |
| Slovenia | 1,45 |
| Czech Republic | 1,54 |
| Luxembourg | 1,62 |
| Norway | 1,64 |
| Netherlands | 1,72 |
| United Kingdom | 1,82 |
| **European Union** | **1,85** |
| **Euro area** | **1,87** |
| Belgium | 1,90 |
| France | 2,04 |
| **World** | **2,07** |
| Austria | 2,54 |

[16] TurkStat, 2011, Regional in-migration…; TurkStat, 2011, Nr. 19, p. 1
[17] Eurostat, 2011, Headline Indicators
[18] The World Bank, Research and development…

| | |
|---|---|
| Germany | 2,54 |
| Denmark | 2,56 |
| ***Europe 2020* Target** | **3,00** |
| Finland | 3,47 |
| Sweden | 3,61 |

It will be difficult for all the EU countries – with the exception of Finland and Sweden – to meet this Europe 2020 strategy target. Although Turkey is far behind this aim, seven other EU countries perform even worse.

## 2.3 Climate Policy

The EU's climate policy aims to support the world climate/energy change. Accordingly the EU formulates a "20/20/20" strategy with three specific objectives:

1. Reduction of the greenhouse gas (GHG) emissions – expressed in units of CO2 equivalents – by 20% compared to 1990;
2. Increase in the share of renewable energy sources in final energy consumption to 20%; and
3. 20% increase in energy efficiency.[19]

First of all it is to be stated that Turkey does not have an emission reduction target, as it is not a Party to the Kyoto Protocol. According to the European Environment Agency, Turkey's GHG emissions were not reduced, but steadily increased in the last years (see table 3).

**Table 3. Greenhouse gas (GHG) emissions in Turkey (1990 and 2009)[20]**

| Key GHG data | 1990 | 2009 | unit |
|---|---|---|---|
| Total GHG emissions | 187.0 | 369.6 | Mt $CO_2$-eq. |
| GHG per capita | 3.4 | 5.2 | t $CO_2$-eq. / capita |
| GHG per GDP (constant prices) | 925 | 952 | g $CO_2$-eq. / EUR |

The two main reasons for the increase of GHG are the economic growth and the increase of the population, as the European Environment Agency states:

> "Emissions almost doubled between 1990 and 2007, increasing in all sectors except agriculture. The increase was driven by economic and demographic development, which resulted both in increasing energy demand and energy production. Turkey has the highest annual population growth of all European countries (+ 1.7 % population growth rate in 2005), but the lowest per capita greenhouse gas emissions in the region."

The statements of the European Environment Agency correspond with the AKP's policy that aims at just economic growth. This growth is pushed by the AKP, as already said, by promoting a birth rate of at least three children per woman. For the AKP economic growth by increasing the birth rate is most important. Erdoğan points the way: "Until 2023 [… Turkey] will

[19] Eurostat, 2011, Headline Indicators
[20] European Environment Agency, 2011, p. 144

be among the 10 world's top economies”.[21] Due to this target there is little room for aims like the reduction of GHG emissions that are rated as growth-inhibiting.

## 2.4 Education

Education was identified as another key part of the Europe 2020 strategy as “education and training are essential to the development of today's knowledge society and economy.”[22] Two specific objectives were defined:

1. The share of early school leavers should be under 10%; and
2. at least 40% of the younger generation should have a tertiary degree or diploma.[23]

According to the European Commission’s staff working paper on *Reducing early school leaving*, Turkey came bottom out of EU27 and 6 other European countries. According to the survey, 44.3% of Turkey’s population aged 18-24 achieved at most lower secondary education, or was not in education or training in 2009.[24]

As far as the second education specific objective is concerned Turkey seems to be on track. In its *2011 National Report*, Turkey’s Ministry of National Education stated that the “higher education schooling rate increased [from 20.8% in 2000[25]] to 30.42% in formal education for 2009-2010 academic year and reached 53% in total.”[26]

Nevertheless, it is to be stressed that there is a huge difference between males and females. In its *Gender Review in Education, Turkey 2003* UNICEF states:

> “Gender differences in literacy (80.6% for women as opposed to 93.9% for men according to the 2000 census) and current school enrolment rates (91.8% for girls and 100% boys at the primary level) show inequality in access to education.
>
> Gender differences are greater in rural than in urban areas. Of women in urban areas, 16.6% cannot read or write and as much as 30.8% of their rural counterparts are illiterate while only 3.9% of urban and 9% of rural men are illiterate. Migration from the eastern to western region, usually from rural to urban settlements, is still common in Turkey so the problem of female illiteracy is carried to towns. […]”[27]

The following table (table 4) shows that the gender gaps in primary and secondary education have beenreduced significantly in the last five years.

**Table 4: Gender gap in the gross enrolment, 2005-2010[28]**

| Gender gap | 2005- | 2006- | 2007- | 2008- | 2009- |
|---|---|---|---|---|---|
| Primary Education | 6.59 | 5.84 | 3.84 | 2.20 | 1.17 |
| Secondary | 20.19 | 19.59 | 13.34 | 8.91 | 10.17 |
| Higher Education | 8.84 | 9.18 | 9.06 | 9.77 | 9.66 |

But in higher education the gender gap remained in the range of 9-10%. It is to be feared that the AKP’s gender policy will not only result in an increase of the gap, but also hinder women from starting a business life and career. There is a paradigm change in the AKP’s identity building

[21] Erdoğan, 29 November 2011; translated by the author
[22] European Commission, 2011, Strategic framework…
[23] Eurostat, 2011, Headline Indicators
[24] European Commission, 2010, Commission staff working paper, p. 6, chart 1
[25] Eurostat, 2009, The Bologna Process…, p. 220, Table D.2b
[26] Ministry of National Education, Republic of Turkey, 2011, p. 9
[27] Unicef, 2003
[28] TurkStat, 2010, Schooling ratio…

policy away from Atatürk's modernistic, laical concept of man to the former male-dominated Islamic understanding of society. The latter view has traditional stereotype gender related norms and behavior that could lead to an economy in which women remain more and more passive as un-paid home-servants and consumers controlled by men.

### 2.5 Poverty Reduction

The headline indicator stipulates a poverty reduction "by aiming to lift at least 20 million people out of the risk of poverty or social exclusion".[29] This aim is to be achieved by the interaction of the following three sub-indicators:

1. Less than 20% of people "living in households with very low work intensity";
2. "People at-risk-of-poverty after social transfers"; and
3. "Severely materially deprived people".[30]

The first sub-indicator targets "people aged 0-59 living in households where the adults work less than 20% of their total work potential during the past year."[31] Although the table provided by Eurostat indicates only 2006 figures, Turkey achieved 16.6%.[32] With this level it is likely that Turkey will meet this target.

The second sub-indicator is related to "persons with an equivalised disposable income below the risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income (after social transfers)."[33] The most recent figure Eurostat records, again refers to the year 2006 when 26.6% of the total population was at risk in Turkey.[34] It was the highest figure of all analyzed European countries that year and exactly 10 percentage points or 60% higher than the EU27 average. In this regard, Turkey fails to come close to the EU27 target and this is a concern for the next few years.

The third sub-indicator

> "covers indicators relating to economic strain, durables, housing and environment of the dwelling. Severely materially deprived persons have living conditions severely constrained by a lack of resources, they experience at least 4 out of 9 following deprivation items: cannot afford
>
> i) to pay rent or utility bills,
> ii) keep home adequately warm,
> iii) face unexpected expenses,
> iv) eat meat, fish or a protein equivalent every second day,
> v) a week holiday away from home,
> vi) a car,
> vii) a washing machine,
> viii) a colour TV, or
> ix) a telephone."[35]

Once again, the most recent figure about Turkey refers to the year 2006. In that year 72.4% of the total population belonged to the group of severely materially deprived people. This figure is

[29] Eurostat, 2011, Headline Indicators
[30] Eurostat, 2011, Headline Indicators
[31] Eurostat, 2011, People living…, short description
[32] Eurostat, 2012, People living…, table
[33] Eurostat, 2011, People at-risk-of-poverty, short description
[34] Eurostat, 2012, At-risk-of-poverty rate…
[35] Eurostat, 2011, Severely…

nearly 3 times as high as the EU27 average that is 25.3%.[36] In this regard, Turkey is far behind the track record for the rest of the EU.

The results in the poverty reduction show that the data about Turkey, at least at Eurostat level, are (too) poor. Furthermore, the last two of the three sub-indicators demonstrate that Turkey faces very serious difficulties to reduce poverty particularly to a level that comes close to the EU27 average levels.

### 2.6 Financial Targets

Without going into all details of the analysis again, we can conclude that in some areas Turkey is on the right track while in other areas Turkey is very far away from meeting the *Europe 2020* strategy targets. In order to complete the picture, now we will concentrate on the primary financial perspectives of development. This aspect moved into the EU focus, particularly after Greece's bankrupcy and its fight to stay in the Euro zone. Due to the very severe debt crisis in Greece and to situation of some other countries of the Euro zone, the financial criteria became more and more important.

On 7 February 1992, the "Treaty establishing the European Economic Community" was already "amended" towards "the definition and conduct of a single monetary policy and exchange rate policy".[37] The introduction of the Euro is the consequence of this policy. Its main task was formulated in the statement: "Member States shall avoid excessive government deficits."[38] So, the European Commission was asked to

> "monitor the development of the budgetary situation and of the stock of government debt in the Member States with a view to identifying gross errors. In particular it shall examine compliance with budgetary discipline on the basis of the following two criteria:
> (a) whether the ratio of the planned or actual government deficit to gross domestic product exceeds a reference value […];
> (b) whether the ratio of government debt to gross domestic product exceeds a reference value […]".[39]

The "reference values" were "specified in the Protocol on the excessive deficit procedure" as follows:[40]

> "(a) 3% for the ratio of the planned or actual government deficit to gross domestic product at market prices;
> (b) 60% for the ratio of government debt to gross domestic product at market prices."[41]

Besides these two budget deficit (a) and debt (b) related criteria euro-area candidate countries have to meet three more requirements:

(c) Price stability: The consumer price inflation rate is to be limited to max. 1.5 percentage points above the rate of the three best performing Member States;
(d) Durability of convergence: The long-term interest rate is to be restricted to 2 percentage points above the rate of the three best performing Member States in terms of price stability; and
(e) Exchange rate stability: Prerequisite is the participation in the Exchange Rate Mechanism (ERM) II for at least 2 years without severe tensions.[42] ERM II means

[36] Eurostat, 2011, People at-risk-of-poverty or social exclusion
[37] Eurotreaties.com, 1992, Maastricht Treaty, art. 3a, nr. 2, p. 3
[38] Ibid., art. 104 c, nr. 1, p. 14
[39] Ibid., art. 104 c, nr. 2, p.14
[40] Ibid.
[41] Eurotreaties.com, 1992, Protocol on the excessive deficit procedure, art. 1, p. 28
[42] European Commission, 2011, Who can join…

that a "central exchange rate [is agreed] between the euro and the country's currency" due to that the "currency is then allowed to fluctuate by up to 15% above or below this central rate."[43]

The following table (table 5) shows the development of Turkey's economy related to the five Maastricht criteria. Problematic figures are typed in bold.

**Table 5: Turkey's Development according to the Maastricht Criteria (in %)**

| Maastricht Criteria / Year | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Budget deficit to GDP ratio[44] | -0.6 | -1.6 | -1.8 | **-5.5** | **-3.6** |
| Debt related to GDP ratio [45] | -46.5 | -39.9 | -40.0 | -46.1 | -42.2 |
| Consumer price inflation rate[46] | **9.3**/3.7 | **8.8**/3.6 | **10.4**/4.8 | **6.3**/1.8 | **8.6**/3.1 |
| Interest rates[47] | **16.2**/5.8 | **16.8** | **18.9** | **12.9** | **9.6** |
| Exchange rate fluctuation (max.)[48] | **-18.5** | 7.3 | **-16.9** | 7.9 | -7.1 |

Table 5 provides a mixed picture. As far as the two deficit targets are concerned, Turkey is well positioned. However, regarding the following two price policy related indices we have to conclude that Turkey has no chance to meet the EU27 targets within the next few years. Therefore, Turkey cannot be accepted as a Euro zone member.

In order to provide an explanation for the findings of Table 5 we have to view Turkey's economic situation from an identity economics perspective.[49] Turkish people do not prepare for the future. Future is *kismet* that cannot or should not be planned by men, as it is up to Allah to decide. Turkish people consume as much as they can and as long as they can afford it. They never pay cash. If they get the chance to do so, they pay by credit card. The problem is compounded because retailers have to calculate their prices on credit payments and keep in mind that people might not pay all of their installments. Furthermore, employers do not accept lower profits. If their business makes less profit than they calculated they reduce costs by firing employees or not paying them without feeling guilty at all. Such behavior is also seen and accepted as *kismet*, as quite normal behavior. The lack of preparation for the future by saving, which is part of the *kismet* identity is probably the main reason for Turkey's poor economic growth. The *kismet* identity combined with the traditional Islamic gender policy are the main obstacles to a more stable and sustainable economic development.

## 3. EFFECTS OF TURKEY AS AN EU VS. NON-EU MEMBER STATE

The analysis of the Europe 2020 strategy targets showed that Turkey is not ready to join the EU in the next few years, because it does not meet all the economic targets. In some regards Turkey is very far behind. Nevertheless, in some other areas Turkey is doing extremely well, particularly regarding its debt management which it is handling much better than most of the EU member states.

[43] European Commission, 2010, What is ERM II?
[44] Figures according to Undersecretariat of Treasury, 2012, p. 74
[45] Ibid., p. 83
[46] Figures according to Eurostat, 2011, HICP…; max. permissible values behind the slash
[47] Figures according to Eurostat, 2011, Long-term…; max. permissible value (only provided for 2006)…
[48] Figures according to Eurostat, 2012, Exchange rates…
[49] Akerlof and Kranton, 2010

In order to develop a more differentiated view, finally we will discuss the options of economic policy. This should help to decide about the best economic way for both Turkey and the EU.

### 3.1 Effects of Turkey as a non-EU member state

At first we will concentrate on the impact of the most likely assumption that Turkey will not become an EU member state within the next few years. In this regard we have to answer the question: How will Turkey develop as non-member state economically?

In its *Key findings of the 2011 progress report on Turkey* the EU verified positively:

> "In 2010, Turkish economy grew by 8.9% vis-à-vis 2009, driven mainly by strong domestic demand. The rapid economic expansion continued in the first half of 2011. The private sector, in particular the industrial sector, remains the main driving force behind Turkey's rapid expansion.
>
> Robust economic development allowed strong employment growth and a sizeable drop in unemployment. Budget performance was better than expected, and the consolidation of public finances is on track. Privatisation has gained momentum. Trade and economic integration with the EU remained high and Turkey strengthened its presence in new markets."[50]

Nevertheless, Turkey is far from meeting the EU's Maastricht criteria, which are criteria of economic stability. Turkey's enormous economic self-confidence, instead, is built on its economic growth, particularly its growth rates of the recent years. In this regard, *Invest in Turkey*, a website of the Turkish Government declares:

> "Its [Turkey's] robust economic growth continued in 2010 as well […], thus achieving an overall growth rate of 8.9 percent throughout 2010. Turkey, with such a robust economic performance, stood out as the fastest growing economy in Europe and one of the fastest growing economies in the world."[51]

According to Trading Economics Turkey's growth rates are remarkable, as Table 6 shows:

**Table 6: Turkey GDP Growth Rate (in % per half year)**[52]

| Half-year | 1/2008 | 2/2008 | 1/2009 | 2/2009 | 1/2010 | 2/2010 | 1/2011 | 2/2011 |
|---|---|---|---|---|---|---|---|---|
| GDP growth rate (%) | 2.80 | -1.65 | -12.35 | 9.01 | 2.10 | 4.80 | 5.00 | 3.00 |

In contrast to its – overheating – growth strategy,[53] Turkey's trade balance shows a very negative trend. It increased from -41,903 million EUR in 2006 by 26.4% to -52,945 million EUR in 2010.[54]

Reflecting all three aspects – (price) stability, growth (rates) and trade balance – it seems better for Turkey not to join the EU. As Hans-Werner Sinn, President of the Leibniz Institute for Economic Research at the University of Munich, and Lars Feld, Head of the Walter Eucken

[50] European Union, 2011, Key findings…
[51] The Republic of Turkey Prime Ministry Investment Support and Promotion Agency, 2011
[52] Trading Economics, 2012
[53] The Economist, 2011
[54] European Commission, 2012, Turkey, Trade with the World

Institute at the University of Freiburg, stated recently, in the Euro zone it is not possible anymore to make use of the "the instrument of the depreciation of the exchange rate".[55] In the case of Greece, Sinn estimates that a "31 percent price [reduction would be necessary …] in order to reach the Turkish level"[56] and to make Greece competitive again. Nevertheless, the stability policy of the Euro zone precludes that.

### 3.2 Effects of Turkey as a EU member state

Although it is most unlikely that Turkey will join the EU Fiscal Union within the next decade, finally we will discuss possible effects of Turkey's membership on both Turkey and the EU. In order to view the differences in the Turkey-EU relationship between the time when the negotiations started and today, we will concentrate on two very detailed studies. The first edited by Bernard Hoekman and Sübidey Togan was published in 2005 – the year the accession negotiations were officially commenced; and the second edited by Selen Guerin and Yannis Stivachtis was published just recently, in 2011.

#### 3.2.1 Effects on Turkey

In chapter 12 of the book on *Turkey: Economic Reform & Accession to the EU* published in 2005, Togan discussed the *economic implications of EU accession for Turkey*.[57] Togan concludes that

> "Integration will be beneficial for Turkey, because it will remove the distortions in the price system, thereby boosting allocative efficiency within the economy, which, in turn, will make the country a better place to invest."[58]

Although Guerin and Stivachtis state in *On the Road to EU Membership: The Economic Transformation of Turkey* published in 2011 that "after five years the progress in negotiations has been slow",[59] it is likely that Turkey will benefit from the EU accession negotiations. The government is forced to reflect on Turkey's economic performance and to introduce reforms in all the sectors affected by the EU 2020 strategy targets. Although we saw – in opposite to Guerin and Stivachtis – that the Turkish government is not successful and not very interested "in achieving macroeconomic stability", it is at least working on "providing a climate of predictability to market participants"[60] and enhancing "the capacity of the Turkish economy to tackle the challenges posed by growing global competition".[61]

#### 3.2.2 Effects on the EU

In 2005, Harry Flam verified Turkey's "size and its low per capita income" as "the most important facts" "considering the economic consequences of accepting Turkey as a member" from the perspective of the EU.[62] In contrast to Flam's more critical expectations, five years later Guerin and Stivachtis identified two advantages:

[55] Feld, 2012; translated by G. Simet
[56] Sinn, 2012
[57] Togan, 2005
[58] Ibid., p. 329
[59] Guerin and Stivachtis, 2011, p. 281
[60] Ibid., p. 285
[61] Ibid., p. 286
[62] Flam, 2005, p. 341

1. "A cost-benefit analysis of the accession of Turkey to the EU reveals that Turkey will become a net-importer of agricultural goods. Consequently, prices will fall, and consumers will benefit."[63]
2. "Turkey's enhanced strategic location [as an energy hub"] enables the country to provide the EU countries with an abundance of energy at lower prices".[64]

As a third advantage it should be added that

3. the Turkish banking sector already seems to be "on the same level" as the EU banking sector and able to "compete with the European banks".[65]

At least Sadik Yenici – who published an analysis of Turkey's financial sector in 2008 – is convinced that in comparison to other sectors the banking one is "the best prepared for an EU membership".[66]

Nevertheless, neither agricultural goods nor energy imports are the most strategic goals of the EU. On 23 and 24 March 2000, when the EU proclaimed its strategy for the decade 2000 to 2010, the overall objective was and still is "*to become the most competitive and dynamic knowledge-based economy in the world"*.[67] Due to this strategy human capital is the most crucial factor. In this field particularly, Turkey has an enormous backlog demand. Turkey fails nearly all the 2020 strategy targets, as there is a huge "technology gap between Turkey and the EU countries" in "knowledge production".[68]

Furthermore, based on the traditional and current understanding, value and politics of education in combination with the insufficient number of job opportunities,[69] it seems likely that Turkey would export first of all its less qualified workforce. Kröhnert and Skipper fear that:

> "A large number of unqualified migrants will seek economic opportunities in Turkish conurbations, but also in other European countries. This could pose a big challenge to Germany, which accommodates the largest share of Turks living in a foreign country. Within the framework of the EU accession negotiations, farsighted economic and education policy initiatives should be brought forward."[70]

Before accepting Turkey as an EU member – which will happen according to Guerin and Stivachtis "likely 2015"[71] – Turkey has to improve considerably in the whole life-long learning process. Otherwise, the cost-benefit balance of Turkey's accession might remain too negative for the EU and its most powerful economies.

## 4. CONCLUSION

The analysis shows that Turkey's economy is not ready to join the EU. In contrast to its dynamics and growth, Turkey's economy fails in all aspects set up by the EU to evaluate the stability policies of the EU member and candidate countries. Turkey's only chance of being accepted as full member is to change its economic policy and strategy from an almost

[63] Guerin and Stivachtis, 2011, p. 291
[64] Ibid., p. 292
[65] Yenici, 2008, p. 118; translated by G. Simet
[66] Ibid.; translated by G. Simet
[67] European Parliament, 2000, chapter I.5
[68] Guerin and Stivachtis, 2011, p. 285
[69] Due to the fact that „the workforce laid off more and more in the still dominant agricultural sector cannot be absorbed by other sectors." (Aulbach, 2008, p. 37; translated by G. Simet)
[70] Kröhnert and Skipper, 2010
[71] Guerin and Stivachtis, 2011, p. 291

exclusively dynamic to a more stability oriented approach. Turkey's politics must concentrate on education as the most important sector to develop. Only if Turkey can prove that it is able to make its growth stable and sustainable and create enough jobs, most of all in value added production and service sectors, will it be accepted by the EU as a competitive future member.

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