

The Likely Economic Effects of Turkish Membership on the European Union (EU): A Short Term Analysis

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Abstract

In order to become a member of the European Union, Turkey has been in serious efforts for half a century. Turkey's efforts started with the application to the European Economic Community on September 11, 1959. In later years, even with several ups and downs, Turkey has been still desirous to become a member of the Union.

At the end of long discussions with the European Union, Turkey began negotiations for full the membership on October 6, 2004, under 35 different titles. Turkey, first time in its half a century history with the EU, became so much closer to the full membership. However, events in subsequent years did not continue as expected, many titles could not be opened, and many of them in negotiations became the points of obstruction. This situation is due to two main reasons: One is because of new challenges of enlargement, and the other is because of Turkey's special status.

Perhaps the most important outstanding issues in talks put a negative impact of Turkey's membership to the European Union. The EU member countries argue that Turkey is far behind the Union in terms of economic and social standards and thus full membership would lead large costs to the Union. According to those who share above view, without Turkey's progress in economic and social standards, the EU will be under serious load of immigration, new budgetary costs, regional aids and agricultural funds. On the other hand, those who are optimistic about full membership consider that Turkey with its young and dynamic population and ever-growing and vibrant economic progress can positively contribute to the EU. At best, since both Turkey and the EU are changing constantly, the possible consequences of membership of Turkey which could take 10-15 years are very difficult to predict in advance.

According to this study, in contrast to those who have negative view of Turkey's membership, the costs that the EU would bear is not that much as they consider. The costs that would persist in the first years of membership might be compensated with following positive economic and social developments in Turkey.

Keywords. Turkey, European Union, Full Membership, Economic Effect

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INTRODUCTION

The relationship between Turkey and the European Union (EU) started with Turkey's appeal to the European Economic Community (EEC) in 1959, nearly half a century ago. After accepting Turkey's application on September 11, 1959, the EEC suggested a Partnership Agreement, until the performance of Turkey's economic, political and social infrastructure improved sufficiently to satisfy the requirements of membership. Four years later in 1963 the Ankara Agreement was signed, aiming at bringing Turkey into a Customs Union with the EEC and at eventually the full membership.

In 1996 Turkey joined the Customs Union. At the 1999 Helsinki Summit, the EU Commission stressed that there were some positive developments in terms of the Copenhagen criteria. Thus, Turkey's candidature for EU membership was officially underway, and on October 6, 2004 the EU commission decided to start negotiations with Turkey. In the same year the vast majority of the EU Parliament accepted full membership negotiations with Turkey. One year later the negotiation process started under the 35 titles. According to the process from 2005 to the end of 2009, just one chapter was provisionally closed (Chapter: 25, science and research), 11 chapters were opened, 8 chapters were suspended and 15 chapters have not yet been opened¹. In this article the likely economic impact of Turkish membership of the EU will be analysed. In the first section the theoretical framework of enlargement will be examined, with a brief historical background, and the issues of "deepening" and "widening" will be discussed. Then the advantages and disadvantages (costs and benefits) of the enlargement will be comparatively evaluated.

In the second section, the likely economic effects on the EU in the event of the accession of Turkey will be assessed. In the same way both the possible positive and negative effects of Turkey's membership on EU's economy will be examined via an overall assessment.

1. A BRIEF HISTORY OF EU ENLARGEMENT

The history of the EU started with the Treaties of Paris (1951), establishing the European Coal and Steel Community (ECSC). Then the Treaty of Rome, establishing the European Economic Community (EEC) and EURATOM, was signed by six founding members: Belgium, France, Germany, Italy, Luxembourg and the Netherlands in 1957.

¹ ZEI EU-Turkey-Monitor Vol. 5 No. 3, 2009, p.7, Available from: http://www.zei.de/zei_english/publikation/publ_turkey_monitor.htm [Accessed: 05.04.2010].

The founding members implemented an ambitious economic integration programme and experienced high economic growth rates during the 1960s. Especially, the West Germany fulfilled a rapid economic recovery like an “economic miracle” and the other members of the EEC benefited from their dynamic economies²

At the beginning, the United Kingdom (UK) refused to participate in the EEC because of the Commonwealth, customs union and concerns about the sovereignty of national states. The rapid economic growth in the EEC encouraged the UK to start negotiations on accession to the EEC in 1961. The UK’s demand was vetoed by the French leader, Charles De Gaulle two years later.

The “Europe of Nine” was born in 1973. The UK, Denmark, and Ireland joined the Norwegian people in voting against entering the EEC. During this period the “idea of deepening or widening” and the role of Franco-German “tandem” came onto the political agenda³ The debates generally focused on the widening versus deepening controversy⁴.

Olli Rehn points out that the argument of “widening versus deepening”, is a false dichotomy. The reason is “*the EU has always pursued these two objectives in parallel, and never was the one an obstacle for the other.*” According to him the two Southern enlargements of the 1980s to Greece (in 1981), Portugal and Spain (in 1986) coincided with the adoption of the Single European Act, which helped to create the Single Market as well as a strong social cohesion policy with the structural funds⁵.

After the collapse of the Berlin Wall and the end of the Cold War, the fourth enlargement came in 1995 and brought Austria, Sweden and Finland into the EU. The most challenging enlargement was in 2004. The new ten members, include three former Soviet Union republics (Estonia, Latvia and Lithuania), four former satellites of the Soviet Union (Poland, the Czech Republic, Hungary and Slovakia), one former Yugoslav Republic (Slovenia) and two Mediterranean islands (Cyprus and Malta) joined the

2 McDonald Frank, “The Origins and Development of the European Union”, in Frank McDonald and Stephen Dearden (ed.), “European Economic Integration”, Third Edition, Financial Times Prentice Hall, 1999, p. 8-9.

3 Faber Anne “Theoretical Approaches to EU Deepening and Widening a Multi-disciplinary Overview and Some Tentative (Hypo)Theses”, Paper on the Redefinition of Concept on EU Deepening and Widening”, EU-Consent Deverable, 9, 2006, p.3. Available from:<http://www.eu-consent.net/library/brx061012/WP%20II%20III%20Paperredefiningconcepts.pdf> [Accessed: 04.04.2010].

4 McDonald, Ibid, p.13.

5 Rehn Olli, “Deepening and widening: the false dichotomy”, Public Lecture at the Hellenic Foundation for European and Foreign Policy (ELIAMEP), Athens, 9 March 2006

EU. The most recent enlargement was on 1 January 2007. The two more former satellites of Soviet Union (Romania and Bulgaria) become membership of EU.

The enlargement process did not end with the membership of Romania and Bulgaria in 2007. The process is still continuing. On one hand the negotiations between EU and officially candidate countries Croatia, Turkey and the Former Yugoslav Republic of Macedonia are continuing. On the other hand the EU is waiting for applications from potential candidate countries include Albania, Bosnia and Herzegovina, Montenegro, Serbia, and Kosovo⁶.

2. ADVANTAGES AND DISADVANTAGES OF ENLARGEMENT

In this chapter it will be analysed essential character of enlargement, advantages or benefits of enlargement and disadvantages or cost of enlargement.

2.1. Essential Characters of Enlargement

Before analysing advantages and disadvantages or (benefit and cost) of enlargement, it is necessary to understand essential characteristics of “widening” and “deepening” process. According to Faber⁷, while “deepening” is defined as a process of gradual and formal *vertical* institutionalization, “widening” is defined as a process of gradual and formal *horizontal* institutionalization. She also states that since there have been no sufficient systematic approaches to widening and deepening at the beginning of the EC/EU until now, “scholarship is far from developing a comprehensive theory to enable us to understand the all-embracing nature and impact of EU enlargement”⁸.

Faber sets out six tentative, both inductive and deductive theses on systematic effect and characteristics of enlargement. These are as follows; enlargements do not cause a “big bang” in the integration process, but strengthen existing dynamics, characteristics and projects within the EU in a path-dependent manner; the effects of enlargement are co-determined by

6 Emmanouilidis Janis, A. Woźniak Bolesław, Świeboda Paweł “European Union Enlargement –Can it be a Win-Win situation?”, A report from demos EUROPA – The Centre for European Strategy, 2006, p.4

7 Faber , Ibid, 2.

8 Faber, Ibid, p.6.

the timing of accession of new members; enlargement privileges economic integration projects over political ones; enlargement changes the balance of power between institutional actors and stresses the role and importance of a common and uniform legal framework for smooth continuation of the integration process; and finally enlargement led to the creation of the European Union⁹.

The official EU document describes the enlargement as a “...one of the EU’s most powerful policy tools. It serves the EU’s strategic interests in stability, security, and conflict prevention. It has helped to increase prosperity and growth opportunities and to secure vital transport and energy routes”¹⁰ With the enlargement process EU has to extend peace, stability and prosperity. The effect of the EU has helped to transform Central and Eastern Europe into modern, well-functioning democracies with market economies¹¹ From this point of view enlargement is not only a project with a world political dimension (peace in Europe, unification of East and West, EU transformed into a world power), but it will have far-reaching economic implications as well¹². Accession to the EU requires applicants to meet the Copenhagen Criteria (known also as enlargement conditions set out in 1993) that set broad political, economic and administrative requirements¹³

Although some claim that it is difficult to estimate the impact of enlargement, especially given the distribution of effects between the current members and the accession countries¹⁴, the EU uses some economic models to estimate the impact of enlargement¹⁵ ,Baldwin et al., use “the simulation model” to estimate allocation and accumulation of effects of eastern enlargement, and found very positive effects on both EU and Eas-

9 Faber, Ibid, p.10-12.

10 European Union Commission (EUC) , “Enlargement Strategy and Main Challenges 2007-2008”, Brussels, 6.11.2007, COM 663 final, 2007,p.1.; European Union Commission (EUC), “Enlargement Strategy and Main Challenges 2008-2009”, Brussels, 05/11/2008 COM (2008), 674 final, 2008, p.12.

11 European Union Commission (EUC) “Attitudes towards European Union Enlargement”, *Special Eurobarometer*, 255, 2006.

12 Breuss Fritz, “Benefits and Dangers of EU Enlargement”, *Empirica*, 29: 245–274, 2002, p 246. (<http://fritz.breuss.wifo.ac.at/Empirica-29-2002.pdf>, (retrieved, 16.03.2010)

13 European Union Commission (EUC), “The Economic Impact of Enlargement”, *Enlargement Papers*, No. 4, Directorate General for Economic and Financial Affairs, European Commission, Brussels, June, 2001,p.5; European Union Commission (EUC) , “Conditions for Enlargement”, 2009. Available from: http://ec.europa.eu/enlargement/the-policy/conditions-for-enlargement/index_en.htm [Accessed: 05.04.2010].

14 Zuleeg Fabian “Benefits and Threats of EU Enlargement for Scotland”, Discussion Paper Series, Scottish Executive Economist Group, 2002,p.13. Available from: <http://www.scotland.gov.uk/library5/government/enlargement.pdf> [Accessed: 05.04.2010].

15 European Union Commission (EUC),2001, Ibid, p.65-68.

tern countries¹⁶. In the same way, Lejour et al., use the WorldScan Model to estimate the possible economic impact of Turkey's accession on the EU and found negative effects for the EU¹⁷, but positive ones for Turkey. Dupuch et al., also estimate the impact of enlargement. They state that the overall effects of deeper integration on the national economies are more ambiguous and depend on regional characteristics¹⁸. Müftüler-Bac (2008: 209) assesses the impact of Turkey's accession according to "utility-based explanations" (these are impacts on European security; impacts on the EU institutions; and impacts on the EU budget and economy), the norm and identity based explanation¹⁹.

2.2 Advantages or Benefits of Enlargement

Since the beginning, the "enlargement" has been accepted as "*a success story for the European Union and Europe*". The European Council concluded that in 2006, enlargement, "*has helped to overcome the division of Europe and contributed to peace and stability throughout the continent. It has inspired reforms and has consolidated common principles of liberty, democracy, respect for human rights and fundamental freedoms and the rule of law as well as the market economy*"²⁰

The "Biz/ed share" which is an exciting new platform for business educators and students summarizes the advantages of enlargement as follows; it is accepted that enlargement will generate economic growth in both "old" and "new" member states; Membership of the EU will bring with it political stability to the new democracies of member states; Enlargement has brought the population. Hence it gives more weight in international negotiations such as trade policy; Companies in existing Member States will have more confidence with those in the new Member States; Membership of the EU and the euro will increase the amount of Foreign

16 Baldwin Richard, Francois Joseph F and Portes Richard "EU Enlargement Small Costs for the West Big Gains for the East", *Economic Policy*, 1997,p.137, Available from: <http://faculty.london.edu/rportes/Bfp.pdf> [Accessed: 01.04.2010].

17 Lejour, A.M., Mooij R.A. de and Capel C.H. "Assessing the economic implications of Turkish accession to the EU", *CPB Netherlands Bureau for Economic Policy Analysis* CPB Document, No: 56,p. 40, 2004,. www.cpb.nl [Accessed: 05.04.2010].

18 Dupuch Sébastien, Jennequin Hugues Mouhoud El Mouhoud,EU Enlargement: What Does It Change For The European Economic Geography?, *Special issue/March 2004*, p.12

19 Müftuler-Bac Meltem, Turkey's Accession to the European Union: The Impact of the EU's Internal Dynamics", *International Studies Perspectives*, 9; 2008.", p .209.

20 European Union Commission (EUC) , "Enlargement Strategy and Main Challenges 2007-2008", Brussels, 6.11.2007, COM 663 final, 2007,p.3.

Direct Investment in the New Member States; The regional aid which attempts to redistribute funds from the wealthier regions of the EU to the poorer ones²¹.

A report prepared by the EU Commission summarized the potential effects of enlargement on the new and the old member states. This report proves that enlargement was expected to be beneficial for all member states, but especially so for the acceding member states. Enlargement provides intensified commercial links, strong foreign direct investment flows, lower risk premiums, greater efficiency as a result of adopting market mechanisms, macroeconomic stability and structural reforms²².

Tupy states that exchange of knowledge, technology, and new ideas will become easier due to enlargement. He also emphasizes that *“foreign competition will improve business transparency and corporate accountability. Access to the common market will improve the attractiveness of the CEECs as a destination for foreign investment. Economies of scale will drive down prices and transaction costs. Productivity of capital and labour will increase. Consumer goods will become cheaper, better in quality and more diverse”*²³.

2.3. Disadvantages or Costs of Enlargement

Despite many benefits or advantages of enlargement the eurosceptics point out the disadvantages of enlargement. The “hard euroscepticism” implies an outright rejection of the entire project of European political and economic integration, and opposition to one’s country joining or remaining a member of the EU. “Soft euroscepticism”, by contrast, involves contingent or qualified opposition to European integration²⁴

While the EU maintains that the enlargement door remains open for new members, “enlargement fatigue” has become a serious issue in Europe and some experts believe that EU enlargement may be reaching its limits²⁵. According to eurosceptics, last two eastern enlargements in 2004

21 Biz/ed ,The European Union, EU Enlargement, 2010, Available from: <http://www.bized.co.uk/learn/economics/international/eu/notes/euindex.htm> [Accessed: 04.04.2010].

22 European Union Commission (EUC), 2009, p.31.

23 Tupy Marian L., “EU Enlargement Costs, Benefits, and Strategies for Central and Eastern European Countries, Policy Analysis, No. 489, 2003, p.2.

24 Taggart, P. and Szczerbiak, A., “Contemporary Euroscepticism In The Party Systems Of The European Union Candidate States Of Central and Eastern Europe”, *European Journal of Political Research*, 43, 2004, p.3-4.

25 Archick Kristin, “European Union Enlargement”, *CRS Report for Congress*, Order Code RS21344, 2008, Available from: <http://www.usembassy.it/pdf/other/RS21344.pdf> , [Accessed 02 May 2010].

and 2007 the European Union expanded from 15 to 27 member states. Bulgaria and Romania can hardly be counted as success stories at this point, but more serious is the change of atmosphere. After this enlargement the EU has become ever more like an “intergovernmental bazaar”, instead of a political union²⁶.

The Biz/ed platform summarizes the negative consequences of enlargement as follows²⁷;

- **Migration.** The most important negative consequence of enlargement for old members is migration. Enlargement could produce high levels of migration as workers move from the new member states where unemployment is high to those old member states where it is low.
- **Common Agricultural Policy;** after membership the Common Agricultural Policy will be extended to the new member states. The CAP includes measures such as subsidies and income guarantee schemes for farmers. Former members have to undertake new costs in this case.
- **Regional Aid.** The disparity in GDP per capita between the old member and the new members increases due to enlargement. This situation affects EU in two ways: firstly, old member states may need to contribute more as the demand for regional aid increases, and secondly, old member states currently receiving regional aid such as Spain and Greece find their aid reduced as money is channelled elsewhere.
- **EU Standards and Systems.** The new member states affect standards and system of the EU. To bring the public services up to standard will mean increased taxation for many citizens of the New Member States.

Because of enlargement fatigue and euroscepticism, the support for the EU has decreased day by day. For instance, according to one survey²⁸ a relative majority of the EU population (45%) is basically in favour of EU enlargement. While this ratio support is high in 10 new members (nearly 70%), German (66%), Luxembourgian (65%), French (62%), Austrian (61%) and Finnish (60%) interviewees disapprove of EU enlargement in particular. But, after 2008 economic crises the public opinion of the EU member states might be changed positively.

26 Ralf Grahn, “EU: Enlargement Fatigue?” Grahnlaw, 1 April 2009 <http://grahnlaw.blogspot.com/2009/04/eu-enlargement-fatigue.html>. (

27 Biz/ed, Ibid, 2010.

28 European Union Commission (EUC), 2006, p.3.

3. MEMBERSHIP OF TURKEY

Turkey's candidacy announcement in 2004 caused different reactions not only from the European Union but also from American public opinion and administration. While the U.S. Administration strongly supported Turkey's membership for strategic reasons, Europe had mixed feelings. Some European newspapers and politicians criticized the decision of the European Council harshly and some European politicians disagreed with the decision taken in Helsinki and Brussels²⁹. Generally because of her poor, populous and often unstable situation, many West Europeans fear that the accession of Turkey will harm the EU economy³⁰.

The impact of the full membership of Turkey on the European economy depends on when it will take place. Although some writers predict that Turkey will join in 2015³¹ or in 15 years from 2005 but actually nobody knows when it will happen. It is obvious that the future economic and political development of both the EU and Turkey are highly uncertain by nature, and any prospective assessments of their respective situation in 15 years time is largely speculative³².

By that time, both the EU and Turkey will be changed considerably. Therefore, prospective assessments based on current data will not have any scientific value. Thus, this study examines the short term economic impact of membership of Turkey on the EU economy according to short term period.

Another important point is because of its size, culture, religion, low GDP per capita and geostrategic location; the Turkish case can hardly be compared with any other the EU candidate³³. Therefore it is not a priori clear, that the accession of Turkey will yield similar effects as is predicted by studies for Central and Eastern Europe³⁴. Latest success of Turkish economic growth shows that Turkey might bring more benefits to the EU than cost.

29 Yılmaz Bahri, "The Relations of Turkey with the European Union: Candidate Forever?" Center for European Studies Working Paper Series: 167, 2008, p.14. Available from: http://www.ces.fas.harvard.edu/publications/docs/pdfs/CES_167.pdf.

30 Barysch Katinka, "The Economics of Turkish Accession" Centre for European Reform, 2005, p. 1. Available from: <http://www.cer.org.uk> [Accessed: 01.04.2010]; Yılmaz, 2008, *Ibid*, p.115-116.

31 Hughes Kirsty, "Turkey and the European Union: Just another Enlargement? Exploring the Implications of Turkish Accession", European Policy Summit of 17 Standard&Poor's, June 2004, , p2, Barysch, 2005, *Ibid*, p.8.

32 European Union Commission (EUC), "How the European Union works", Manuscript. June 2005, p.1.

33 Emmanouilidis, 2006, *Ibid*, p. 6.

34 Lejour, et al, *Ibid*, p. 2004

3. 1 The Possible Positive Effects of Turkey's Membership on The EU's Economy

Even if according to Open Society Fondation Turkey is accepted as the second most important strategic partner to the EU after the United States³⁵, and an important candidate, both because of its geographical location, and its large population³⁶, membership of Turkey has been a controversial issue for a long time. There is a strong argument for the positive effects of Turkey membership; nevertheless Turkish scepticism increases.

One strong argument about the positive economic effect of Turkey's membership is that Turkey has a cheap, abundant and reliable flow of raw material, sources of energy, a trained and cheap workforce, and access opportunity to markets. Turkey is not only the source of some material which is essential for the economy but Turkey is a very important energy corridor for the European Union. The Baku-Ceyhan oil pipeline is expected to be completed within the next few years, and will bring Azerbaijani oil to Turkey's Mediterranean coast via Georgia. Again, Central Asian countries plan to carry their oil and natural gas reserves to Europe through Turkey³⁷.

Most economists think that Turkey and the EU would gain more from freeing up trade in services than from further integrating their goods markets. Turkey has been a member of the Customs Union since 1995 and already carries out more than half of its trade with the EU³⁸. At the same time, Turkey like the ten new member states, does offer some market opportunities for EU trade and for foreign direct investment because of her growth potential.³⁹

According to Yilmaz *"It is often forgotten that Turkey's political integration into the EU demands a sustainable and stable economic development in the first place – in the spirit of Jean Monnet's concept of political integration through economic integration"*. He also point out that, until now Turkey is the only country that joined the Customs Union without being a full member of the EU. The considerable costs of membership of the Custom's Union were shouldered without substantial financial assistance from Brussels⁴⁰.

35 Open Society Foundation, "The Cost of No EU-Turkey: four views", Published by Open Society Foundation May 2009, Istanbul

36 Mooij Ruud de & Tang Paul, 2003, Ibid, p.47; Emmanouilidis et al., 2006, Ibid, p. 6.

37 Laciner Sedat, "Turkey's EU Membership's Possible Impact on EU's External Economic Relations", 2005, Available from: <http://www.turkishweekly.net/> [Accessed: 03.04.2010].

38 Barysch 2005, Ibid.p 5.

39 Hughes, 2004, Ibid.p.10.

40 Yilmaz, 2008, Ibid, p.22.

During the accession process, Turkey liberalized and privatized many public services and investment. This means a very important investment potential that remains to be tapped by European firms. In the same way, the fact that the privatisation process is functioning but not yet completed offers a favourable environment for the increase in foreign direct investment. With the completion of legislative measures and the creation of the necessary infrastructure and with Turkey's accession to the EU, investment opportunities in Turkey would increase considerably⁴¹.

There is a strong argument that Turkey is comparatively low economic power⁴² But its economy is significantly more dynamic than that of the present EU members⁴³. According to Barysch (2005:1), population composition with an increasing proportion in working age is a clear advantage of Turkey. In addition, underemployment of labour, above all in the rural areas and among women, can be transformed on a large scale into higher productivity activities in industry and services⁴⁴.

Another positive contribution of Turkey's membership is consolidating international relations and global economy. Yılmaz claims that *"with Turkey as a member, the EU would be closer to the region in which Turkey has already indisputable geostrategic importance. This would help Brussels to establish political and economic bonds that would bring it strategic advantage not only with the countries of the Middle East and Eastern Mediterranean region, but also Russia, the South Caucasus, and Central Asia. The economic argument is that Turkey is one of the new emerging markets with a very high economic growth rate"*⁴⁵.

Social, political and economic developments in neighbouring countries show the concrete importance of Turkey's strategic location. With help of Turkey, change of regimes in neighbouring countries would have positive effects for all EU members.

41 State Planning Organisation (SPO) *The Likely Effects of Turkey's Membership Upon the EU.*, State Planning Organisation, 2004, Available from: www.dpt.gov.tr/DocObjects/Download/2987/olasi-i.pdf [Accessed: 04.04.2010].

42 Quaisser Wolfgang, Wood Steve, "EU Member Turkey? Preconditions, Consequences and Integration Alternatives", FOROST Arbeitspapier Nr. 25, 2004, p.10

43 Belke Ansgar, "Turkey in Transition to EU Membership: Pros and Cons of Integrating a Dynamic Economy", *Perceptions*, Spring, 2005. P.60

44 Barysch, 2005, *Ibid.* p.1),

45 Yılmaz, 2008, *Ibid.* p.17.

3. 1 1. *The EU's and Economies of Scale*

Economies of scale give big companies in EU to access to a larger market by allowing them to operate with greater geographical access. Thus, the increase in the efficiency of production as the number of goods being produced increases. Member states that achieve economies of scale lower the average cost per unit through increased production since fixed costs are shared over an increased number of goods. Economies of scale for EU companies can be explained under following subtitles:

a) Acquiring new technology: By having various countries with unique technologies, a large EU can maintain or develop a competitive edge and lower average costs.

b) Improved market reach and industry visibility – Accession may expand marketing and make distribution easier, giving member states new trade opportunities. Also, it may improve standing in the investment community: The bigger often have an easier time raising capital than the smaller ones.

c) Costly inputs: Some inputs, such as R&D, advertising, managerial expertise and skilled labour are expensive, but because of the possibility of increased efficiency with such inputs in member states, they can lead to a decrease in the average cost of production and selling.

d) Techniques and Organizational inputs: With a larger scale of production, member states companies may also apply better organizational skills to their resources, such as a clear-cut chain of command, while improving their techniques for production and distribution. Using the similar production techniques and organizational experiences in Union would make every member states' companies better off.

3. 2. 1. *Food Safety -Security and the EU*

The food safety rules would serve as a model in designing process of Turkey's food control policy. Thus, consumers in the EU and Turkey would benefit from healthy, hygienically, quality and safety foods. The food safety projects supported by the EU show also the government's will adopt the EU perspectives in this field⁴⁶.

46 Güder Gökhan (2006). "Avrupa Birliği Gıda güvenliği Politikası ve üyelik sürecinde Türkiye'ye Yansımaları", Available at <http://ekutup.dpt.gov.tr/ab/guderg/gida.pdf> [Accessed: 06.04.2011].

The EU makes legislation in the form of directives and regulations, many of which are mandatory for member states and which therefore must be incorporated into individual countries' national legislation.

The European Food Safety Authority (EFSA) is an agency of the European Union that provides independent scientific advice and communication on existing and emerging risks associated with the food chain, created by European Regulation⁴⁷.

With secure agriculture and food policies over the past years, global food production has grown rapidly to manage population growth. In order to eliminate hunger, efforts are required to accelerate agricultural production in developing countries. As heads of state and government gather in Rome for the World Food Summit, they look with satisfaction on the progress that has been made in food production and security, and with dismay on the prospect that future progress will be slow and uneven. Over the past few years, world grain stocks have dwindled to dangerously low levels, highlighting the fragility of food supplies in the world (FAO, World Food Summit 13-17 November 1996). For mentioned reasons, every cent that subsidize Turkish agricultural sector would be agricultural investment for EU's future food security.

3. 1. 3. EU Leads Higher Democratic Standards

One of the EU's important impact is the creation of the high democratic standards for member states. As studies show, there exists high correlation of democracy and economic-social development. In relations with developing countries, the EU puts emphasis on democratic standards when it comes to development aid.

Membership in the EU can enhance the pace of Turkey's on-going transition from a less to a more market-oriented one. In light of this view, we can expect that Turkey's full membership in the EU is in the interest of both the EU members and Turkey. Turkey's transition to the market will mean that it offers a substantial market for the other EU member states and consolidation of a stable and liberal democracy in Turkey that serves as a highly visible model for the Islamic world. Thus, also it will enhance the security of Europe⁴⁸

⁴⁷ European Union Commission (EUC), "How the European Union works", Manuscript. June 2005.

⁴⁸ Yalçın Demet, "The Impact of the European Union on Democracy in Turkey and its Implications for the Region", The Brookings Institution Publication, 2006.

A lot depends, however, on the speed of Turkey's transition to a more market-oriented economy and the rule of law. The longer the process the greater the risks are for both Turkey and the EU. Settlement of issues regarding the expansion of market economic development in Turkey include economic aid, adjustment of labour and financial markets, agricultural subsidies and adjustment to the EU's Common Agricultural Policy and plans for the free movement of labour and capital. If these policies for market development in Turkey are postponed and neglected, however, Turkey's democracy will continue to be prone to extremist politics, the strong military influence, and instability. It is, thus, in the interests of both the EU member states and Turkey to seek transition to a full market economy⁴⁹. Spillover effect of a country with high social, democratic and economic values will benefit not only every members of the Union, but also everyone in the world.

3.1. The Possible Negative Effects of Turkey's Membership on the EU's Economy

Turkey membership to the UE has been a subject for speculation for a long time. The Chairman of the European Convention Giscard d'Estaing expressed the clear opinion that "*Turkey has a different culture, a different approach, a different way of life*" and "*its capital is not in Europe, 95% of its population is outside Europe*"⁵⁰.

There are many arguments which are against Turkish membership from an economic point of view. Yılmaz summarises most of them as follow; Turkey is different from many points of view (religion, culture etc.); geographically Turkey does not belong to Europe; Turkey's membership could open the door to other countries such as Ukraine, Russia and some African countries; although Turkey is one of the economically poorest countries, after membership it will become the biggest member state; membership of Turkey will induce a wave of labour movement from Turkey to EU countries ; low per capita level of Turkey will impose costs on the rest of the EU⁵¹.

In his study Harry Falm suggests that the important economic effects of Turkey's accession to the EU should be related to its size, per capita income, and dependence on agriculture. According to Falm for the EU, these

49 Yalçın, 2006, Ibid.

50 Cited in Mooij and Paul 2003, Ibid, p. 48

51 Yılmaz, 2008, Ibid, p.15-16.

three factors combine to create a huge immigration potential if migration is let free. Moreover, these factors indicate that Turkey may become the largest recipient of transfers from the EU budget, at least under the present rules and policies⁵².

3.2.1. Migration

Some predict that if Turkey joins the Union in 2015 it will have a population of 82.1 million, slightly smaller than that of Germany at 82.4 million, both accounting for just over 14% of the EU28 population⁵³. The removal of barriers to the free movement of labour in the long-term would most likely lead to some additional migration from Turkey to the EU. As a result EU producers will seize the opportunity to import cheap workers from Turkey⁵⁴. This situation will negatively affect the EU's labour market.

There are many figures about the numbers of people who might migrate to the EU after accession. The EU Commission and Hughes estimate a long run eventual stock of migrants about 2.9 million⁵⁵ Quaisser and Wood estimate 4.4 million⁵⁶, Lejour et al. estimate 2.7 million⁵⁷, Flam estimates 3.5 million by 2030⁵⁸.

3. 2. 1. 1. Assessing Economic Impact of Migration in EU

There is a fear in the EU due to the possibility of large-scale migration from new low-income member countries after enlargement, but the experience of Spain and Portugal does not support it. For transitional period, there were seven years restrictions on migration and when it was lifted there were not much flows of migration. Similar arrangements have been agreed for the next enlargement. Therefore, the present EU member countries will have the right to restrict the flow of labour from Central and Eastern Europe for a period of up to seven years, but they have indicated their intention not to do so. Since receiving states gain economic benefits from immigra-

52 Flam Harry, "Economic Effects Of Turkey's Membership On The European Union" in Bernard M. Hoekman, Sübidey Togan (edt.), *Turkey Economic Reform & Accession to the European Union*, 2005, p. 341.

53 Hughes 2004, Ibid, p.1.

54 Lejour et al., 2004, Ibid, p. 14

55 EUC, 2005, Ibid, p. 3; Hughes, 2004, Ibid, p. ii.

56 Quaisser and Wood , 2004, Ibid, p.47

57 Lejour et al. 2004, Ibid, p.11.

58 Flam ,2005, Ibid, p.345.

tion, in terms of labour shortages in skilled and unskilled workers, they have decided not to restrict labour movements⁵⁹.

According to the European Integration Consortium's estimate of the numbers who would move to the current EU after the introduction of free movement of labour is 335,000, which is about 0.1% of the current EU population, rising slowly over the following 30 years to reach a peak of 1.1% of the population⁶⁰.

In context of EU ageing society; when fertility rate is low, life expectancy is high and the ratio of older people to the population of working age (dependency ratio) is high as well, increase in migration from Turkey and other new member states can compensate all of these obstacles.

If the EU encourages economic growth and support employment policies in Turkey, and also considering the strong Turkish family relations culture and recent successful economic developments, then migration of labour from Turkey will likely be limited.

As Kok mentioned there may also be effects on the demand for low-skilled labour as a result of changes in industrial location. The experience of NAFTA showed that the US firms have taken the advantage of the economic differential by moving the labour-intensive production to Mexico⁶¹.

In similar manner some labour-intensive industries may benefit from Turkish young working population. Due to explanations in previous paragraph, we consider Turkey's membership will not have much burden on EU. Also, it is worth to say that recent EU member states' high budget deficit and high debt burden with high unemployment rate and low economic growth does not make migration attractive to member states.

Even with the worst case, if migration of population takes place from Turkey to EU member states, new labour may have little depressing effect on wage rate, but on the other hand, economic benefit may be huge to EU. In Figure 1 and Figure 2, we consider the scenario of wage rate in both Turkey and EU. In figure 1, if Turkey become a part of EU, then supply of labour will be decreased and consequently, wage rate will be increased. Worker with new high income will have higher spending propensity in

59 Kok Wim, Report to the European Commission, Enlarging the EU: Achievements and Challenges, March 26, 2003

60 T.Boeri and H. Brücker, The Impact of Eastern Enlargement on Employment and Labour Markets in the EU Member States, Final Report, European Integration Consortium, Berlin, 2002.

61 Kok, 2003, Ibid.

EU. On the other hand, depressing effect of new labour force on EU will show itself in decreased wage rate (Figure 2).

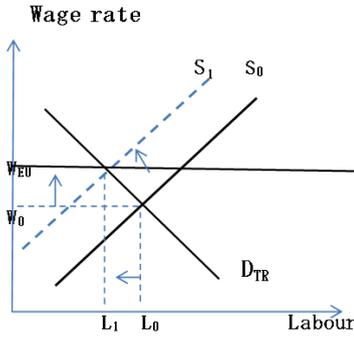


Figure 1 (Turkey): Migration of labor increases wage rate to the EU average

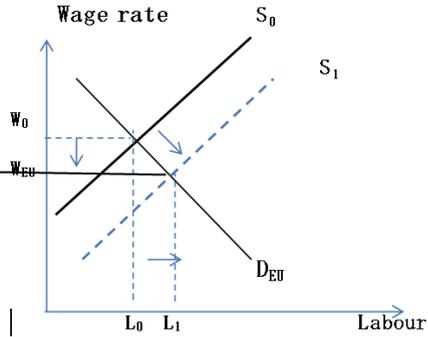


Figure 2 (EU): New labor from Turkey depresses the EU wage rate.

Decreasing impact of wage rate with connection of figure 2 is shown in figure 3. This indicates low wage rate and its impact on gross domestic product. Decline in nominal wage rate (from W_0 to W_1), due to increase in labour force, reflects its impact on labour demand in quadrant II. Increase in labour demand (from L_0 to L_1) leads to rise in production and gross domestic product (from Y_0 to Y_1) as can be seen from quadrant III. Since new migration means also new demand for goods and services in EU, as in quadrant IV, aggregate demand curve shifts from left to right (D_0 to D_1).

In the following figure, migration of labour force from Turkey leads to economic gains in receiving countries, in terms of economic growth.

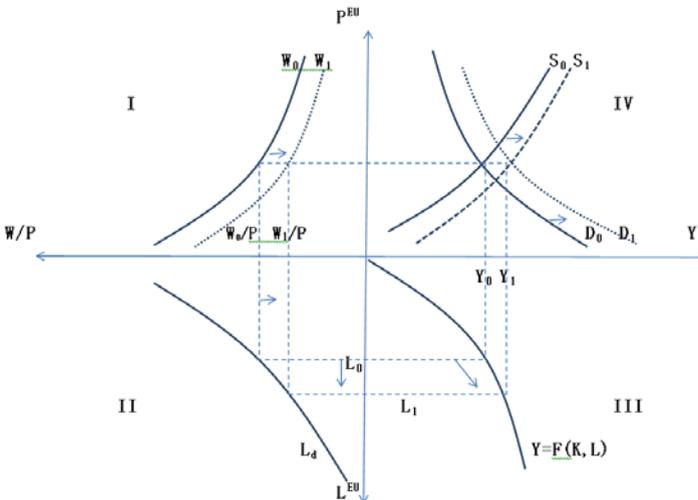


Figure 3 (EU): New labour force from Turkey depresses nominal wage rate from W_0 to W_1 in EU and leads to rise in labour demand from L_0 to L_1 . This increases production and income in member states. Since new population means new consumers, therefore aggregate demand shift to the right.

- W:** Nominal Wage rate **P:** Price level
W/P: Real wage rate
L: labour
Y=Output
Y=F(K,L) : Production function with fixed capital
D: Aggregate Demand
S: Aggregate Supply

3.2.2. Budgetary Effect

The EU accepts that because of its size and the level of economic development, Turkey's accession would undoubtedly have an important impact on the EU budget⁶². According to Hughes the estimation of Turkey's likely impact on the EU budget is difficult but EU policies will change in the next decade⁶³. Despite this uncertainty Quaisser and Wood, estimate that if in 2014 Turkey is completely integrated into the EU's expenditure policies, the net contribution would rise to approximately €21 billion⁶⁴. According to Müftüler-Bac if Turkey joined the EU today (2008), the cost would be around €14 billion⁶⁵. Quaisser and Wood summarize the likely budget effects of Turkey on the EU economy as follows (Table-1)⁶⁶:

62 EUC, 2005, Ibid, p.6.

63 Hughes ,2004, Ibid, p.18.

64 Quaisser and Wood ,2004, Ibid, p. 46.

65 Müftüler-Bac ,2008, Ibid,p. 211.

66 Quaisser and Wood 2004, Ibid.

Study	Projected Year	Transfer Yearly
Flam (2004)	Present System (2000)	Net €12 bill.
Togan (2004)	Present System (2000)	Net €14 bill.
Hughes (2004)	Present System Between 2015 and 2017	Gross: starting from €11 bill. 2015 to €19 bill in 2017
European Commission DG Agriculture (2004)	Present System (2004)	Gross agricultural expenditures alone €8.2 bill.
Grethe (2004)	Present System and Reform Scenario in 2014	Status Quo Net 2014; €10.9 bill. CAP Reform, Net €6.8 bill.
Zft	Present System (2001)	Net €8.2 bill.
Dervis, Emerson, Gros, Ülgen(2004)	Present System (2001 CAP-costs comparable share of value added)	Net transfer 2015 € 18 bill.
Source: Quaisser Wolfgang, Wood Steve, "EU Member Turkey? Preconditions, Consequences and Integration Alternatives", <i>FOROST Arbeits paper</i> Nr. 25, 2004, p.47.		

3.2.3. Common Agricultural Policy

The high rate of unemployment, structural problems and inefficiency in agricultural sector might be important problem for EU. After accession Turkey will have to adopt the Common Agricultural Policy and will receive agricultural subsidies. At the same time, the size of the Turkish agricultural sector threatens to be costly for EU taxpayers if Turkish farmers are to have the same terms as the farmers of the CCEC-8⁶⁷ But estimating the detailed eligibility of Turkish agriculture for payments under the CAP would require a very detailed study of agricultural structure and eligibility⁶⁸

67 Flam, 2003, Ibid, p. 21.

68 Hughes, 2004, Ibid,p. 2.1

3.2.4. Regional Aid

Actually the effect of Turkey's accession to the EU is not just migration, budget and Common Agriculture Policy. In the event of Turkish accession the EU's structural and regional policies will be faced with massive challenges. Because of Turkey's low level of GDP per head and wide regional disparities it would require significant support from the Structural and Cohesion Funds⁶⁹.

4. OVERALL ASSESSMENT

According to Dervis et al., when assessing the cost of Turkish membership for the incumbent members, one must appreciate that this process is highly speculative. But the political and economic environment in both Turkey and EU are evolving and changing constantly. Nobody can certainly know with certainty what the rules concerning the budget will be by the time of accession⁷⁰

It is true that in the event of a Turkish accession a huge migration flow can be expected which will negatively affect the EU labour market, but in the same time migration will bring some opportunities. It is a fact that Europe's population is rapidly ageing and that this situation, which is already an important problem, will result in a considerable need for a working population in Europe after 2010. Turkey, which has a young, dynamic and educated population, could provide the young population needed by the European Union⁷¹

Although the EUC considers that Turkish accession would significantly increase regional and socio-economic disparities across the EU and have an important impact on the EU budget many do not agree with this projection⁷². According to Lejour, et al., overall, the macroeconomic implications for EU countries are small but positive in the same way. Barysch think that *"For the EU economy, Turkish accession is much less important. Since EU entry is still at least a decade away, it is almost impossible to say what the consequences would be for the existing EU. One thing is certain: the direct impact would be limited"*⁷³.

69 European Union Commission (EUC) "EU'S Capacity to Absorb Turkey" Commission Report COM (2004). 656 final – SEC (2004) 1201, 2005, p.4

70 Derviş Kemal, Gros Daniel, Öztrak Faik and Işık Yusuf Bayar Fırat, "Turkey and the EU Budget Prospects and Issues" *European Policy Studies*, EU-Turkey Working Papers, 2004, p.15.

71 SPO, 2004, Ibid, p. 40.

72 EUC, 2004, Ibid, p.9-10.

73 Barysch, 2005, Ibid, p.7.

According to Hughes, Turkey's overall economic impact on the Union will be marginal because of its small size. Although Turkish accession will inevitably have budgetary and policy impacts, estimates of its potential budgetary receipts suggest these are likely to be similar to those of the ten new member states and so manageable at around 11% of the total EU budget in the first three years of membership. With consideration of Turkey's high potential economic and technological growth in subsequent years, the burden might be less than aforementioned share of total EU budget⁷⁴.

CONCLUSION

This article aimed to analyse the likely economic effect of Turkey's membership on the EU. Firstly, it examines the theoretical frame on enlargement with a brief historical background and discussed the issues of "deepening" and "widening". Then it analyses advantages and disadvantages or costs and benefits of enlargement.

In the second chapter in the event of Turkey's full membership the likely economic effect on the EU was assessed. In the same way, both the possible positive and negative effects of Turkey's membership on the EU's economy were examined with an overall assessment.

As stated in various documents of the European Union, given interdependence of countries, enlargement is an important tool to overcome the division of countries, to protect peace and stability in the states. It also has vital functions such as carrying out reforms, expanding freedoms, developing democratic principles, ensuring respect for human rights and rules of law and establishing better functioning market economy. Therefore, having grown further, the European Union will have the opportunity to spread stability, welfare and security beyond its border.

Even so, euroscepticists claim that EU is enlargement fatigue, reached its enlargement limit. They also argue that candidate countries receive benefits, but EU member states carry the burden and cost of them. When it comes to the candidacy of Turkey, their objections become even more solid and loud. This comparison does not seem fair by looking at only the problem existed in other member countries during the membership process and considering the same issue that might arise with Turkey.

Turkey with its geographic size, population density and structure, cultural and religious values, geopolitical location is not similar to states that

74 Hughes, 2004, *Ibid*, p. 34.

recently became members of EU. Due to its characteristics, it should be expected from Turkey to have positive impact on EU rather than negative ones.

Because of the size of the population and low per capita income, possible membership of Turkey will make a huge impact on the EU's economy in the short term. The membership of Turkey makes not only a negative effect, such as migration, additional budgetary expense, increase regional imbalances and common agriculture policy, but also positive effect such as a new market, dynamic economic synergy, opportunities to tap into new energy sources. In our macroeconomic figures, we show the costs and benefits of integration to the EU economy as whole and we see the positive impact to the EU states. However, it is true that in the event of accession Turkey will obtain more benefit than the EU.

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