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essays

The economics of Turkish accession

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★ Many West Europeans fear that the accession of Turkey – poor, populous and often unstable – will harm the EU economy. But Turkey's economy is tiny compared with that of the EU-25. And what little economic impact Turkey's EU entry will have is likely to be positive.

★ Turkey already has a custom union with the EU, and in many ways it is better prepared than the Central and East Europeans were when they started accession talks. But Turkey's accession process will be more difficult to manage than that of the East European countries. Turkey's large pile of debt leaves it unusually vulnerable to swings in investor confidence. Moreover, Ankara will not be able to use EU accession as an anchor for economic reform in the way the East Europeans did.

★ Turkish workers will not gain the right to apply for jobs in other EU countries until after 2020. By then, many West European countries may well be wooing Turkish workers to help them compensate for the ageing of their own workforces.

★ Eastward enlargement is already forcing the EU to change in a way that will, eventually, make it easier for Turkey to join. By then, the EU will hopefully have more efficient institutions and decision-making procedures. And it will have sorted out its labour market problems. If not, the EU of 2015 or 2020 will be slow-growing, gridlocked and unwelcoming. Turkey would not want to join such a club.

Countries that want to join the EU need to comply with four accession criteria: One is political, one is related to EU law and two concern economics. Turkey has already made much headway with fulfilling the EU's criteria on democracy, the rule of law and minority rights. Although the EU will continue to watch Turkish politics closely, the main focus of the accession negotiations – scheduled to start in October – will be on economics. According to the so-called Copenhagen accession criteria, EU aspirants need to have a well-functioning market economy and they need to be able to compete within the EU's single market. In its 2004 assessment report on Turkey, the European Commission concluded that despite good progress in recent years Turkey did not yet fulfil either condition. So Turkey still has a lot of work to do to get its economy fit for membership. The economic entry criteria are vague, and that is intentional: They allow the EU to get involved in everything from banking sector liberalisation to education policy. If previous enlargements are anything to go by, the EU will be making a lot of demands on Turkey.

The EU accession process has the potential to transform Turkey's economy. It certainly did so in the case of the Central and Eastern European countries that joined in 2004. These countries reaped massive economic gains in terms of growth, investment and better policies long before they actually joined the Union. Can Turkey look forward to similar gains? Perhaps. But Turkey may find it a little harder to benefit economically from accession than its East European peers did, for two reasons: First, Turkey has already benefited a lot from EU integration through its customs union with the EU. And second, Turkey will find it more difficult to use the EU as an external anchor for reforms.

Economics is also crucial from an EU perspective. Many West Europeans fear that the entry of such a large and poor country could add to the EU's own economic woes by increasing competition and adding more low-cost workers to already troubled labour markets. Such fears are overdone, in particular since Turkish accession will not take place before 2015. By that time, the EU will hopefully have addressed its internal economic problems. If not, it will be slow-growing and unwelcoming, and Turkey may well have second thoughts about joining.

What the EU wants

In its 2004 'regular report' on accession preparations, the EU lists the reforms that Turkey will have to implement in order to fulfil the two economic criteria, namely a well-functioning market economy and the ability to compete in the single market.

Among other things, the EU is asking Turkey to: cut its budget deficit and make budget planning more efficient; continue to reduce inflation; streamline administrative procedures; strengthen the rule of law; make commercial courts more efficient; sell off state-owned banks and improve financial sector supervision; speed up privatisation of state-owned companies and utilities; invest more in education, and tailor it to the needs of a market economy; and make the business climate more attractive for foreign investors.

In addition, Turkey will have to take over, implement and enforce EU rules and regulations in 28 areas, including the four freedoms of the single market (free movement of goods, services, capital and people); agriculture and fisheries; monetary union; transport, energy and telecoms; competition and state aid; policies for small businesses; research, education and culture; consumer protection; environmental rules and foreign and security policy.

Too poor, too different?

Many West Europeans are daunted by Turkey's accession because they think of the country as too big, too poor, too backward and too unstable. True, Turkey has more people than the ten new members combined. And unlike the current EU countries, Turkey's population is still growing at fairly solid rates. But in other respects, Turkey is not that different from previous candidates. The average GDP per head in Turkey is less than 30 per cent of the EU-25 average while that in the new members in Central and East Europe is closer to 50 per cent. But it is unfair to compare Turkey, which is at the start of the journey, with the new members that have already arrived. Ten years before accession, Poland's GDP per head stood at 35 per cent of the EU average, and that of Romania was much lower still. By the time Turkey joins, its per capita GDP may well be similar to that of the East European members today.[1]

1 *Kemal Derviş and others, 'Relative income growth and convergence', CEPS EU-Turkey working paper No 8, September 2004. Independent Commission on Turkey, 'Turkey in Europe: more than a promise?', September 2004.*

Turkey's economy is split between a modern, competitive manufacturing and services sector and a large, backward farm sector. The modern part of the economy is dominated by sprawling, often family-controlled, conglomerates that are involved in anything from car production to banking and retail. Productivity levels in manufacturing are as high, or often higher, than in the Central and East European countries. Agriculture, on the other hand, is hugely inefficient and still employs one-third of the labour force. Again, this is not that different from, say, Poland, where one-fifth of the people still live on the land and where there are big regional income gaps.

What sets Turkey apart from previous candidates is its history of economic instability. The East European countries went through a deep but brief post-transition slump, and some saw inflation skyrocket in the wake of price liberalisation. But Turkey has been on a roller coaster of booms and busts for decades, with economic crises regularly derailing what little progress there had been in terms of reform and prosperity. After the last crisis in 2001, GDP collapsed by 7 per cent and inflation went up to over 70 per cent.

Since then, however, two successive governments have made remarkable progress with stabilising the economy. The three-party coalition government of Bülent Ecevit, and in particular its economy minister Kemal Derviş, called the IMF back in to help restore financial stability, while also launching a broad-based structural reform programme. The government of Recep Tayyip Erdoğan, elected in a landslide in late 2002, has broadly stuck to Derviş' tight macro-economic policies and liberalising agenda. As a result, the budget deficit has halved and inflation is now in single-digit figures for the first time in three decades. At the start of 2005, the government knocked six zeros of the currency – a hugely symbolic move that signals the end of Turkey's high inflation era. The newly independent central bank has slashed interest rates, thus encouraging companies to borrow and invest. Investment spending rose by more than 30 per cent in 2004 while real GDP grew by almost 9 per cent, making Turkey one of the fastest growing countries in Europe.

Before the journey begins

	Turkey	**Bulgaria**	**Romania**	**Poland**	**Slovenia**
Year before the start of accession talks	2003	1999	1999	1997	1997
GDP per head, € at PPP	6,260	5,150	4,980	7,410	12,600
Budget deficit, per cent of GDP	-8.8	-0.9	-1.9	-2.6	-1.2
Public debt, per cent of GDP	87	79	24	44	22
Employment in agriculture, per cent of total	33	26	42	21	13
Unemployment rate, per cent	11	16	7	11	7
Foreign direct investment, stock per head, €	270	290	240	340	1,000

Source: Independent Commission on Turkey. Figures are rounded. FDI figures for Turkey are 2002. PPP stands for purchasing power parity, a measure that strips out exchange rate misalignments.

An anchor for reform?

The Ecevit and Erdoğan governments have used the economic upswing to push through some much-needed economic reforms, such as cleaning up the banking sector, rewriting labour and tax laws, selling off some state-owned companies and slimming down the bloated public administration. The main driving forces for change have been Turkey's determination to leave its turbulent economic past behind, and to keep the IMF on board as an insurance against renewed financial turmoil. But the IMF will not be holding Turkey's hands forever. The current IMF agreement expires in 2008, and some analysts already worry that economic policy could start drifting again thereafter. Most Turks have so far seen the EU mainly as a driving force for political reform. But economists hope that the EU will take over from the IMF in guiding Turkey's economic development during the accession process. In the case of the Central and East European countries, the prospect of membership provided a rock-solid anchor for economic reform for years. For Turkey, the anchor will be much less firm, for several reasons:

★ In the 1990s, the Central and East Europeans were driven by an overwhelming desire to 'return to Europe'. Although 75 per cent of all Turks support their country's EU aspirations, for most of them EU membership is not about a – however defined – European identity. What they hope for are personal benefits, such as higher incomes, better jobs, and the freedom to travel and work in the EU. If these benefits are not forthcoming during the accession process, Turks may become disillusioned with the EU rather quickly.

★ The East Europeans wanted EU membership as much for security reasons as for economic ones. NATO membership looked a distant prospect in the early to mid-1990s so the candidate countries hoped that joining the EU would give them some kind of guarantee against the return of Russian domination. In the minds of many East Europeans, the alternative to EU membership was a return to the Soviet past and they were willing to pay almost any price to prevent that. For the Turkish people, the alternative to EU membership is the status quo, which does not look too bad to most of them. Turkey has, of course, been a member of NATO since 1952. When it comes to security policy, Turks believes that the EU needs them much more than they need the EU.

★ The Central and East Europeans competed against each other in the race for EU accession. The EU insisted that each country would join if and when it was ready, and that reluctant reformers risked being left behind. This 'regatta principle' worked wonders to focus the minds of politicians from Bratislava to Vilnius. Turkey does not race against any other country in its accession process (Croatia is also likely to start accession talks soon, but the two countries are probably too different to create a regatta effect between them). So Turkey thinks it has a stronger hand in the negotiations.

★ In all Eastern European candidate countries there was a strong cross-party consensus that EU membership was the only way forward. In Turkey, the consensus is much weaker and nationalist voices are louder. The way Turkish politicians and journalists are criticising the EU would have been unthinkable in Central and Eastern Europe in the 1990s. There is a risk that Turkey's political opposition will depict every agreement in the accession negotiations as Turkey's 'surrender' to EU demands.

★ Last but not least, the Central and East Europeans were safe in their knowledge that the EU would let them in eventually. Of course, the EU always retained the right to suspend accession negotiations in case a country backtracked on political reforms. But eastward enlargement was backed by fairly strong public and political support across Western Europe. This is not necessarily the case for Turkey. Public opposition to its membership bid and the EU's constant reminder that accession negotiations are 'open-ended' make Turkey feel unwelcome and insecure. As a result, its motivation to do what the EU wants is weaker, as is the EU's leverage over Turkish policies.

Turkey will not be able to anchor its reform process to EU accession in the way Hungary or Lithuania did. Ankara will find it a whole lot more difficult to sell painful reforms in the name of EU entry. Many Turks already grumble that the EU is making unnecessary demands in an attempt to slow down their country's accession. So the only way for the government to sustain momentum is to argue that reforms are necessary to make Turkey richer, stronger and more stable – EU or no EU. Since accession talks are likely to be protracted, the timing of reforms is crucial. The government should probably try to push through the bulk of difficult measures quickly, say within five years, irrespective of whether the actual EU negotiations proceed that fast. Early reform successes would crush vested interests, for example those of powerful conglomerates or immovable bureaucrats. These interest groups would then be less likely to oppose reforms later on, when the momentum for EU accession may be slowing.

A test case for membership

West European doubts about Turkish membership would be weakened if Ankara just got on with reforms, without much prodding from Brussels. Turkey could also impress its critics by improving the functioning of the customs union, which many in the EU regard as a test case for full membership. Under the customs union agreement, signed in 1995, Turkey and the EU have removed all barriers to trade in industrial goods, and Turkey has adopted the EU's external tariffs for trade with non-EU countries. It has also taken over certain EU rules that are needed to create a level playing field for bilateral trade, such as intellectual property protection and some competition policy rules. Trade between Turkey and the EU has roughly doubled since the customs union came into force. And Turkey has reaped substantial economic gains from lowering trade barriers not only vis-à-vis the EU but also for goods from non-EU countries.

The impact of the customs union agreement goes beyond exports and imports. For example, until 1996 Turkey did not have a competition policy – a big omission in an economy that is in large parts dominated by private conglomerates and state-owned monopolies. After the customs union agreement, Ankara adopted competition laws that are modelled on those in the EU. And it set up an independent anti-trust authority that is now described by the OECD as "Turkey's most effective and best administered agency".[2] However, while some aspects of the competition regime work well, for example controlling mergers and fighting cartels, others do not. Like most non-EU countries, Turkey does not have an effective system for state aid control, which leaves the government free to support pet industries through subsidies, cheap energy or directed loans. Partly in response to EU pressure, Turkey has now drawn up state aid legislation. But the government cannot make up its mind who should enforce the new law: the independent competition agency, the treasury (which actually pays out most of the subsidies) or a third body.

2 *'Competition law and policy in Turkey', OECD, 2005.*

As long as Turkey does not control state aids, the EU retains the right to slap anti-dumping duties on Turkish goods, arguing that these benefit from 'unfair' support. The EU is also unhappy that Turkey has not implemented the technical regulations that are needed to make trade flow smoothly. For example, Turkey is still busy taking over EU standards for the production of cars, chemicals and foodstuffs, although the deadline for the implementation of these passed in 2001. Even in those areas where EU rules are already in place, the EU often refuses to let in Turkish goods, arguing that the agencies that issue the relevant quality certificates cannot be trusted. So Turkish companies that want to sell into the EU market have to first get their goods tested in EU laboratories, which is both time consuming and expensive.[3]

3 *Sinan Ülgen, Yiannis Zahariadis, 'The future of Turkish-EU relations', CEPS EU-Turkey working paper No 5, August 2004.*

Both sides occasionally accuse each other of protectionism. Turkey dislikes the fact that the customs union agreement does not cover agricultural goods – which happen to make up a large chunk of its exports to the EU.

In return, Turkey does not allow in animals and meat products from the EU, claiming that these do not comply with its food standards. The EU thinks that Turkey is just trying to protect its own farmers.

Another area that has so far been excluded from the customs union agreement is trade in services. This troubles companies on both sides. EU banks or telecoms providers struggle to get a foothold in the Turkish market. And Turkish companies cannot sell construction or transport services to the EU. The two sides have been talking about trade in services for some time, but they have made little progress. On the Turkish side, one obstacle has been the slow progress in opening up services markets, for example for energy and telecoms, which are still controlled by large state-owned monopolies (although privatisation is making headway in 2005). On the EU side, fears of an influx of lowly paid Turkish builders or truckers have slowed progress. A services agreement would entail the right of Turkish companies to set up shop in the EU, and also bring in their own workers under certain circumstances. But many West Europeans are wary of such a step, following eastward enlargement. They think that the new members have exploited the freedom of establishment to allow their butchers, builders and nurses to work in the EU at low wages. Outrage over an alleged inflow of 'Polish plumbers' made some French and Dutch people vote No to the EU constitutional treaty.

Economists think that Turkey and the EU would gain more from freeing up trade in services than from further integrating their goods markets. Turkey already does more than half of its trade with the EU. And even if the customs union was fully implemented, a surge in bilateral trade in goods would be unlikely. But EU companies are keen to get into Turkey's underdeveloped but fast-growing services market (West European banks are already queuing to buy Turkish ones in 2005). And Turkey could do with more competition in banking, transport, telecoms and energy. As was the case in the EU and the Central and East European countries, such market opening would drive down prices and boost efficiency, which would hugely benefit consumers and companies.

The biggest impact of Turkey's accession would come through improvements in the business environment and a reduction in state interference. According to one estimate, Turkey's GDP would jump by 5-6 per cent if its level of corruption fell to that of Portugal.[4] Although the Ecevit and Erdoğan governments have done much to improve labour markets, banking and so on, doing business in Turkey is still a challenge. Companies struggle with red tape and regulations, high and complicated taxes, widespread corruption and a slow and at times biased court system. As a result, foreign direct investment (FDI) has largely bypassed Turkey despite its strategic location and its potential as a cheap export producer and a fast-growing consumer market. Despite the restoration of political and macro-economic stability since 2002, investors have remained cautious. In 2002-04, FDI flows to Turkey totalled only US$2.2 billion. Compare that to the US$14 billion that Poland received over the same period. Even Bulgaria, which has one-tenth of the Turkish population, gets more FDI. Turkey's very low investment numbers also imply massive room for improvement (already, FDI inflows picked up in the first half of 2005). If the government continued its drive to cut red tape, fight vested interests and corruption and enforce competition, FDI could soar in the run-up to accession. The economic benefits are potentially huge, since FDI not only brings in long-term capital but also often comes with cutting edge technology, management skill and good links to western export markets.

[4] *Arjan Lejour and others, 'Assessing the economic implications of Turkish accession to the EU'. Netherlands Bureau for Economic Policy Analysis, March 2004.*

What Turkey needs to do

Turkey's accession preparations will not be that different from what the Central and East Europeans had to do. As explained above, Turkey has already done quite a lot of the work needed for integrating its goods markets with the EU. Full membership in the single market would still require Turkey to open its services and utilities markets, adopt all EU product standards, improve testing and certification, better protect intellectual property rights and so on. None of these things represent insurmountable challenges to Turkey. By building a fairly effective competition policy regime, Turkey has already shown that it can deliver.

In many ways, Turkey is better prepared for accession than, say Poland or Bulgaria were at the time when they started negotiating with Brussels. For example, although the Turkish government still plays a large role in certain economic sectors, it does not face the task of having to privatise whole industries, as the East Europeans had to do. Many of the companies still in state hands, such as tobacco, energy and telecoms, are already being prepared for privatisation. Poland, Hungary and the other East European countries relied on FDI to build up efficient banks, western-style supermarkets, modern telecommunications and high-value added manufacturers. Even without big FDI inflows, Turkey has managed to create a sizeable number of successful and competitive businesses, for example Koç Holding, which produces cars in joint ventures with Ford and Fiat (in addition to running supermarkets, hotels, banks, power stations and IT companies); Arçelik, one of Europe's top-five white goods maker; Migros, a retail giant (controlled by Koç) that is also expanding in Russia and elsewhere; or Turkcell, a mobile phone company with almost 25 million subscribers.

However, there are also a number of areas where Turkey's challenges go beyond those faced by previous candidates:

★ Maintain confidence

Turkey has made remarkable progress with stabilising its economy since the 2001 crisis. However, its big pile of government debt, large external deficit and lack of long-term investment leave it unusually vulnerable to swings in investor confidence. Turkey's government debt, although falling, still amounts to more than 70 per cent of GDP. Most of it is in short-term bonds that expire in less than two years. So the government constantly needs to go back to markets to roll over its debt. Although debt servicing costs are falling, the government still spent half of its budget (or 13 per cent of GDP) on interest payments in 2004. Since much of the debt is either linked to local interest rates or denominated in dollars, an interest rate hike or a fall in the Turkish lira would immediately push up debt servicing costs again.

Investors also worry about Turkey's external imbalances. Exports have more than doubled since the 2001 crisis, but imports have nearly tripled, leaving the country with a US$25 billion trade deficit. Real currency appreciation and successive hikes in the minimum wage have started to undermine the competitiveness of Turkish producers. Although growing numbers of tourists are bringing piles of cash into the economy, Turkey still needs to find US$15 billion a year to finance its current-account deficit (the equivalent of 5 per cent of GDP). External financing would be less of a problem if it came from long-term FDI inflows, as is usually the case in Central and Eastern Europe. But in Turkey's case the money largely comes in the form of short-term investments, and these can be very volatile.

Following four years of reforms and stability, investors now trust the government much more than they used to. A new three-year IMF agreement, signed in May 2005, will help to keep government policies on track. Nevertheless, confidence remains fragile. The lira still goes through bouts of instability. Signs of budgetary overspending, political trouble or setbacks in the EU accession process could quickly unsettle financial markets. If investors dump the lira, Turkish interest rates will have to rise, which would increase debt servicing costs, depress growth and boost the government deficit. Some analysts fear that any piece of bad news could set off a vicious circle of falling confidence and budgetary overspending. Others are more sanguine, arguing that the lira has now become a 'convergence play', a currency the stability of which is underpinned by the prospect of EU accession. But the key point remains: both sides, the EU and Turkey, need to manage the accession process very carefully so as not to endanger Turkey's hard-won macro-economic stability.

★ Create jobs

Although Turkey's economy has expanded by one-quarter since the 2001, the recovery has not improved the labour market. The pace of job creation in the dynamic private sector has not been fast enough to offset lay-offs in the public sector. The unemployment rate has been stuck at around 10 per cent, but it would be even higher if it was not for thousands of people dropping out of the labour market altogether. Turkey's population is still growing at 1.5 per cent a year, which means the economy needs to create 500,000-800,000 new jobs every year just to keep unemployment at its current level.

The labour market situation is even trickier than indicated by the high headline jobless rate. Turkey's employment rate is lower than that of any EU member, including countries such as Slovakia and Poland, where unemployment is twice as high as in Turkey. Only 45 per cent of all Turks of working age actually have a job, compared with over 50 per cent in Slovakia and Poland, and more 60-70 in the richer EU countries. And even those statistics may paint too rosy a picture. Unlike the EU, Turkey counts 'unpaid family work' as employment. Economists thinks that only 20-25 per cent of the working age population have a 'normal' (full-time, salaried) job. Most women in Turkey are not part of the formal labour market. The female employment rate is only 25 per cent, by far the lowest in Europe. Youth unemployment is also a serious problem, with one-fifth of young Turks looking for a job. In the cities, the share is higher still.[5]

[5] *'Economic survey of Turkey', OECD, December 2004.*

Although a new labour law brings Turkish legislation more in line with international standards, Turkey's employment rules are still among the most restrictive in Europe. Moreover, the tax burden on workers is unusually high. Payroll taxes and social security levies add more than 40 per cent to employers' salary bills. High taxes and cumbersome legislation – alongside the high share of informal employment in the farm sector – mean that more than half of all employment is in the informal economy.

Bringing Turkey's workforce into the formal sector and creating new jobs for the hundreds of thousands of unemployed will not be easy. The government needs to cut payroll taxes and social security contributions, but the high debt-servicing burden leaves it little room for fiscal manoeuvre. Budgetary constraints will also slow down education reforms – another precondition for sorting out the labour market. Although expenditure is rising, Turkey still spends less of its GDP on education than most EU countries, and its educational indicators are correspondingly worse. Two-thirds of the population have only basic education, or none at all. And although student numbers are rising, less than one-quarter of Turks have completed secondary education and less than 10 per cent have a university degree. Cash is not the only obstacle to educational reform. Many politicians, students and teachers are wary because they fear that the Erdogan government is pursuing a hidden agenda of 'Islamising' the education system.

★ Reform the farm sector

The farm sector in Turkey employs one-third of the labour force but generates less than 12 per cent of GDP, which implies huge inefficiencies. Like the economy as a whole, the agricultural sector is split into a modern and a backward part. A small number of efficient farm enterprises grow fruit, vegetables and nuts for export. But the vast majority of Turkey's 3 million farms are tiny, and they barely yield enough to sustain their owners. Incomes per head in the rural areas along Turkey's eastern border are less than 10 per cent of the EU average.

The farm sector has helped to soak up much of Turkey's excess labour. But it also represents a huge burden on the economy. Turkey's farm policies are, if anything, even more interventionist than the EU's common agricultural policy. The OECD estimates that Turkish government support for the farm sector amounted to 4.4 per cent of GDP in 2003. Like the EU, Turkey is gradually moving away from setting prices and intervening in markets and towards paying direct support to farmers. But in Turkey, agricultural reform has huge social implications. If the government wanted to reduce employment in farming to nearer of the sector's share in national output, it would have to uproot eight million families over coming decades. However, finding alternative jobs for former farmers will be tricky, not least because many have little or no education.

★ Streamline the bureaucracy

The government has traditionally played a big role in running the Turkish economy. But in recent years, the state has been on the retreat. It has sold off state enterprises, cut regulations, slimmed down the state administration, phased out price controls and set up independent regulatory agencies. Nevertheless, an overly complex legal framework still allows Turkey's two million bureaucrats to interfere with business at all levels. The quality of the administration is getting worse as young bright people prefer private sector jobs with much higher pay cheques.

Similarly, Turkey's judges are overloaded, underqualified and at times open to political pressure. Since Turks are quite litigious, everything from energy sector regulation to anti-trust rulings ends up in front of the courts. But judgements are slow and often inconsistent. So the inefficient judicial system acts as a break on economic reform and market opening.

The EU accession criteria require candidate countries not only to adopt EU rules and regulations, but also to implement and enforce them. Turkey will struggle to do so as long as its bureaucracy remains inefficient and often corrupt. Another problem for law enforcement is the size of the shadow economy. Economists estimate that some 40 per cent of Turkish GDP is produced in the informal sector, where it is beyond the reach of tax inspectors, officials and judges.

Parochial worries

The accession process, if handled well, has the potential to hugely improve the Turkish economy. 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 simply because Turkey's economy is so small (the equivalent of only 2-3 per cent of EU-25 GDP). And even if Turkish growth continued to outstrip that of the EU, its GDP would remain tiny compared to that of the Union. Nor is Turkey of great importance as a trading partner. Although the customs union has been in place since 1996, Turkey accounts for only around 3 per cent of the EU's total external trade. Economists calculate that Turkey's accession to the single market will benefit the existing members, but the impact will by very very small.

However, many West Europeans fear that Turkish EU entry could have other pernicious effects on the EU, such as busting the EU's budget, leading to gridlock in EU decision making and flooding EU labour markets with cheap workers. However, such worries are unfounded.

Take the EU budget. Most EU spending still goes on farm subsidies and help for poorer regions. Since Turkey has plenty of both, the current EU members fear that Turkey's accession will be expensive. Assuming that the EU budget stays as it is today and that Turkey gains the same access to funds as the East European countries, its accession could cost around 0.2 per cent of EU GDP.[6] However, both assumptions are questionable. The EU has said explicitly that it does not want Turkey to join before 2014, so it will not have a say in negotiating the 2014-2021 budget framework. Brussels will probably phase in payments to Turkey, like it did for the East Europeans. So Turkey may not become a full beneficiary of the EU budget until well after 2020 – if ever: in its 2004 paper, the Commission suggested that Turkey may have to forsake the right of gaining full access to the EU farm spending even after accession. Moreover, the current row about the EU's 2007-2013 budget shows that EU countries disagree about what the money should be spent on. By 2020, the EU will hopefully spend much less on agriculture and more on research, innovation or foreign aid.

[6] *Daniel Gros, 'Economic aspects of Turkey's quest for EU membership', CEPS Policy Brief No 69, April 2005.*

Another worry of many West Europeans is the impact of Turkish accession on labour markets. There are already around three million Turkish residents in the EU, almost 80 per cent of whom live in Germany and most of the remainder in France, Austria and the Netherlands. People in these countries fear that accession will bring in many more Turkish workers and that competition for jobs will get tougher.

Like the East European members, Turkey will probably have to wait for years after accession before its workers are allowed to apply for jobs across the EU. Assume that Turkey joins the EU in 2015 and that its transition period will be the same as for the East European countries, namely seven years. So there would be no free movement of labour until at least 2022. Experts disagree widely on how many Turks may emigrate once restrictions are lifted, with estimates ranging from 0.5 million to 4.4 million. Even 4.4 million would account for only 0.7 per cent of the EU-28 population of more than 570 million. Ask the Turks whether they want to move and the numbers are even smaller: although more than 6 per cent say they may consider emigrating, only 0.3 per cent have the firm intention to do so.[7]

[7] *European Commission, 'Issues arising from Turkey's membership perspective', October 2004.*

Nevertheless, the EU will probably retain a 'permanent safeguard', which will allow other EU countries to keep Turkish workers out if they fear 'serious disturbances' in their labour markets. However, by 2020 West European countries may well be wooing Turkish workers rather than trying to make them stay away. Labour forces will start shrinking in almost all EU countries over the next couple of decades, which implies the risk of pension crises and slowing growth. Turkey, with its growing population, could help EU countries to alleviate some future labour market shortages.

A brighter view

The critics of Turkish accession tend to take a very parochial view. They look at the EU as it is today – with its sluggish growth, high unemployment and slow decision-making. They add today's Turkey, which is still in the midst of economic and political transition. Then they conclude that accession would be a mess. But EU accession is many years away, and both the EU and Turkey will look very different by the time it happens.

Turkey still has a lot of work to do to get its economy in shape for EU membership. But Turkey's economic shortcomings should be an argument in favour of starting accession talks, not against. The EU accession process itself will help Turkey to address these problems. EU monitoring will help Turkey to spot problems and set priorities. EU advice will support the government in drawing up reform policies and writing better laws. EU money will alleviate financial constraints. But the main responsibility for sorting out the Turkish economy lies with Turkey itself. And they know that they need reform, modernisation and investment irrespective of whether they join the EU or not.

Meanwhile, the 2004 eastward enlargement is forcing the EU to change in a way that will, eventually, make it much easier for Turkey to join. The constitutional treaty probably cannot be revived, following its rejection in the French and Dutch referenda. But at some point the EU will have to revisit the question of how to adjust its institutions and decision-making procedures to fit a membership of 27 or more countries. Eastward enlargement is also turning up the heat on EU governments to reform their economies. West European countries can keep out Polish or Czech workers until 2011. But they cannot prevent their companies from moving their factories to Central and Eastern Europe, where labour costs are lower. So in order to compete, create jobs and boost growth, Germany, France and others will have to make their labour markets more flexible, cut payroll taxes and invest more in education.

By the time Turkey is ready for membership, the EU will hopefully have tackled these problems. It will have more efficient decision-making procedures and policies that can accommodate a larger and more diverse membership. And it will have a more dynamic economy, with lower unemployment and better immigration policies. If so, Turkish accession will look a lot less scary to the people in the EU.

If the EU fails to solve its internal problems, the Union in 2015 will be gridlocked, slow-growing, inward looking and unwelcoming. There is no reason why Turkey should want to join such a club.

Turkey in comparison

	Turkey	Poland	Spain	Germany	UK	EU-25
Population, million	72	38	42	83	60	457
Population in 2050, million	100	32	43	78	67	450
GDP, € billion	240	190	840	2,200	1,700	10,200
GDP per head at PPP, per cent of EU average	30	47	98	109	118	100
Employment as per cent of the labour force	45	52	61	67	72	64
Workers with tertiary education, per cent 2002	9	13	24	23	27	N/A
Poverty risk after social transfer, per cent of population 2001-2002	25	17	19	15	19	15
Spending on R&D, per cent of GDP 2002	0.7	0.6	1.0	2.5	1.9	1.9

Sources: Eurostat, United Nations, OECD and Economist Intelligence Unit. Data is for 2004 unless otherwise indicated.

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