



EU Member Turkey?

Preconditions, Consequences and Integration Alternatives

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forost Arbeitspapier Nr. 25
Oktober 2004

Forschungsverbund Ost- und Südosteuropa (forost)

Redaktion: Helga Schubert

ISBN 3-9809264-9-4

ISSN 1613-0332

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Preface

This study was completed within the framework of the project ‘Reforms and Interests in an Enlarged Union’, which is part of the second phase of the interdisciplinary Research Group Eastern Europe (FOROST).¹ This is financed by the Bavarian Ministry for Science, Research and Art and concerns itself with issues of EU enlargement. In total thirty nine research initiatives at four Bavarian universities and two research institutes have been or are supported. The central focus of the project ‘Reforms and Interests in an Enlarged Union’ is on the varying and comparative interests of individual European states in an enlarged EU, in particular the intensified distribution conflicts.

The last enlargement round changed the character of the Union from a club of relatively rich states to a heterogeneous group of states with an increased weighting of poorer countries. Distribution conflicts over tighter financial resources will intensify. Because the EU has not yet reached its final extended configuration, and almost only ‘poor relations’ still stand before the door, questions of interest equalisation and institutional encumbrance take on ever more critical importance.

A possible EU accession of Turkey does not stand at the centre of the ‘Reforms and Interests’ project, however it already radiates a powerful influence on the present discussion within the Union and on its current enlargement phase. The issue of costs for additional enlargement rounds is not only of great interest because of its topicality. This already overshadows the 2004 enlargement and the positioning of individual states regarding the reshaping of EU institutions. It also influences disputes over decision-making processes, fiscal distribution conflicts, and connected reforms in the most expenditure-rich policy areas. These are also key themes in the broader project. It is clear that the EU is at a crossroads: the means, approach and speed of future enlargement have become strategic questions on the future configuration of the Union – and of Europe.

Munich, November 2004
Hermann Clement

¹ The study is also partly based on earlier works by Wolfgang Quaisser and Alexandra Repegather (2004) and Wolfgang Quaisser (2004a and 2004b). It is available for download from the FOROST site at (www.forost.de) or the Osteuropa-Institut, München, site at (www.oei-muenchen.de). This is the final version (as of 11 November 2004).



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Summary and Conclusions

'EU membership for Turkey' is a strategic-foreign policy project. By this means the goal of 'political union' will be conclusively rescinded in favour of the vague vision of a 'global power Europe'. If such a development occurs, the European Union may degenerate into a 'European United Nations' or elevated free trade zone, in the framework of which interstate coordination increases and integration cores, variable according to national interests, will form. Not more, rather less security in Europe, could be a consequence. On grounds on self-preservation the EU should first pursue its own consolidation, undertaking additional enlargements only gradually and conditionally, and develop alternatives to full membership for strategic partners.

Before negotiations on EU membership can begin, Turkey must, like any other candidate, fulfil the political criteria specified at Copenhagen in 1993 ('Copenhagen Criteria'). Before accession can occur there are also economic preconditions: a functioning market economy and the capacity to withstand competition. It will take many years before Turkey can attain the competition criterion. In its overall level of economic development Turkey is comparable with Bulgaria and Romania. However the specific problems are different and the situation is worsened by regional disparities larger than anywhere in the EU.

The political criteria may present a greater hurdle. While the AKP (Justice and Development Party) government is focused on the goal of EU membership and seems set on a reform course required to achieve this, Turkish political culture will not metamorphose overnight. *De facto* shortcomings in political, civil and legal rights and freedoms persist. Important as it is, formal legal progress – most recently the penal code reform – cannot immediately change this.

Whatever the perceived strategic necessities of further binding Turkey into the western democratic community, the EU would contravene its own rules and principles if a political assessment by the European Commission (hereafter 'Commission') and/or Council enabled negotiations to begin before the requirements were completed. Despite these formal restrictions, it is probable that on the bases of the Commission's recommendation, a heightened awareness of Turkish efforts, and powerful foreign policy influences, the EU heads of state and government will decide to commence accession negotiations. Because no EU states or institutions could condone a dilution in communal democratic principles, a protracted process can be reckoned with. The greater socio-economic disparity between Turkey and the EU-15 will ne-

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cessitate a lengthier negotiation period than that which occurred with the states of Central and Eastern Europe (CEECs). The Commission has signalled that this process will be an open-ended one with an outcome that cannot be pre-determined.

The EU must also seriously consider whether an earlier inclusion of Turkey would not overextend its (the EU's) integrative capacities, particularly when it is already under great pressure to successfully cope with eastern enlargement and accomplish several other important projects. If necessary reforms or the EU constitutional treaty fail, or Turkey itself, through problems arising in taking on EU regulations, sets other priorities, then a strategic partnership is a sensible alternative. This could be developed as a long-term concept - an 'Extended Associate Membership' - for select strategic partners of the EU. The results in individual sections follow:

The EU in a critical phase of development

1. Eastern Enlargement is a capacity test for the EU: The planned commencement of accession negotiations with Turkey occurs at a critical time in the EU's development. The enlargement to include ten new members means a continuation of the necessary economic and political deepening becomes an even more difficult task. In the area of economic integration, the internal market and currency union demonstrate considerable progress. Both projects must, however, be consolidated and completed. The Lisbon process, through which Europe aspires to become the most innovative economy in the world, has not achieved the expected results. Europe is insufficiently prepared to deal with the problems of enlargement and reform. The constitutional treaty is an important step towards strengthening the EU's capacity to act, but is not enough to cope with the internal and external tasks of a Union with at least 28 and perhaps 30 members. If the treaty fails and further economic and political reforms are neglected, the threat of persisting integration crisis, and even a disintegration of the EU with incalculable consequences for Europe's political stability, will emerge. EU membership for Turkey would then not be possible.

Turkey's fulfilling of the political and economic criteria

2. There are doubts whether Turkey has fulfilled the political criteria: In its 2004 report the Commission noted the considerable progress made by Turkey in the areas of democracy and human rights. Nonetheless, there were considerable deficits in the practical implementation. Accusations of systematic torture, not confirmed by Brussels but corroborated by other independent sources, have caused deep concern in Europe. However, the Commission concludes that Turkey fulfils the political criteria and that negotiations can begin. Based on the report itself (Commission 2004a)¹ it could easily be interpreted that the criteria are not sufficiently implemented in daily life. Rather, the momentum of reform and the hope for its continuation has influenced a positive assessment. At present it is more likely than not that the European Council will approve a commencement of negotiations, with some reservations and an emphasis on the durability of democratic reforms. Foreign and security policy considerations may be the decisive factor. The negotiation process would then not be expedited but protracted. A conditional procedure could come into effect, with interruptions if violations of

¹ Commission documents are listed in the bibliography under 'European Commission'.

human and democratic rights are observed. Designated *acquis communautaire* chapters, certain benchmarks or specific areas of the Copenhagen Criteria must also be practically implemented before negotiations continue in connected areas. This could cause tensions with Turkey if the impression is of a deliberate delaying strategy.

3. *Turkey is carrying out credible economic reforms that also have far-reaching political implications.* It is to Turkey's advantage that, in contrast to the new EU members from CEE, it does not have to change its complete economic system. Rather, the basic structures of a market economy are secured. However, the functionality of the market is disturbed by high state influence and recurring internal and external disequilibria (high debt and inflation). Periodic crises and lapses in growth (recently 1999 and 2001) with extensive economic and social costs resulted. Since 2001 successful stabilisation measures have been pursued. For the first time these have seriously tackled the structural causes of fiscal deficits (banking system, state enterprises, public sector, social system, agricultural subsidies) and thereby laid the foundations for sustainable growth. The reforms have far-reaching socio-political consequences as they affect the traditional political system of populism and/or clientelism.

4. *Accession suitability in the economic area will be measured by Turkey's capacity for sustainable above average growth:* The initial results of the Turkish economic reforms are positive. After the deep crisis of 2001 the economy has returned to a growth path (2003: almost 6%; prognosis 2004 and 2005: 5%), inflation has reduced (prognosis 2004: 12%; prognosis 2005: 8%), the currency has stabilised and debt indicators improved. It cannot yet be established whether this is the beginning of a sustainable higher medium and long-term growth path. It can, however, be affirmed that the reform road is long. While Turkey has made great progress in reforming the banking system, privatisation and reform of the public sector and the social system remain in the introductory phase. Adaptation pressure is high and during the accession process Turkey will have to struggle with substantial economic and social problems (regional disparities, poverty, education deficits, internal migration, infrastructure deficiencies). Of particular concern is the, in comparison with countries of a similar level of development, unfavourable education indicators, along with high youth unemployment.

5. *Fulfilment of the economic criteria will require many years:* Regarding the economic criteria, Turkey is in many areas only slightly worse than Bulgaria and Romania. If the reform process is consistently pursued, within ten years there will be no serious barriers to a EU-entry. This presumes that no further macro-economic crises obliterate the recovery process. We do not share over-optimistic growth forecasts because of the great uncertainty on major policy related growth factors. We assume a growth difference of 3 percentage points in per capita GDP in PPS (Purchasing Power Standards) between Turkey and the EU-15, which is higher than that of the ten New Member Countries (NMCs). Even with such a positive economic development an enormous gap between Turkey and the current EU will remain. A special problem for Turkey is its huge regional disparities. The eastern part of the country can be compared with a 'developing country.' These economic considerations will have substantial effects on the content of negotiations (demands for transition periods), the timing (delaying tactics) and the modalities (special rules for integration in community policies).

6. *Relevant indicators suggest it would be easier for the EU to integrate Mexico than Turkey; Bulgaria and Romania are a false benchmark of preparedness to join the EU:* Turkey is comparable in population size with the ten NMCs combined but produces roughly half of their GDP. In many respects Turkey is not so different to Bulgaria and Romania, especially in its major economic regions. However, lower education standards are reflected in the rating of the Human Development Index (HDI) wherein, at position 88, Turkey is similar to Turkmenistan and Paraguay. Concurrently the World Economic Forum (WEF) rated Turkey similar to Bulgaria and Romania and in some areas better. This evaluation does not say anything about the tremendous challenges EU membership poses for all these countries. An international comparison might illustrate the uniqueness of this venture: in most relevant indicators (including income differentials) Mexico is doing much better than Turkey. Yet nobody is seriously considering a full integration (especially labour markets) of Mexico with the United States. The similar rating of Bulgaria and Romania compared to Turkey does not imply that Ankara will be ready to join the Union soon. Many *acquis*-related institutional and policy changes are needed which are not reflected in the HDI and the World Competitiveness Index. The critical question here is whether Bulgaria and Romania actually represent a sensible benchmark for EU-membership? If they are considered to be a benchmark then we are observing an erosion of EU standards caused by the enlargements. This might negatively affect the proper functioning of the internal market and many other aspects of European integration. Additionally, the EU is not properly prepared to deal with the economic and social implications of integrating lower-middle-income countries.

Benefits and costs of EU accession for Turkey

7. *Is EU membership a rational decision for Turkey?* From the perspective of an acceding country it is politically rational to seek to influence decisions of the 'club' by which those acceding will in any case be affected. This is an important motivation for EU membership, which can also pay off economically. Despite its comparatively low economic power, Turkey will become one of the more influential and militarily significant EU countries. Internally, various political streams (AKP, opposition parties, economic elites, Kurds, even less moderate Muslims) use the EU as an 'external anchor' to enforce their own, often very different political goals. In this sense political rationality endorses and explains deployment of the EU-steered modernisation process in order to extend one's own power position. It cannot be excluded, however, that some more radical Islamic or nationalist factions will regard the EU accession process as too restrictive. In such a situation Turkey's political priorities may change again and a looser connection to the EU would apply. It can be added that along with rational motivations for membership, emotional considerations are also playing a role.

8. *Turkey would benefit economically but extensive structural change may cause serious problems:* For Turkey, economically rational grounds for accession are the possible growth and welfare effects, along with financial transfers, that would result from EU membership. As trade barriers are in large part already removed by means of the Customs Union, the economic effects will be limited (not more than 5% of GDP over a long run). These could be more robust (perhaps around 10%) if dynamic effects, in particular investment from external sources, occur. A EU perspective, however defined, would encourage the increased political stability that would promote this kind of development. The reform capacity and solidity of Turkish

economic policy will nonetheless be decisive. Even with growth rates (5%) well over that of the EU, Turkey will need about four decades to reach 75% of EU-15 income levels. Turkey will certainly profit from EU transfer payments, which, according to current rules, will count for 3% to 4% of GDP.

9. Implementation of the acquis will be a major problem for Turkey and entail costs that are intensified by the demands of structural adjustment: Costs arise through structural change (such as higher unemployment, especially in rural areas) and the acceptance of norms and standards. These will burden Turkish small enterprises oriented to production for the local market. Then come social and environmental standards, conceived for highly developed countries, which could adversely affect the internationally competitive position of transition countries. On the other hand there are in the medium and long-term also positive social outcomes. Long transition periods are envisaged before the full introduction of EU environmental standards in areas that do not directly concern the internal market. Difficult adaptation is also certain for competition policy. Entry to the CAP will mean advantages for Turkish consumers but disadvantages for farmers. Transfer payments from Brussels can mollify this but the costs of structural change will be only partly compensated by EU structural and regional policies. They will become fully available only after the initial and most difficult adjustment phase of ten to fifteen years. Higher levels of pre-accession financial assistance will be necessary.

Costs and benefits of Turkish accession for the EU

10. The Commission's Impact Study is too general to be a solid basis to evaluate the effects on the Union: The Impact Study or 'Issues Paper' (Commission 2004b) released concurrent to the Commission's Regular Report assessed Turkey's accession to the EU as incomparable, though in geo-strategic and security policy terms as advantageous. It is envisaged that Turkey could take on a stabilising function for the entire region, even if the formulation of a Common Foreign and Security Policy (CFSP) may concurrently run into difficulties. Additionally, potential problems related to the control of the EU's possible new and dangerous external borders are highlighted (organised crime, smuggling and terrorism). The economic effects on the EU are assessed as rather insignificant and some adjustment pressure is expected (migration between 0.4 to 4 million persons). The economic effects for Turkey are evaluated as positive. In contrast to previous announcements, including from the Enlargement Commissioner, the Commission also undertook an initial estimation of budgetary effects (two scenarios of net costs in 2025: €16.5 billion and €27.6 billion). In regard to institutional effects on the EU the document is very general (new voting weights in the Parliament and the Council). Effects on the Commission are, in light of forthcoming reductions in its numbers, not to be expected. The Commission notes that 'If well managed, Turkey's accession to the EU would offer important opportunities for both.' (Commission 2004b: 3). Measured against this, the remark that the process is uncertain in terms of outcomes and will last many years (10 to 15), along with proposals for restrictive negotiation procedures, indicate that in the Commission itself doubts and 'mixed feelings' existed.

11. The growth impulse for the EU as a result of Turkey's membership will be marginal: From the Union's viewpoint, the entry of a country is rational if it raises internal and external

security and/or increases overall economic benefit. Considering the relatively small size of Turkey's economy and the limited trade volume, membership for Turkey will have only marginal effects on growth in the current EU. This does not mean that trade and investment cannot rapidly expand to bilateral advantage as a Turkish growth process occurs. Such a development is also possible in the context of current integration levels combined with a solid national economic policy. A EU accession perspective further supports this. However, for the continuation of Turkish economic reforms the International Monetary Fund (IMF) is currently the more important and appropriate competent partner. This might change as the IMF has a clear 'exit strategy'.

12. The migration potential and the financial costs will be high: Potential economic effects only have real purchase when unified rules are implemented in the same manner for all participants of a defined economic group. In the case of Turkey this will require time and considerable effort. Large economic disparities can also lead to adaptation costs in EU core countries. The income gap would remain an important motivation for itinerancy and a high – if also difficult to quantify – migration potential is to be reckoned with (up to 4 million). Long-term transition periods before full free movement of persons (together with a permanent safeguard clause) is introduced would then be unavoidable. The costs of an accession to the EU by Turkey will be high: with full political integration, around €21 billion per annum (in 2014). By comparison the Commission estimates €27.6 billion (in 2025). Welfare loss for old and new member countries is to be expected if transfers to Turkey are redirected from elsewhere or tax increases are imposed. It is unlikely that EU member states would be willing to pay such large sums. Alternatives could be found by formulating special conditions for Turkey, which could stimulate political tensions with Ankara. Extensive reforms of agricultural and structural politics would be the other option. However, they are very difficult to implement in a EU with 27 or more members.

13. Political-strategic arguments dominate: There are frequent assertions that accession negotiations will have resulting positive effects on European security, on the Turkish reform process, and on the Islamic world (as a counter model to fundamentalist Islam). A perspective of EU membership certainly supports the internal reform process. It would however be a bold thesis that argued that the success or failure of the latter is dependent on the former. Such an argument would be further weakened by the actual continuation of reforms independently of the EU decision, because, as Turkish sources increasingly emphasise, they are in Turkey's interest. Its questionable status in the Arab Middle East, and tense relations with many of its neighbours, means that any notion of Turkey's functioning as some kind of model for other Islamic states to emulate is presently hard to support (intellectually if not politically). Beyond this, a European perspective for Turkey could also be developed without a necessary full EU membership.

14. Membership for Turkey will have far-reaching consequences for the EU: The entry of the CEECs has already changed the EU from a union of mainly rich industrial countries to a heterogeneous club with a large number of transition countries. Economic (in particular competition policy) and monetary policies are therefore faced with stern challenges to maintain internal coherence and a sharp focus on goals. This affects the enforcement of internal market

regulations and coordination tasks. While the industrial core countries are compelled to internationally secure and extend their competitiveness in advanced technologies (see Lisbon Agenda), the cohesion countries must first induce a successful real convergence process. Additionally, the question is raised as to whether in such a heterogeneous economic space it is sensible that all adhere to a communal monetary policy. Movement towards monetary union should proceed cautiously and joining the Euro should remain optional.

15. The issue of cultural difference should not in principle exclude an accession, though it should be dependent upon the agreement of the European citizenry: EU membership for Turkey has a political-cultural dimension that is of wide-ranging importance for both parties. It cannot be determined *a priori* whether, against the background of a largely Islamic society and a state whose secular character is guaranteed by the military, European values can be anchored and sustained in Turkey. If they can be, then this would certainly have an important exemplar function. If this does not happen then a culturally motivated backlash would cause enormous problems for the EU. It would require the application of comprehensive sanction mechanisms in order to enforce basic values. For the EU, as a union of citizens, the membership of Turkey is also a matter of identity. European citizens should answer the question of whether the cultural and/or geographic borders of Europe have been transcended. An entry for Turkey would be justified if they gave a clear vote in favour. They would then also be prepared to render the necessary solidarity within the community framework.

The EU's negotiation concept and alternative integration concepts

16. The negotiation process will be (intentionally) protracted and Ankara may be faced with a membership second-class: The uncertainties of a future accession process influenced the Commission's proposal for a conditional (significantly restricted) negotiation procedure with Turkey. The actual implementation of individual *acquis* areas will be a prerequisite for the continuation of negotiations in other linked areas. For the EU, such a strategy is a form of self-protection. Thereby the process will be drawn out over ten to fifteen years. This strategy is not without risks as it could cause frustration and lead to political conflict with Turkey. On the other hand, the time gained would give Turkey and the EU room for manoeuvre in order to enforce necessary reforms. High migration potential means that full free access for persons will in any case be excluded for many years. Moreover, the EU would seek to avoid fully extending its expenditure program to Turkey. Ankara is threatened with a membership second-class.

17. Europe's functioning as a 'stability anchor' for Turkey does not necessitate its full EU membership; this could also be organised by means of a 'Privileged Partnership' or an Extended Associate Membership: Turkey receives strong backing from international organisations (IMF, World Bank, OECD), which already act as 'external anchors' balancing the internal reform process. However, it is questionable whether the EU could credibly sustain an 'external anchor' function over 15 or perhaps more years, the time-span envisaged for Turkey's accession. Integration alternatives are, in light of obligations entered into and foreign policy considerations, presently not likely to be officially offered or accepted. Nonetheless factors internal to the EU (refusal of a Turkish entry by a member state government or electorate, or incapacity for reform), or through uncertainties on the Turkish side (possible retro-

gression in the reform process), could motivate reappraisals. It is therefore sensible to consider more precisely formulated ideas for alternatives. This study's Extended Associate Membership (EAM) concept goes beyond that of a Privileged Partnership. The EAM presents a durable and clearly defined perspective for Turkey and other EU aspirants, which, in addition to economic integration (European Economic Area - EEA), also envisages forms of political integration (participation in European Council meetings) and a more substantive financial benefit through customised inclusion in various EU programs.

18. If the negotiations are commenced, they may well culminate with a 'Privileged Partnership': Should a negotiation process begin it will be faced with many uncertainties. If the constitutional treaty fails this will in practice signal a preliminary end for Turkey's perspective of full membership. The same would be likely if reforms in Turkey stagnate. The Commission has indicated that were this to eventuate negotiations could immediately be suspended. They may be precluded in the course of the ratification process or through a referendum in one or more member states. The Commission appears aware of these potential outcomes and emphasises that 'regardless of the outcome of the negotiations or the subsequent ratification process, the relations between EU and Turkey must ensure that Turkey remains fully anchored in European structures.' (Commission 2004c: 3) Consequently, despite the insistence of some member state governments that Turkey is ready for full membership, and Turkey's frequent declarations that it will accept nothing less, the relationship could ultimately be configured in the form of a 'Privileged Partnership' or 'Extended Associate Membership'. The possibility of unrealistic expectations and related disappointment should be avoided by establishing at the outset that the negotiation process, if it begins, is open-ended.

1. Introduction: The Debate on Turkey's EU Membership Intensifies

The endorsement or refusal of EU membership for Turkey is a strategic decision. Both Turkey and the EU are at a critical junction. The conditionally positive view of the Commission in its latest progress report (Commission 2004a) and the apparently supportive position of most member states do not conceal the reality that Europe is deeply divided. This applies to several governments, much of the Brussels civil service apparatus, and, before all, the EU's national publics. Differing opinions also circulate within virtually all political parties. This ambivalence reflects great uncertainty about the future of Europe, the EU's tasks, and its ability to manage the challenges placed before it. Concurrently Turkey has made great efforts to meet the preconditions demanded of it and appears determined to join the EU. This study analyses the readiness of Turkey for EU entry and the potential consequences of this for the EU. It also introduces the concept of an 'Extended Associate Membership' (EAM) as an integration alternative that would go beyond a 'Privileged Partnership'. EAM could operate as a temporary or permanent integration model that might also serve for other strategic partners of the EU.

2. Ever 'closer' or ever 'wider' Europe?

European unification is a project of near permanent crisis. It has no obvious exit or end station. The phrase 'ever closer union' (Dinan 1999; Streit and Voigt 1996) currently echoes as it did at previous crossroads in European integration: those, for example, represented by German reunification, Economic and Monetary Union (EMU), or eastern enlargement. The idea behind the phrase has always been disputed. While for decades a deepening of the EU was, at least verbally, in the foreground, in recent years the practical political direction has been that of widening. What likelihood now exists for the realisation of an ever more densely integrated union of states? (Cameron 2004a)

Widening is considered as a major strategic endeavour: that of securing peace and order in Europe. Assisted by the presence of NATO this has been successful in the past. Southern and eastern enlargements have contributed to an institutional uniting of the continent. Excepting the Balkan crisis, Europe has enjoyed almost 60 years of peace. But can this strategy be successful indefinitely? If it is further pursued the EU should, as a consequence, prove itself as a solid partner of the USA in fighting terrorism, solving regional conflicts, deploying force projection where necessary, and generally stabilising its neighbourhood. There are doubts about the extent to which the EU can do this effectively. However, the preconditions for Europe as a global actor are often misunderstood. If the EU is reduced to being a free trade area with a loose political coordination it will be a weak international partner. It must accomplish some serious *deepening* in order to discharge its European and international tasks (Cf. Cameron 2004b). On to this already congested and demanding agenda comes Turkey. The question of its membership is now embedded in the discursive context of multiple integration concepts and problems.

2.1. Challenges of Economic Integration: Important Integration Projects Must be Advanced

Turkey's inclusion into the EU would present a serious challenge to Europe's integrative capacities in the economic domain. Comparatively weak economic development in recent years impresses that the project of economic integration urgently requires new dynamism. The internal market is incomplete and must be supplemented by further liberalisation measures (before all in the services and financial sectors) in order to generate expected levels of growth. After repeated damaging of the 'Stability Pact' by its most important founding members, the currency union finds itself in a credibility crisis. The results of the Lisbon Process, which had the declared goal to develop the EU into 'the most competitive and dynamic knowledge-based economy in the world', have proved disappointing (Quaisser and Wegner 2004).

Eastern enlargement offers countless opportunities for the integration process and is contemporaneously full of risks. The enlarged internal market can generate increased prosperity. If its rules are not adequately implemented conflicts can be reckoned with. An excessively rapid entry of new members into EMU may well overextend their capacities for adaptation. This is especially so when European monetary policy pays only limited attention to the now multiplied and amplified economic differences. High unemployment and social tensions would likely result. The Lisbon process promoted the enlargement by means of an intensified division of labour. If technology transfer is too slow or is restricted to too few segments of the national economies, then economic convergence will stagnate. The EU is in a critical phase when important economic projects must be consolidated – or, better, pro-actively driven forward – and simultaneously the current and future enlargements must be successfully concluded.

Table 1: **Economic Challenges of Deepening and Widening**

Issue	Problems Deepening	Problems Widening
Internal Market	Certain projects still unfinished: services, financial markets, energy markets	Institutional deficits may undermine the <i>acquis</i>
Monetary Union	Damaging of the stability pact as a reaction to budget deficits and unemployment in large member states; variable inflation rates	Wide variation in inflation rates impose great challenges for European monetary policy (= differences in real convergence)
Lisbon Process	Progress is limited because policy coordination ('open method') remains weak.	Lack of infrastructure; technical and managerial capacity; and low technology level limit competitiveness

2.2. Political Implications and Challenges: Europe as Political Construction Site

Many of Europe's economic problems result from deficits of the political process. Further liberalisation of the internal market is blocked with reference to purported 'national interests'. It is inadequately grasped that EMU goes far beyond shifting some sovereign rights to the European level and that persistent impairment of the 'Stability Pact' will seriously damage its credibility. The Lisbon process demonstrates that the *open method of coordination* does not (or is not able to) create sufficient political incentives to implement 'best practice' solutions following a benchmarking approach. Economic policies are still dependent on the internal political constellations of individual member states. Coordination is far from reaching maxi-

mum efficiency. Enlargements will exacerbate problems already apparent with 15 members. Eastern enlargement has substantially intensified the differentiation process within the EU.

The political implications of increasing size and heterogeneity are extensive. In the agricultural and structural policy areas, distribution conflicts rage and available financial resources shrink. Economic policy harmonisation is harder. By necessity the *new system competition* (Sinn 2003) will gain in importance as a shaping principle, even if simplified rules and a minimum level of harmonisation must accompany it. This means that political integration will become more difficult.

Low levels of participation in the European elections are an indicator of Euro-scepticism among wide sections of the populations.

Meanwhile the vision of a *United Europe* is losing its attraction. The 2004 elections to the European Parliament (EP) provided the latest in a series of steadily reducing turnouts: now down to around 45% of eligible voters. In some countries (Poland, United Kingdom, Sweden) Euro-sceptic parties have gained in influence. This may be partially explained by complex and non-transparent decision-making processes. Other reasons may be found in the increasing heterogeneity of the EU and in different concepts of integration resulting from various enlargements. The UK, the CEECs and the Scandinavian countries (with the exception of Finland) remain averse to rescinding sovereignty, although they are hardly the only examples.

The EU has to overcome some legacies that pose serious threats to its development. There have been several attempts at streamlining institutions and policies to make them fit for enlargement and global competition. For the most part they failed (Berlin summit 1999/Agenda 2000; Amsterdam IGC 1997; Nice IGC 2000) or produced only small improvements. A renewed effort to clarify decision-making powers was made through a *European Convention*, consisting of representatives of national parliaments, the EP, and the European Commission. It had the task to formulate a *European Constitution*. A draft was rejected in Rome in December 2003 but another was finally accepted at the end of the Irish presidency in June 2004. In October it was signed in Rome.

The new constitution is a half-step to more efficient EU institutions and decision-making mechanisms.

The new constitution (approved on 18 June 2004 by the Intergovernmental Conference, has to be confirmed by national Parliaments or in referendum) denotes progress but is far from sufficient. With its 465 articles, five protocols and three declarations the draft is hardly a constitution as previously understood. It is not easily understandable but does make some improvement by consolidating all previous treaties in one text. A number of reforms have been proposed which address the most important mistakes of the *Nice Treaty* and should make the EU institutions more efficient and democratically legitimated. Besides the charter of human rights, the power of the EP has increased, and qualified majority voting (QMV) has been extended in the Council. If the constitution is ratified a double majority of 55% of member states that also represent at least 65% of the total EU population will be required to pass a vote. In addition the Commission will be streamlined in 2014, After then two-thirds of the member states, rather than all of them, will send commissioners to Brussels. Tensions may occur as the rotation principle could result in larger states (which provide a major part of the EU's economic power) occasionally not having one of their nationals as a commissioner.

Other new proposals like a two and a half-year presidency of the European Council and a EU foreign minister have to prove beneficial in practice.

Although EU competences (decision-making power) and the principle of subsidiarity received some attention, overall efficiency and the institutional balance between the Council, the Parliament and the Commission remain precarious. The document is overloaded (too many issues are raised in detail) yet leaves some important questions untouched. Clarifying competences in economic issues and policy reforms have not been the mandate of the *Convention* but remain crucial for the future. Hence the draft takes only a half-step towards a more efficient EU. It must nonetheless be interpreted as reflecting the maximum achievable at the time. The most apparent deficit is that there are no major advances towards political union and the question of the EU's *finalité* remains open. Moreover, it is far from certain that the constitution will be ratified by all national parliaments or accepted in all national referendums (Quaisser and Wegner 2004). Potential membership for Turkey must be considered against this background.

Table 2: **Political Challenges of Deepening and Widening**

Political Issue	Problems Deepening	Problems Widening
CFSP	Different global interests; variable relationships with the USA; 'sovereignty' and QMV	Additional 'special interests' complicate political coordination
Defence	Interoperability; financial resources; technological capacity; duplication of NATO (conflicts); pacifism in electorates	Greater variation in preferences and 'visions'; extension of technology and other resources
Voting	Competitive coalition building; blocking minorities	Multiplication of competitive coalition permutations
Constitution	Leaves <i>finalité politique</i> open; changes of government in member states may lead to ratification problems	Reaching agreement on the EU's objectives is complicated; resistance against the constitution in some new member states
Budget/Transfers	Intensified conflicts between net receivers and net payers	Multiplication of distribution conflicts

3. The Commencement of EU-Entry Negotiations with Turkey is a Political Decision

From the beginning the perspective of EU (initially European Economic Community, later European Community) membership for Turkey was a strategic-political decision. During the Cold War the country constituted NATO's decisive southern flank. While the 1963 Association Agreement was intended to link Turkey economically and politically with Europe, the commencement of concrete entry negotiations was continually delayed. Through the invasion of Cyprus and the island's division in 1974, and the military *Putsch* of September 1980, Ankara squandered its options. Thereafter came various conflicts with Greece, which brought the two states to the brink of war (including disputes over tiny islands). This could only be brought under control through international intervention, ultimately with the assistance of the USA.

After the end of the Cold War Turkey remained an important partner of the West, principally because of the threats posed by radical Islam and related terrorism and instability in the Middle East. In December 1999 the EU concluded that Turkey would be assessed as an entry-willing country by the same criteria as other candidates. At the EU summit in Copenhagen in

December 2002 it was declared that ‘in December 2004 the European Council would, on the basis of a report and recommendation of the Commission, determine if Turkey fulfils the political Copenhagen (1993) criteria’. The decisive prerequisites for the commencement of entry negotiations, which could begin at the earliest from May 2005, would thereby be met.

The political Copenhagen Criteria are, in terms of practical implementation, still not fulfilled

Fulfilment of the political Copenhagen Criteria requires that a state has democratic institutions and procedures and that EU human rights standards are implemented and assured. In the past three years Turkey has achieved a notable level of legislative (two major constitutional reforms, eight legislative packages) and practical progress. The influence of the military has reduced: in August 2004 the first civilian was appointed as head of the powerful military council; there is better control of off-budget funds. The death penalty has been abolished, torture forbidden (zero tolerance policy), laws on the forming of associations and the right to assemble have been liberalised, and religious and ethnic minorities have acquired greater legal rights. After further controversies with the EU over the criminal status of adultery a new penal code was passed almost in the last minutes before the release of Commission’s report. These legal reforms mean that relics from the ‘oriental middle ages’ (‘honour killings’) as well as torture and marital rape will now be punished with increased severity (*Handelsblatt* 27 September 2004).

In its statement from October 2004 the Commission declares: ‘that Turkey sufficiently fulfils the political criteria and recommends that accession negotiation be opened.’ (Commission 2004c: 3). It is questionable, however, whether these reforms represent a complete breakthrough as they have not yet been systematically implemented. This requires, as a precondition, a transformation of attitudes and behaviour at all levels of the state apparatus (Gürbey 2004). The Commission (2004c: 3) impresses that ‘The irreversibility of the reform process, its implementation, in particular with regards to fundamental freedoms will need to be confirmed over a longer period of time’.

The confirmation in May 2004 of earlier judgements against Kurdish Members of Parliament, in particular the case of Leyla Zana, indicated the persistence of stubborn resistance. In July the verdict was dismissed and the disputed courts (State Security Council) dissolved. This was a response to external pressure. Nonetheless, shortcomings in the legal area remain. This is reflected by Turkey not being considered by Germany as a ‘safe third state’ (*sicherer Drittstaat*) for purposes of evaluating asylum appeals. Turkey is the originating country of most asylum candidates (80% Kurds). In 2003 the European Court of Human Rights (ECHR) laid 76 charges of human rights violations against Turkey (*Die Welt* 26 October 2004). In the complex context of an Islam-influenced society and a state whose secular character is *de facto* secured by the military, the full implementation of democratic rights and freedoms in everyday life will be a long process.¹

¹ An indication of the contemporary and forthcoming difficulties was the Erdogan government’s attempt to implement a law on higher education institutions. It resulted in graduates from religious schools, for whom it had been foreseen that they would solely undertake studies oriented to becoming Imams, acquiring access to universities without additional examinations (*Handelsblatt* 13 May 2004). This was later vetoed by the President.

Four ‘harmonization’ reform packages became law progressively through 2003. They included measures to eliminate ‘regulations and practices that had contributed to impunity for torture and ill-treatment’ and ‘the possibility of retrial for those whom the European Court of Human Rights ruled had suffered a violation of the European Convention on Human Rights as a result of a court ruling in Turkey’. Despite these promising developments there are recurring allegations of torture. It has not been confirmed that the state has systematically undertaken such activity. Yet many sources, including an April 2004 report by the Turkish Human Rights Foundation note a multiplicity of violations including torture and other contraventions of democratic rights and freedoms (Human Rights Foundation 2004; Amnesty International 2004a; 2004b; 2004c; Middel 2004; *Süddeutsche Zeitung* 11-12 September 2004).

Table 3: The Political Copenhagen Criteria and their Evaluation by the Commission

Criterion	Evaluation of the Commission
1) Democracy and rule of law	
a) Parliament	Free elections; since 1999 absolute majority of the moderate Islamic party AKP; strong consensus between government and opposition on EU membership; many laws adapted to comply with the EU; parliament represents 55% of voters (following outcome of 2002 elections); 10% electoral threshold.
b) Executive	One-Party government, greater political stability; European Union Secretary General (EUSG) plays an important role for EU adjustment, some concern whether EUSG capacities are sufficient; President of the Republic used veto eight times (blocked reform of public administration and education, which would have favoured the Islamic movement).
c) National Security Council (NSC)	Civilian control of military strengthened; NSC transformed into advisory council; August 2004 first civilian heads NSC, control of extra-budget funds.
d) The judicial system	State Security Council has been abolished and replaced by Heavy Penal Courts; constitutional amendments in May 2004 enshrine the principle of international and EU treaties over national legislation. New Penal Code, in line with European standards, adopted in September 2004
e) Anti-Corruption measures	Disagreement in this area played a big role in the financial crisis February 2001, since Turkey has ratified major international and European conventions; progress has been made in anti-corruption measures but corruption remains a very serious problem.
2) Human rights and protection of minorities	General evaluation: International conventions have been ratified; increased effort to comply with the European Court of Human Rights.
a) Civil and political rights	Death penalty abolished; further efforts to strengthen the fight against torture (zero tolerance policy); systemic torture not confirmed but numerous cases of ill-treatment including torture; prison system improves but still deficits; progress in press freedoms but more effort needed to address outstanding issues (such as frequent prosecutions against journalists); in the field of broadcasting significant progress for languages other than Turkish, in practice considerable restrictions still exist; freedom of religion guaranteed in the Constitution but restrictions remain (property rights).
b) Economic and Social freedoms	If adopted, a new Law on Associations would reduce state interference and contribute to strengthening of civil society; significant constraints on the right to organise and the right to collective bargaining; gender equality strengthened but substantial efforts needed to ensure that women take an equal place in the society; violence against women, including ‘honour killings’, remain a major problem
c) Cultural rights; protection of minorities	The ban on the use of Kurdish language was lifted, with some delay broadcasting and teaching in Kurdish was allowed; still considerable restriction on the exercise of cultural rights
3) Political dialogue (foreign policy)	Political dialogue with Greece developed positively; Turkey supported the UN plan on Cyprus

Source: Commission 2004a and own evaluation

A recent study of Turkey's suitability notes a 'big fall in the severest forms of torture (to around 20 cases)' (Hughes 2004: 3). The Commission report emphasises the zero-tolerance policy towards torture and that a number of perpetrators have been punished but also states that 'numerous cases of ill-treatment including torture still continue to occur and further efforts will be required to eradicate such practices' (Commission 2004a: 17, 35, 54, 165).² Proof that this particularly serious transgression is continuing would be enough to exclude Turkey from EU membership. During his visit to Turkey in September 2004, Verheugen was confronted with claims of systematic torture still occurring in the country. 'If that is true, we don't need to talk about the other EU criteria any more' said the Commissioner (Wernicke 2004).

In its October 2004 report the Commission emphasises Turkey's considerable political and economic progress, though the overall balance is mixed. The extensive and well elaborated sections (over 40 pages) on the political criteria impress that significant progress is visible but problems remain in many areas: freedom of expression (many cases of non-violent opinion prosecuted, disproportional force used against demonstrators), freedom of religious belief (restricted property rights for non-Muslims, 'interference' in their activities), discrimination and violence against women, including 'honour killings'. The situation of minorities improved and the ban of Kurdish and other languages has been lifted, but considerable restrictions still exist. On the basis of this report it could easily be argued that the political criteria are not fulfilled. The 'momentum of reforms' may well have influenced the on-balance positive judgement.

Despite the insufficient realisation of European basic rights principles, a 'political assessment' of the Commission's evaluation by the EU heads of state and government in December 2004 could lead to the EU commencing negotiations - with provisions and a strong insistence on the durability of democratic reforms. The determination of Recep Erdogan's government, along with its constructive role in the search for a solution to the Cyprus question and improved relations with neighbouring states, especially Greece, will be extolled, as it was by the Commission.

Table 4: **Comparative Evaluation of Political Rights and Civil Freedoms 2003/2004**

	Political Rights	Civil Freedoms	Together	Trend	Classification
EU-15	1.0	1.0	1.0	Positive	Free
CEE Round 1	1.0	1.8	1.4	Stable	Free
CEE Round 2	1.5	2.0	1.8	Positive	Free
Turkey	3.0	4.0	3.5	Positive	Partly Free
Ukraine	4.0	4.0	4.0	Stable	Partly Free

Note: Ratings are determined on a scale whereby 1 represents the best and 7 the worst evaluation. Countries ranking from 1 to 3 are classified as 'free', from 3 to 5.5 as 'partly free' and over 5.5 as 'not free'; Ratings reflect global events from 1 January 2003 to 30 November 2003. *Source:* Freedom House (2003/2004)

Nevertheless, such a decision by the Council would be highly sensitive, as it would not correspond to the usual practice: realisation of the political criteria as a precondition for negotiations. Some EU states are rather hesitant and the position of the new members, who will

² Precisely the same sentence appears on all four cited pages.

now also decide on an enlargement, is still open. In the Freedom House organisation's 2003/2004 evaluations of political rights and civil freedoms Turkey is considered a 'partly free country', with a distinctly worse grading than the new EU members, as well as Bulgaria and Romania (Table 4). Taking the strivings of Turkish officialdom into account, the next evaluation should indicate a much improved outcome for Turkey, though a considerable gap with the current EU will remain.

Political and institutional deficiencies are obstacles to fulfilment of economic criteria

Political deficiencies might also affect Turkey's ability to fulfil the economic criteria and achieve the performance hoped for or expected of it. Corruption remains widespread, more extensive than in Bulgaria though less than in Romania (Transparency International; Cf. Theisen 2004). Reforms to legal systems are progressing slowly and inefficient administrative structures are undermining entrepreneurship as well as the implementation of major EU policies and laws. These shortcomings are evident in several indices of the World Economic Forum.

Table 5 shows that the average of CEEC-Round 1 is estimated at around 20 ranking positions worse than the EU-15. This reflects the enormous challenges faced by the more advanced CEECs to improve public institutions towards EU standards. Bulgaria and Romania are ranked 24 positions behind CEEC Round-1. Turkey is ranked 11 positions better than the latter countries, reaching a score similar to Russia (65). Summing up: the institutional adaptation problems Turkey faces are enormous but not so different to those of Bulgaria and Romania.

Table 5: **Selected Indices on Socio-Political Conditions for EU-Membership**

	Public Institution Index (2004)		Contracts and Law Sub-index (2003)		Corruption Sub-index (2003)	
	Ranking	Score	Ranking	Score	Ranking	Score
EU-15	19	5.82	20	5.36	20	6.07
Finland	3	6.48	1	6.35	4	6.68
Greece	44	4.74	37	4.63	52	4.79
CEEC-Round 1	43	4.87	48	4.28	36	5.46
Estonia	26	5.59	32	4.85	27	5.85
Poland	80	3.70	66	3.59	53	4.75
CEEC-Round-2	65	4.15	87	2.84	62	4.54
Bulgaria	56	4.36	92	2.72	35	5.50
Romania	74	3.94	83	2.97	90	3.58
Turkey	62	4.22	52	4.03	69	4.12

Note: The evaluation comprises 102 countries, rated from 1 = best country, 102 = worst country. The indices are based on various sub- and sub-sub indices, drawing on available hard data and data from the Executive Opinion Survey conducted annually by the World Economic Forum. The survey covers 8700 responses from business leaders worldwide. The scores range from 1 (worst possible evaluation) to 7 (best possible evaluation). Source: World Economic Forum 2004, Authors Calculations

4. Economic Backwardness and Convergence: Decades are Needed

Turkey's economic problems are sometimes cited as grounds to oppose its EU membership. The income difference between it and the EU-15 is indeed huge. In 2003 Turkey's per capita income level was 23% of the EU-15 (27.5% of EU-25) calculated at Purchasing Power (PPS) and 12.3% at exchange rate values (13.8% EU-25). The Turkish agricultural sector employs 33% of the workforce compared with 5% in the EU-25 (4% EU-15; see table 6). However, Turkey is characterised by huge regional disparities: 80% of its value added is produced in Istanbul, Ankara, Izmir and other large cities. The richest region reaches 46% of the EU-25 average (comparable to Slovakia) but the poorest only 8% (Commission 2004b).

Turkey's indicators suggest that economic backwardness compared to the EU-15 is similar to the second round of CEECs. The per capita GDP of Romania and Bulgaria reach only 10% of EU-15 levels in current exchange rates and 30% in PPS. Structural indicators like the contribution of agriculture to employment (Turkey 34%, Romania 34%, Bulgaria 27%) and to the national economy (all around 11% to 13%) are also similar. Taking territory and population into consideration, Turkey's accession is comparable to that of the first CEEC accession round, with only half of their combined GDP. What are striking are the huge differences in living conditions indicated by the HDI. The average ranking position of the EU-25 is 25. The NMCs reach an average ranking of 44, Bulgaria 56 and Romania 69. Turkey's position is 88 – similar to that of Paraguay and Jordan – and much worse than Russia (57) and the Ukraine (70). The major reason for this ranking is the 20% lower score in the education index.

Table 6: **Indicators of Socio-economic Development: CEECs and the EU-15 (2003¹)**

	Population in millions	GDP per capita in euros	GDP per capita in PPS ²	PPS as % of EU-15 average ⁸	Agriculture in total employment ⁸	Agriculture as % of GDP	HDI ranking ³
EU-15	381	23858	24000	100	4.0	1.7	15
EU-25	453	21300	22300	93	5.0	2.1	25
NMCs-10	103	4700	9600	30	13.4	6.6	44
Bulgaria	7.8	2260	6280	26	27.7	11.4	56
Romania	21.7	2320	6300	23	34.1	12.9	69
Turkey	70.7	3000	6300	23	33.9	11.5	88
Mexico	102.0	5540 ⁷	8970 ⁷	(37) ⁸	18.1	4	53

¹ Human Development Index (HDI) for 2002; EU-15 for 1999. ² PPS (Purchasing Power Standards) is calculated in current euros. ³ HDI ranking is based on a synthetic measure of eight socio-economic variables, a lower number indicating a better ranking position. ⁴ Unweighted average. ⁵ Share in value added in 1998. ⁶ Average HDI-ranking position of EU-15; ⁷ in US \$, ⁸ based on a parity exchange rate between US\$ and Euro.

Sources: European Commission (2003); Eurostat; *Human Development Report*, UNDP (2003).

Projections on the income gap between Turkey and the EU at the time of a speculated EU-entry in 2013 suggest it is unlikely that the large difference will disappear. For our calculations we use commonly accepted technical assumptions on the rate of per capita GDP growth of the EU (at 2% p.a.) and the countries entering the EU (first accession round at 4% p.a; second accession round and Turkey at 5% p.a.). Nominal per capita GDP will stay at 15% of the EU-15 level and per capita GDP in PPS at 32% of the EU-15 level (Table 7).

Table 7: **Basic Data of the Enlarged EU in 2013**

	Size in % of EU-2013	Population in Mill.	GDP in % EU-2013 ³	Per Capita-GDP in % of EU-15 ³		Per-Capita-GDP (PPS) in % of EU-15 ³	
				2001	2013	2001	2013
EU-2013 ¹	100 ²	560.7 ²	100	-	74.2	-	81.4
EU-15	62.2	376.5	91.4	100	100	100	100
CEEC-Round-1	14.3	71.1	4.9	22.6	28.6	44.5	56.2
CEEC-Round-2	6.8	7.5	0.8	8.4	12.0	25.9	36.7
Turkey	15.2	79.0	2.8	10.3	14.5	22.2	31.5

¹ EU-2013: EU-15, all CEECs and Turkey; ² Including Malta, Cyprus and Croatia. ³ Assumed average yearly growth rate EU-15: 2%; CEEC-Round-1: 4%, CEEC-Round-2 and Turkey: 5%. Sources: European Commission; Statistisches Bundesamt (2002); UN Population Forecast Middle-Scenario, Revision 2000; authors' calculations.

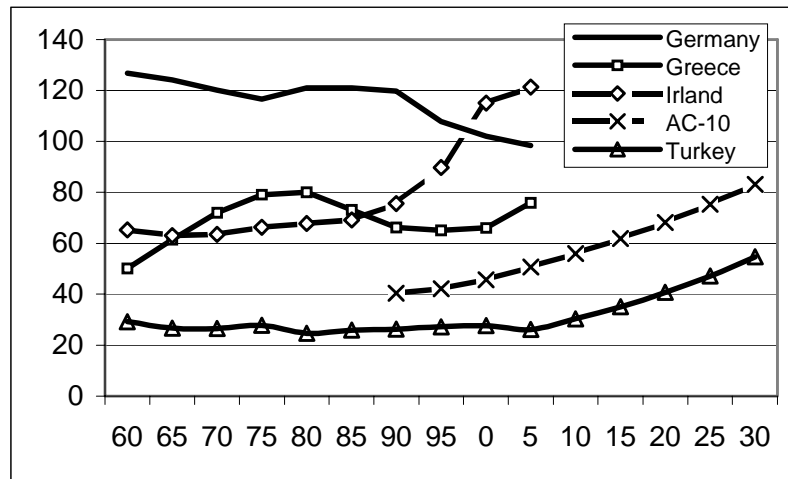
No economic miracle can be expected, including in a long-term perspective. Figure 1 shows that since the 1960s Turkey's income level has not drawn closer to the EU average. While there have indeed been periods with above average growth, these were not sufficient to compensate for intermittent economic crises and strong population increases. Adaptation processes for prices and the exchange rate make PPS projections for the income level difficult. Simple projections show that even if a convergence process with a GDP-growth difference of 3 percentage points were sustained, Turkey would need more than half a century to reach income levels comparable with the EU-15. In 2025 Turkey would reach 47% of the EU-15's per capita GDP in PPS.

Other studies suggest a mixture of positive factors that could launch Turkey on a rapid and sustained convergence path (Dervis, Gros, et al., 2004). These rather optimistic calculations suggest that Turkey could reach a convergence rate of 4.5 percentage points and achieve over 60% of the EU-15's real income level in the same time-span. The combination of demographic dynamism (population growth, young workforce), structural change (from agriculture to industry), and a tight fiscal policy that attracts private investment, is assumed to promote economic growth. It would also require efforts to improve physical and especially human capital formation (at the moment a great deficit) and a substantial improvement in the institutional environment. This should be accompanied by robust increases in FDI (up to 2% of GDP), helping to promote technological change and to increase the investment rate in a sustainable way (Dervis, Emerson, et al., 2004). A recent OECD study (2004: 25) foresees a growth differential with the EU of nearly 4%. In 2015 Turkey would reach over 40% of the EU-15's per capita GDP measured in PPS.

Does this represent wishful thinking? At the moment the short-term economic performance looks bright with high growth rates over 5% (see Table 11) and some essential economic and institutional reforms underway (public and financial sector). At the same time a turnaround in the investment ratio and FDI did not materialise. The OECD (2004: 8) states that it is too early to determine whether the Turkish economy's rebound after 2001 will be transformed into consistent long-term growth. Turkey has to overcome three traps that have prevented this: low confidence in political and macro-economic management, weak governance, and large informality (shadow economy). A EU perspective might help a reform agenda but is no guarantee for success as the disappointing convergence process of some EU countries (Greece) proves. The experience of the NMCs – with their definitive EU perspective – are also not entirely a success story. This influences our more cautious attitude to the future Turkish growth

path. A 3-percentage point growth differential in per capita GDP in PPS between Turkey and the EU-15 (as we assume) would be a success story, especially considered against the background of existing deficits in the major growth factors.

Figure 1: **Convergence of Per-Capita-GDP in PPS (EU=100)**



Note on sources: Up to 2005, data and projections: European Commission. 2005 to 2030, own projections based on the following assumptions: Per capita GDP of the Accession Countries will grow by 2 percentage points (as in the past decade) and Turkey by 3 percentage points higher than the EU-15 average.

5. Economic Criteria will not Delay Negotiations but will Delay Turkey's EU-Entry

The economic criteria have to be based on available or estimated data, although the validity and accuracy of this remains open to interpretation. Moreover, institutional changes are hardly measurable in quantitative terms. In its evaluation for 2004, the Commission concluded that Turkey had 'made further considerable progress towards being a functioning market economy, in particular by reducing its macro-economic imbalances. Turkey should also be able to cope with competitive pressure and market forces within the Union, provided that it firmly maintains its stabilisation policy and takes further decisive steps towards structural reforms' (Commission 2004a: 70).

5.1. The Functioning of Turkey's Distorted Market Economy is Improving

Turkey's achievements related to the first economic criteria ('functioning market economy') could be summarised as follows:

Table 8: **Criterion of 'Functioning Market Economy' and the Commission's Evaluation**

Sub-Criteria of Functioning Market Economy	Evaluation of the Commission
1) Price- and foreign trade liberalisation	Room for market forces increased; price instability reduced by decline in state subsidies; Price distortions reduced by cutting the price support scheme in agriculture and introducing a direct support system
2) No notable restrictions for market entry or exit	Barriers to market entry and exit have come down but still impede domestic competition
3) Stable legal framework (especially property rights); guaranteed enforcement of laws and treaties	Progress has been made in reducing state interference in the economy and establishing the necessary legal and institutional framework for a modern, rule based economy; problems with the commercial judiciary cause serious bottlenecks in implementing laws and enforcing contracts.
4) Macro-economic stability, including appropriate price stability, sustainable fiscal and foreign trade balances	Monetary policy is strictly anti-inflation; floating exchange rate; 2002 curbing in finance policy eased, correction first in summer 2003; state debt quote sinks but still a major burden for the economy; transparency of public finances improves; inflation declines (single digit in mid-2004); current account remains in save margin; public sector reform helps to overcome institutional deficits causing fiscal imbalances
5) broad consensus on the bases of economic policy	The broad consensus about the essentials of economic policy confirmed
6) privatisation of state enterprises	Progress in privatisation limited; in manufacturing, state owned enterprises still account for 20% of value added and 12% of employment
7) developed financial sector that will stimulate productive investment	Financial sector sounder but is still underdeveloped; banking sector functioning effectively; restructuring and consolidation not yet completed; improvements in banking sector regulation and supervision

Source: Commission 2004a and authors' evaluation

... The basic mechanism of a market economy is in place

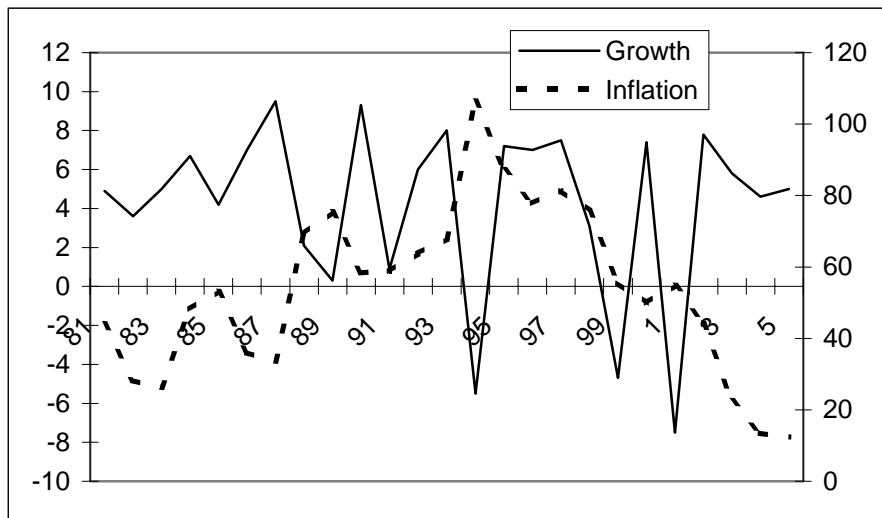
In contrast to the CEECs, Turkey did not suffer from problems associated with the transition from a planned to a market economy. The economy is based on free prices and realised a high degree of foreign-trade liberalisation, especially toward the EU. Nevertheless, internally some prices are still regulated (around 25% of the CPI basket) such as agriculture, energy and rent. These need to be deregulated further. Cutting the price support scheme in agriculture and introducing a direct support system led to a decline in price distortions over recent years.

From a legal standpoint market entry and exit are already secured but in the real world several obstacles remain. The large number of market entries and exits indicate a liberal regime but bureaucracy means legislative processes are slow. A high density of rules and directives for business and slow reform in regulatory matters are further burdens (OECD 2004: 31). Over-regulation supports the shadow economy, which is extremely large. The OECD estimates its size as 52% of total employment, including agriculture, and 37% in private sector employment excluding agriculture (OECD 2004: 145). Given the large negative effects of informality on fiscal balances, tax wedges and productivity, an integrated strategy based on en-

forcement and economic incentives is required to reduce it. This would encompass less regulation and a shifting of tax and social security charges away from labour.

Turkey's main economic problem is macro-economic imbalances. Large-scale fluctuations have been a prominent feature in recent years. Periods of growth follow financial crises, which are then (partially) resolved through stabilisation policies that strive for internal and external equilibrium and to re-establish growth. Observed over several periods, long-term economic growth is receding and annual growth rates indicate volatile shifts. Turkey is the only major emerging country that has not yet brought inflation under control (OECD 2002b), although very recent indicators are more promising. Macro-economic instability is a principal cause of inconsistent and generally disappointing economic growth.

Figure 2: **Long-term Economic Growth and Inflation in Turkey 1981-2005**



Source: European Commission *European Economy* 2004. Changes in %, left axis growth, right axis inflation.

Enforcement of stabilisation measures in Turkey can only occur with external assistance (IMF) and with political reform as a pre-requisite.

Against this background, Turkey (with IMF help) undertook several attempts at the end of the 1990s to correct macro-economic imbalances, especially high inflation and the poor condition of public finances. The programs of 1998 and 1999 failed because of insufficient or leisurely structural reforms, chiefly in the banking and fiscal sectors. This unfavourable development led to a rapid rise in the real interest rate, placing great pressure on the budget and the economy in general. The Russian financial crisis and two catastrophic earthquakes further burdened the fiscal balance and the economy.

The December 1999 stabilisation program of the new government had the ambitious goal of defeating inflation. Its course and results showed the same pattern: initially a capital inflow, economic recovery, a distinct decrease in the real interest rate and an appreciation of the currency could be observed. The obverse of this development was rising trade and current account deficits, worsening balance sheets of the banks, and increased exchange rate risks. In the second half of 2000 the macro-economic situation deteriorated as booming domestic de-

mand and the currency's appreciation – accompanied by other adverse factors – led to a widening of the current account deficit to unprecedented levels (OECD 2002b: 176).

This deficit and connected exchange rate risks, along with the lethargic application of structural reforms precipitated a retreat of foreign investors and financial turmoil in November 2000. Despite state intervention (guarantees for banks and the takeover of some credit institutes) the crisis worsened in February 2001 and led to the collapse of the crawling peg exchange rate (exchange rate as a nominal anchor) and a devaluation of the currency (IMF 2002a: 2).

Table 9: Attempts to Overcome the Turkish Economy's Internal and External Imbalances at the End of the 1990s

Year, Program and Duration	Measures	Results and Cause of failure or success	Financial Means
1998: Staff Monitored Program (SMP) Envisaged Duration: 3 years	<ol style="list-style-type: none"> 1. Fiscal Policy: several measures to increase incomes (privatisation) and to cut expenditure (indexation of public sector salaries) 2. Monetary policy directed at sustaining disinflation effort and exchange rate management to achieve inflation targets 3. Measures to strengthen the banking sector and supervision 	<p>Some success in reducing inflation rate and fiscal imbalances could be reached.</p> <p>Several structural reform measures of the SMP (telecommunication, energy sector, social security system) were not implemented. This caused high interest rates</p>	none
1999 Disinflation Program Envisaged Duration: 3 years	<p>exchange rate based disinflation and monetary control by setting upper limits to the NDA (Net Domestic Assets) position of the Central Bank</p> <ol style="list-style-type: none"> 1. Fiscal Policy: Raise the primary surplus of the public sector (raise incomes: i.e. privatisation); cuts in non-investment public expenditures. 2. Monetary and exchange rate policy: More forward looking commitment on the exchange rate 3. Income policy: indexation of civil servant wages 4. Structural reforms: phasing out of the existing indirect income support for farmers; social security reforms: improve efficiency; privatisation and banking reform. 	<p>In the first month economy stabilised and returned to growth.</p> <p>Inflation remained high and the Turkish Lira appreciated. Along with booming domestic demand this widened the current account deficit. Lack of structural reforms raised concerns about the continuity of the program. Nominal interest rate increase again provoking the first financial crisis in Nov. 2000. Despite government intervention the crisis sharpened in February 2001 and the crawling peg exchange rate had to be relinquished</p>	Stand-by arrangement with the IMF (US\$ 4 bill.)
May 2001: Transition program for strengthening the economy February 2002 Agreement with the IMF	<p>New program a stronger attempt to address the fundamental weakness of the economy.</p> <ol style="list-style-type: none"> 1. Fiscal Policy and Reforms: tightening of fiscal policy combined with reforms in the budgetary process 2. Monetary and exchange rate policy: From 2001 to 2002 change from base monetary targeting to Inflation targeting; floating exchange rate 3. Rapid restructuring of the banking sector 4. New Privatisation drive and public sector reforms 5. Enhanced social assistance to help low income groups 	<p>In 2001 recession deeper than expected. Growth picked up in 2002 and inflation is reducing</p> <p>In 2001 Turkish debt increase because of banking sector bail out and deep devaluation of the currency. In the following years debt indicators improve</p> <p>Devaluation = exchange rate stabilised, short-term capital flows return</p> <p>Banking sector reform is successful but still state banks need to be privatised</p> <p>Important structural fiscal reforms have been implemented but the medium term agenda in this field remains extensive</p> <p>Privatisation is slow and social security reforms are in an early stage</p>	Stand-by credit from the IMF (US\$ 12.8 bill.)

Source: IMF (2002a), World Bank (2003)

The structural weaknesses of the Turkish economy were clear. These included excessive state influence (Gumpel 2004: 176), a frail banking system and, until 2001, careless fiscal and monetary policies. Corruption and bureaucracy were further responsible for a very low level of foreign direct investment (FDI). This currently reaches around US\$1 billion per year, which is comparable to the smaller economies of Bulgaria and Romania (IMF 2004b: 10). In per capita terms there is a vast difference to the CEECs. In 2002 Turkey's FDI stock reached roughly €300 per capita, whereas in the Czech Republic and Hungary it was over €2000 per capita (Commission: 2003c). Unfortunately, this did not change substantially as the FDI flow in 2003 was only marginal (see Table 10).

Again supported by the IMF, from May 2001 Ankara introduced promising reforms with noteworthy results. Fiscal policy was tightened, the banking sector restructured, an ambitious program of public sector change (structural measures, public expenditure management) began. There was also a renewed privatisation drive. Key regulatory and supervisory institutions, such as the Turkish Central Bank and the Banking Regulation and Supervision Agency, gained independence (Commission 2004a: 58). Support for low-income groups, which were hit harder by the crisis, provided some social cushioning. The program acquired additional credits of US\$10 billion from international financial institutions. It aimed to revitalise the interest of investors, partly overcome shortages of finance, and promote reform of the banking sector (IMF 2002a: 2).

Stabilisation policies and reforms begin to show successful results. Inflation decreases and growth develops.

The results of the stability measures are presently mixed as financial markets and the exchange rate remained fragile and inflation pressures were strong. The primary fiscal balance turned to surplus but doubts persisted whether fiscal adjustment would be sustainable. High interest rates, a significant depreciation of the currency, and the huge fiscal costs of bank restructuring, in combination with the deep recession, caused public debt to rise significantly (from 57% of GNP in 2000 to 95% of GNP in 2001). The depth of the recession meant that recovery only started in 2002 (World Bank 2003). At the same time the social costs of the stabilisation program were high. Real wages decreased dramatically and unemployment rose to 7.7% in 1999 and to 10.3% in 2002. The OECD (2004: 45) cites 16% in urban areas in the first quarter of 2004. Youth unemployment increased in the same time-span from 15% to 20.5%.

High population growth will place pressure on the labour market in future. In addition, significant underemployment is partly reflected by the large informal sector (shadow economy). This and structural change in agriculture (due to cuts in subsidies) will intensify the problems. Large-scale job creation will be needed to absorb newcomers to the workforce. This necessitates changes in labour market regulations. Rigid employment protection legislation and substantial labour tax and social contribution wedges hinder companies in responding to changing market conditions (OECD 2004: 23, 32).

Table 10: **Basic Macro-economic Data for Turkey**

	1999	2000	2001	2002	2003	2004 ¹	2005 ¹
GDP, real growth rate (in %)	-4.7	7.4	-7.5	7.8	5.8	10.1 ²	
GNP, real growth rate (in %) ³	-6.1	6.3	-9.5	7.8	5	5	5
Inflation rate (CPI, 12 month, end of period)	68.8	39.0	68.5	29.7	18,4	12	8
Average ex-ante interest rates (in %)	32.0	-9.5	35.5	30.3	28.6	11.2	10.6
Central government budget (overall, in % GNP)	-10.6	-11.2	-19.9	-15.2	-11.3	-8.1	-4.2
Consolidated public sector (operational balance, in % of GNP)	-12.4	-6.9	-4.7	-4.5	-4.9	-2.5	-0.5
Net debt of public sector (in % of GNP)	61.0	57.4	93.9	79.2	70.9	66.5	60.3
Current Account (in % of GNP)	-0.7	-4.9	2.4	-0.8	-2.9	-3.0	-2.4
Net external debt (in % of GNP)	33.6	38.8	53.8	54.1	44.1	36.8	34.1
FDI in % of GDP	0.1	0.1	1.9	0.5	0	-	
Unemployment rate (in %)	7.7	6.5	8.3	10.3	9.0	12.4 ²	

Notes: ¹ Projections; ² First quarter; ³ IMF data; Sources: IMF, European Commission, OECD; State Institute of Statistics.

Inflation and state debt have decreased. The CPI (Consumer Price Index) reduced from 29.7% in 2002 to 12% in mid 2004. Core inflation in the first half 2004 reached only 8%. In 2005 the CPI should be limited to single figures. Success in stabilisation attempts will be partly manifested by a currency reform planned to take effect from 1 January 2005. The Turkish Lira will be revalued and have six less zeroes. The economy grew 5.4% in 2003 with a similar figure expected for 2004. However, on the external side some dangers emerged with an increase in the current account deficit. This was mainly due to strong import growth of almost 3% of GDP in 2003. The current account deficit is expected to further widen in 2004 (OECD 2004: 42) and in the first half of the year it reached over 7% of GDP.

Turkey is in a consolidation phase that must be extended into a long-term trend of growth and stability. This requires a consistent macro-economic policy (fiscal surplus, debt reduction, control of inflation, sustainable current account deficit) and application of structural reforms, among them reduction of the state's presence in the economy, banking consolidation, privatisation and public sector reform (improvements in tax administration, better quality of spending). In December 2001 Turkey agreed on a medium-term program (worth US\$ 3.8 billion) worked out with the World Bank to assist in these tasks. It is supported by a US\$18.6 billion Stand-By Agreement with the IMF, making Turkey the Fund's largest debtor. US\$11 billion of this was outlaid by April 2004 (IMF 2004a; 2004b).

5.2. The 'Competitiveness' Criterion is Harder to Achieve

Much more difficult to achieve is the second set of economic criteria, which requires that any accession country is able to cope with competitive pressures associated with the single European market. The rationale behind this criterion is rooted in the fear that accession countries might run into deep problems if not sufficiently prepared. Intensive competition within the internal market could lead to high adaptation costs (enforced structural change, increased unemployment) and thereby also cause social tensions that affect popular acceptance of the European integration process.

The Commission's evaluation touches on many criteria, without pursuing a consistent theoretical line. A quantification and appropriate 'benchmarking' in comparison with other accession candidates is very difficult. For this reason the Commission's measures are supplemented by the World Economic Forum's bases for evaluating the competition capacity of individual countries.

Table 11: **Criterion of 'Competitiveness' and its Evaluation by the Commission**

Sub-Competition Criteria	Evaluation of the Commission
1) Functioning market economy and macro-economic stability	Progress in functionality of the market and strengthening of the institutional environment; macro-economic stability and predictability slowly gaining ground
2) Human- and physical capital provision	Education levels have been improving from a low level. The growth of the capital stock started to accelerate, but FDI has remained limited; Infrastructure is fairly developed but investment has been limited and uneven.
3) Competition policy, state assistance, support for SME's	State interventions in the economy reduced
4) Company investment for restructuring and improved performance; enterprise control	Restructuring of enterprises accelerated after the financial crisis, but slowed somewhat in 2003-2004
5) Integration level related to the EU economy; volume and structure of foreign trade	Trade interconnection stable, export composition improved; despite volatile exchange rate Turkish exports are competitive
6) Share and dynamic of SME's	Medium, small and micro family firms are the backbone of the economy (in manufacturing: 30% of value added and 60% of employment)

Source: Commission 2004a

Commission states that low investment in human and physical infrastructure weakens competitiveness ...

An important aspect of the EU's evaluation is whether Turkey has a sufficient endowment of human and physical capital. Investment in these areas has been lacking in the past decade. Physical infrastructure is very unevenly distributed across the country. Whereas the road network is reasonably developed, especially in the industrial core regions and Western parts of the country, the railway network urgently needs to be improved. The growth of the physical capital stock has slowed as gross fixed investments declined over the last five years. FDI inflows are negligible. Failure to attract FDI is a major impediment to Turkey's growth potential as it represents a missed opportunity to modernise the economy's capital stock (Commission 2003c; 2004a).

... and further structural change and reforms are necessary to improve the competitiveness of the Turkish economy

Further important areas for the Commission are legal security and structural factors. The competitiveness criterion requires the establishment of a well-structured legal system with incentives to support a robust economic performance in the private sector. Laws affecting industrial organisation and degrees of competition have to be introduced not only formally but

also in substance. State interference in the economy started to decline in Turkey but is still too high. Progress in privatisation was rather limited in 2003 and the first half of 2004. Although restructuring has accelerated due to structural reforms and budgetary constraints, Turkey still faces the challenge of improving corporate governance and the restructuring of enterprises.

The transition from an agricultural to a service economy has continued but over 35% of the labour force is still employed in the agricultural sector (EU-15: 1.7%). Small and medium-sized enterprises are the stabilising core of the Turkish economy and are an important motor for economic growth and structural change. A problem related to such firms is that they face real limitations in their access to investment funds. They also have difficulties adapting EU standards. Trade integration with the EU is high and the composition of exports has continued to improve over the past few years. However, price competitiveness is volatile due to the instability of the macro-economic framework.

World Economic Forum indicators suggest that Turkey's competitiveness could be compared to that of Bulgaria and Romania.

In order to compare the competitiveness of the Turkish economy with the EU and other candidate countries we use the WEF's aggregated evaluation, which compares and estimates the economic potential of over 100 countries. Table 13 presents the overall 'Growth Competitiveness Index' (GCI) ranking, controlling for the current level of development (different weights for country groups concerning technology and institutions). GCI measures the capacity of national economies to achieve sustained growth over the medium term. The index consists of three sub-indices: technology, public institutions and macro-economic environment.

Whereas a large difference exists between CEEC-Round-1 and CEEC-Round-2 (19 positions), the difference between Turkey and CEEC-Round 2 is not large (5 positions). The main reason for Turkey's bad ranking is the national macro-economic environment. If the Turkish economy is stabilised, its growth potential is greater than that of Bulgaria and Romania. However, this is not the essential yardstick. A much better performance is necessary to assure a successful catch up process.

In the category of macro-economic stability Turkey compares unfavourably

Turkey's still precarious economic situation is reflected in various WEF (World Economic Forum) indicators, among which macro-economic stability receives a particularly negative evaluation for 2003. In a ranking of 102 countries, Turkey is placed near the bottom (94), lower than Bulgaria and Romania. Turkey rates better (75) than these two in the category of 'government waste', which for the first time accounts for the scale of misused resources as well as state deficits. In international credit ratings Turkey ranks 63, similar to the second round of CEECs.³ In the overall evaluation of macro-economic conditions for 2003/2004 Turkey did not change substantially. The scores improved but the ranking remained nearly the same (considering the different sample of countries). It is worse than Romania (71) and far below the average of the first round of CEECs (43), Greece (31) and the EU-15 average (18).

³ This might have improved in 2003/2004 but sub-indices for 2004 were not available at time of writing.

Table 12: **WEF-Index 2003 and 2004: Macro-economic Environment Sub-Indices** (Ranking)

	Index Macro-economic environment		Sub indices (2003)		
	2004 104 countries	2003 102 countries	Macro-economic Stability	Government Waste	Credit-Rating
EU-15	18	16	36	23	11
Finland	3	2	7	2	11
Greece	31	33	45	49	23
CEEC-1	43	39	53	45	36
Estonia	30	34	25	26	36
Poland	51	49	62	65	33
CEEC-2	66	77	78	91	62
Bulgaria	60	73	76	86	57
Romania	71	81	81	96	66
Turkey	84	82	94	75	63
	Score: 3.22	Score: 2.93			

Note: The values of the country groups (CEEC-1, CEEC-2) represent the arithmetic average of the ranking position of the single countries. Source: WEF 2003 and 2004, own calculations.

... if Turkey stabilises its economic and political situation growth will speed up

Another comprehensive measure employed by the WEF is the 'Business Competitiveness Index' (BCI). The microeconomic approach focuses on comparing the complex array of national circumstances that support a high and sustainable level of productivity. This Index tries to move beyond the examination of broad, aggregated variables and is computed by two sub-indices (Company Operations and Strategy; Quality of National Business Environment), primarily drawn from a survey of 4700 senior business leaders in 80 countries. Table 14 shows that Turkey's ranking is clearly better than that of Bulgaria and Romania but far behind the average ranking of the CEEC-Round 1.

Table 13: **Growth Competitiveness and Business Competitiveness Index (BCI) and Related Sub-Indices (Rankings) 2004**

	Index	Index	Sub indices	
	Growth Competitiveness	Business Competitiveness	Company operations and strategy	Quality of the national business environment
EU-15	20	16	15	18
Finland	1	2	7	1
Greece	37	41	40	42
CEEC-1-Round	39	41	44	41
Estonia	20	27	34	24
Poland	60	57	47	64
CEEC-2-Round	61	65	74	65
Bulgaria	59	75	86	72
Romania	63	56	61	57
Turkey	66	52	44	55

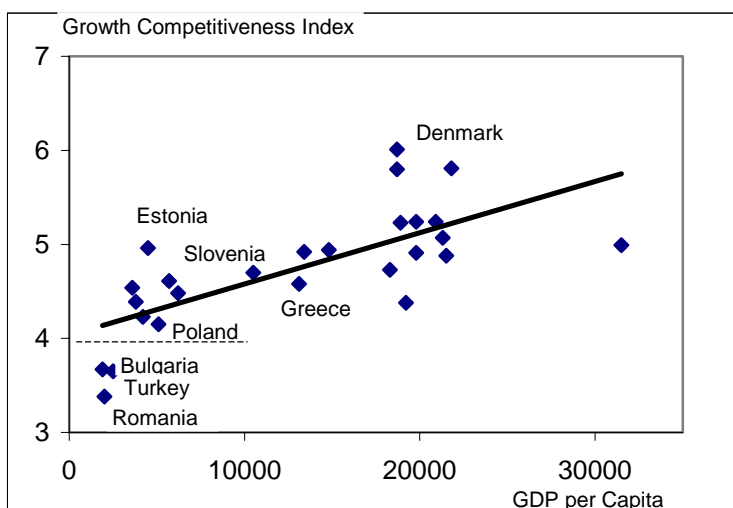
Notes: The values of the country groups represent the arithmetic average of the ranking position of the single countries. Source: WEF, authors' calculations.

Turkey experienced a dramatic decline in its business competitiveness compared to the previous ranking (2001), which was not too far behind that of CEEC-Round-1. Its drop of 22 places was driven by a relative decline in factor quality (university-industry research collaboration, quality of management schools, administrative burden of start ups) and the context for strategy and rivalry (effectiveness of anti-trust policy). Company sophistication is estimated more favourably, but technology licensing and staff training had suffered. The BCI-ranking is nonetheless better the GCI-ranking. This may indicate that Turkey’s microeconomic competitiveness has an upside potential.

Summing up: Turkey’s accession will present the EU with similar problems to those presented with Bulgaria and Romania. These two, however, are not the ‘benchmark’ for an accession to the EU. In comparison with them Turkey’s membership adds more heterogeneity. Turkey has much greater internal disparities. Some growth regions and sectors can reach a sufficient level of competitiveness and EU standards relatively quickly; others are underdeveloped and will have to undergo massive structural changes in the coming years. This indicates that Turkey will require a longer time-span to fulfil the criteria.

Meanwhile the EU ‘club’ will have a strong bias towards low and medium income ‘catch-up countries’ with far-reaching implications for major EU policies. This trend makes it questionable whether the internal market can develop its full potential. Figure 3 shows that the GCI is closely correlated with per capita income levels. In order to improve or sustain the integrative capacities of the internal market and the competitiveness of the entire Union, it may be prudent to set a threshold value for convergence in real terms and in the competitiveness of countries, which must be reached before they can accede to the EU. A scholarly founded appraisal of where such a threshold should lie is not so simple. An evaluation of this type requires more than the WEF Indices. Additional forms of measurement would have to be developed.

Figure 3: **Growth Competitiveness Index (Scores) and Per Capita GDP**



Source: WEF (2003) and authors' calculation

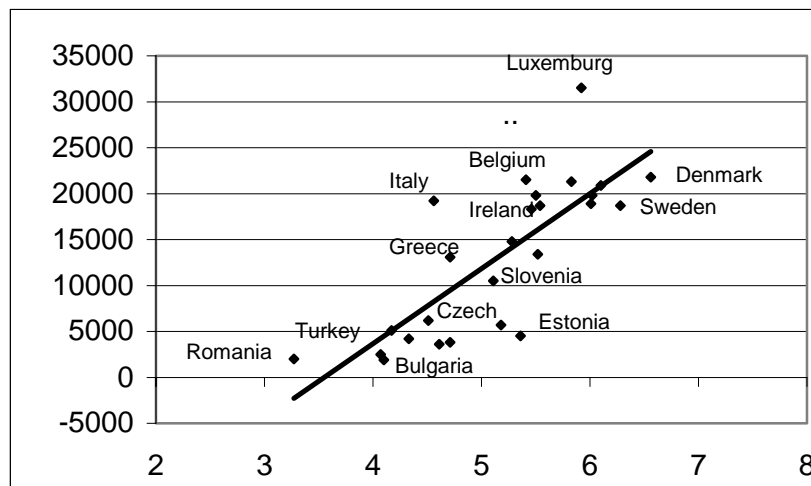
6. Consequences of a EU Membership for Turkey

For aspirant countries, the objective of EU membership should be based on rational political and economic decisions and not be a question of ‘honour’. A politically rational argument can be made for wanting greater stability and for desiring influence over decisions that one-self will in any case be affected by. The aim for growth, welfare and financial transfers that are to some degree all likely to occur as a consequence of membership is economically rational. This will not, however, be without costs. Every club has its own rules, preferences and entry preconditions, which are often bound with the availability of resources and investment requirements. Some investments may be covered by development goals (presuming these are accomplished); others may be a burden indefinitely. How does a realistic potential balance for Turkey look?

*The Implementation of the *acquis* will be a major problem for Turkey*

Apart from the economic and political Copenhagen Criteria, acceptance and implementation of the entire legal corpus, the *acquis communautaire*, is also a requisite for membership. This is not easy and has its costs, especially for countries at a less advanced stage of economic development, which applies to most new or potential EU entrants. In purely formal terms the economic disparities between Turkey and the EU (as already experienced with the eastern enlargement) are not grounds for the refusal to begin negotiations or, more so, to reject membership. Real convergence is not an entry condition, regardless of the massive problems that variations in income and economic development may lead to.

Figure 4: Correlation between per Capita GDP and Public Institution Index (2003)



Source: WEF (2003) and authors' calculation

There is substantial evidence to support that a country's level of economic development is correlated with the quality of its institutions and 'social capital' (see figure 4); that is, with factors that are decisive for successful integration in a progressively deepening EU internal market. As Section 4 showed, even optimistic prognoses suggest it will take many decades before the income differential between Turkey and the EU-15 has noticeably reduced. Weak

institutions can therefore be a major barrier to successful adoption of the EU's communal legal corpus and obligations. In this regard Turkey is evaluated by the WEF index as very similar to Bulgaria and is distinctly better than Romania. With EU support Turkey's institutional capacity can increase significantly in the longer term.

The list of adaptation measures noted in the Commission's regular report (2004a) is long and it will be many years until the *acquis* is sufficiently imposed. The EU will supervise the factual implementation of the communal legal corpus very closely. The experience of the NMC's indicates that Turkey will have serious problems in the areas of agricultural policy (standards and norms), regional policy (administrative capacity) and environmental and social standards. Shortcomings in justice and home affairs and consumer and health protection will also be present for some years.

At the present time, before negotiations have commenced and not all details are available, a sweeping speculative analysis does not seem appropriate. However, some aspects are noteworthy because they affect the existing state of integration. These relate to *Free Movement of Goods* and the *Customs Union* where Turkey lacks sufficient progress in legislation and reducing state aid. The Commission (2004a) concludes that alignment with the *acquis* is at an early stage for most chapters and further work is required in all areas.

Cultural difference should not in principle exclude a country from accession to the EU, though it should be dependent upon the agreement of the European citizenry.

The issue of Turkey's cultural belonging to Europe has a 'Turkish' and a 'European' dimension. The meeting of these dimensions is another example of a recurring theme: whether and if so to what extent differing cultural backgrounds hinder integration (Wehler 2002; Winkler 2003). That would occur if a particular culture's rules, organisations and social norms undermined the effective implementation of commonly accepted European values. The reasoning for this argument is not so convincing in the case of Turkey. It is correct that there is no categorical 'Muslim democracy', meaning a polity in which a majority of citizens are of this faith and the state functions, without serious reproach, according to democratic norms (Jenkins 2003). Turkey comes closest and is moving further in this direction. Along the way it has had difficulties in fulfilling the Copenhagen Criteria. However, this could only partly be explained by its Islamic culture, as Turkey has been an insistently secular state.

The 'cultural argument' is also questionable from a more fundamental viewpoint. Although based on 'European' history and its socio-cultural mores – leaving aside the hugely illiberal phenomena of fascism and communism – the Copenhagen Criteria should be treated as universally acceptable and potentially achievable by any society. This does not mean that there will not be implementation problems. As demonstrated in Section 3, Turkey has made great steps towards becoming a western style polity. It has not completed this process and still is regionally and culturally a divided country: modernised cities are contrasted by backwards regions. It cannot be determined *a priori* whether Turkey will successfully complete its transformation. Though many political actors and intellectual commentators impress it, we do not consider Turkey's democratisation (or that of any other country) as constituting an argument for its acceptance by the EU *per se*.

Turkey's 'Europeanisation' will not occur without risks. Full implementation of democratic rights and freedoms is a challenge for both Turkey and the EU. Potential shifts to radi-

calism or even a theocratic regime are presently guarded against by the Turkish military. Simultaneously, however, the military's role as ultimate arbiter is problematic when viewed through the prism of the Copenhagen political criteria. The retreat of the military from supervision of the political process – which is underway – has to lead to a sustainable democracy (Bocklet 2004: 169). If Turkish society and the state is fully accepting of what this entails: Human Rights, religious freedom, equality for women, and so on, then cultural arguments against a Turkish EU entry would be weakened. It cannot be proved in advance that due to its Islamic tradition, Turkish society will reject the basic norms of the European value community in the mid- and long-term. If there were a culturally motivated backlash, the EU would have enormous problems. If such a development occurred during the accession process it would precipitate an immediate interruption of negotiations. If it was to occur after Turkey had been accepted as a member it would require the application of comprehensive sanction mechanisms. This could have far-reaching foreign policy consequences for the West and internal effects of a similar magnitude on Turkey. In this case a quasi-democracy guided by the military (as in the past) would, for the West, be preferable to a theocratic regime.

The 'European dimension' noted above is virtually synonymous with 'European identity'. Two components are predominant in our context: 'European Solidarity' and anxiety about 'Islamic infiltration'. The latter is based on deeply rooted, if now irrational, resentments and even fears going back to Muslim invasions of Europe in the 8th Century, Ottoman occupations of the Balkans from the 14th Century, and the empire's defeat before Vienna in 1683. Competition Commissioner Frits Bolkestein, a prominent sceptic of Turkish EU membership has made reference to this (Bolkestein 2004; Vannahme 2004). The contemporary manifestation is fear of massive migration from Turkey to Europe (mainly to Germany) and the expansion of existing 'Islamic enclaves'. This problem has many aspects (socio-economic, educational, linguistic), which cannot be extensively discussed here. Migration pressure could be controlled to some degree by instituting temporary or permanent transition periods (see Section 8). But ambivalence runs deeper because Turkey would be a major power in Europe with the capacities to strongly influence EU decision-making.

This is why 'European solidarity' is crucial. The EU is conceived as a union of states *and* citizens, oriented to provide mutual security and welfare. As a union of citizens, therefore, EU membership means more than accession to a multilateral community of states. Previous enlargements have not elicited misgivings about their exceeding the EU's cultural or geographic framework, which is not to discount that there was resistance for other reasons. The basic consensus rests on a sufficiently communal cultural lineage (Christianity, Humanism, the Enlightenment, critical scientific rationalism) and is represented by important pillars of the European states (legal system, separation of powers, free elections, civilian predominance in institutions). There is also a historical and moral commitment to unify the continent after it was torn apart by two world wars (originating from it) and subsequently divided during the Cold War.

'European identity' is a theme that has been copiously discussed without definitive answers on its origin, content, range and implications. The more important practical issue is whether 'European identity' is intrinsic to solidarity among member states: in the form of financial transfers, communal embassies, Schengen, and so on. Could this solidarity be legitimated, or even exist, without a sustainable 'European we-feeling'? (Winkler 2002) Common European understanding about the conceptual approaches to community policies, along with their scope, financial magnitude and distributional effects, is already fragile. If the opinion

that Turkey does not culturally and historically belong to Europe solidifies among EU populations, then - whether this estimation is correct or false - the EU may experience an identity crisis and further deepening processes will be blocked. On the other hand, the prospect of Turkey acceding to the EU may stimulate a common (negative) response among large numbers of its citizens that would generate, in an unintended way, a popular form of European unity. The Commission, in an understated manner, noted that its October 2004 recommendation provides the basis for the Council to make a decision of 'general political importance' for the future of the European Union. It seems unavoidable, however, that a possible EU membership for Turkey must involve a direct decision of European citizens. The form and timing of such public participation will be a matter of controversial debate.

A EU Perspective supports reforms but is itself no guarantee of success.

Positive political and economic effects of a EU perspective on Turkey are frequently impressed. While this is an important argument, it does not necessitate unconditional full membership, which cannot substitute for Turkey's own required efforts. Moreover, in the economic policy area the IMF is Turkey's most important partner, even if it and the EU work, as in central and eastern Europe, hand in hand.

Table 14: **Potential Welfare Gains for Turkey through EU Integration**
(in various studies – long-term steady state effects)

Study	Scope	Effect-Mechanism and/or Method	Effect-Quantification
Harrison et al (1997)	Custom Union since 1996	Elimination of tariffs and non-tariff trade barriers, harmonization etc.	1.1 % of Turkey's GDP per year
Togan (2004)	Trade Liberalisation	Gravity Model on Trade	1.5 % of per capita income per year
Lejour et al (2004)	Trade Liberalisation Institutional Reforms	Computable General Equilibrium Model of World Trade	Effects through trade: 0.8 % of GDP; 1.4% of consumption. Institutional effects 5.6% of GDP, 8.9% of consumption
Own estimates (Quaisser and Reppeghater 2004)	All integration effects	Estimates based on the model calculations related to the Eastern enlargement of the EU	2.5% to 5%; With FDI: up to 10% of Turkish GDP

There should be no illusions regarding the potential scale of positive integration effects. Because of already existing trade (customs union) and capital liberalisation, the immediate (statistical) economic effects of Turkey's membership for the EU will be marginal: less than 0.1% of GDP. This is also related to the small size of the Turkish economy (2% of the EU-25) and its limited trade importance for the EU (2% to 3% of the trade volume). During the last decades Turkey shifted its trade remarkably towards the EU (58% share of exports) but its trade share is still below of those of the NMC's (EU share about 70%).

For Turkey this will be in the region of 2.5% to 5% of GDP and may be higher if dynamic effects, primarily FDI, occur. Under favourable circumstances positive effects could be doubled (around 10% of GDP). A EU perspective would support greater political stability, which in turn encourages the flow of FDI. Notwithstanding this, national economic policy will remain decisive for successful convergence. It must also be taken into account that the above

mentioned effects could also occur through an extension of the customs union and phased integration into the internal market – without a full EU membership being required.

Costs of EU convergence for Turkey.

The economic gains of EU entry have to be balanced against the outlays, which are difficult to quantify and evaluate, especially as they are linked to positive side-effects. Costs arise through the taking on of norms and standards. These will primarily burden Turkish small enterprises oriented to production for the local market. Then come social and environmental standards, conceived for highly developed countries, which could adversely affect the internationally competitive position of those in transition. The European model of the social welfare state and over-regulation – with huge transfers to poorer members - is in crisis and can hardly be considered as a model for progression. In fact there exists only one clear success story, Ireland, which in addition to benefiting from EU redistribution also introduced radical changes to tax rates, attracted FDI, and invested heavily in education and technology. Its population is English-speaking, which gave Ireland an advantage that others, including Turkey, do not have.

On the other hand there are in the medium and long-term also positive social outcomes: among them, a ban on child labour and formal equality of men and women. Long transition periods are envisaged before the full introduction of EU environmental standards in areas that do not concern the internal market. Difficult adaptation is also certain for competition policy. As for the internal market, Brussels enjoys extensive powers and Turkey will be forced to comply with strict rules. The possibility of a selective subsidy and protectionist policy, like those pursued by other transition countries, with varying results, will be minimal and must be approved by the Commission. As an offset, Ankara can reckon with high EU transfer payments for rural regions, though the strong pressures for migration will thereby not be stopped.

Admission to the CAP means advantages for Turkish consumers but disadvantages for Turkish farmers. Transfer payments from Brussels can partly alleviate this.

The Turkish agricultural sector employs around 34% of the total workforce, comparable with Romania. It is characterised by subsistence and semi-subsistence farming with very low productivity, hidden unemployment and low competitiveness. Of about 3 million holdings (compared to 6.8 million in the EU-15 and 6 million in the NMCs) small farms are dominant. 65% of peasants operate farms of less than 5 ha of agricultural land. The large size of the sector has motivated concerns about the implications of its integration into the CAP. Membership will mean that Turkey's agricultural trade with the rest of the EU will be liberalised and prices will move towards equilibrium. High Turkish subsidies, and concurrently the income of farmers, will sink. Negative effects can be expected for rural areas where income levels are already about a quarter below those of the cities (Grethe 2004). On the other hand, lower food prices will raise the welfare levels of most Turkish consumers and in particular low-income groups (in total by 0.4% of GDP).

As a partial equalisation for its farmers Turkey will receive EU transfer payments for rural regions (a maximum of €8.2 billion per annum at 2004 prices). An entry scenario could mean payments of between €1 billion to €2.6 billion per annum (see Section 8). For the EU the political repercussions of financial redistribution following a liberalisation of the agricultural

produce market should be limited because of lower price and volume effects and/or because it is absorbed by a general trend of agricultural liberalisation and lower producer prices.

Turkey is currently implementing a programme to restructure the farm sector and publicly funded support. The objective of this policy change is to phase out price support and credit subsidies and to remove the state from direct involvement in the production process. A Direct Income Support system (DIS), based on land rather than inputs and outputs, is being introduced. It is estimated that 75% of Turkish farms are eligible for DIS. The basic idea of the system corresponds to the EU income support system, which will gradually be delinked from the means of production (land and animals). The reform promises to increase the efficiency of agricultural policy but it remains to be seen how this policy shift will effect rural economies as a whole, considering that Turkey is directing a substantial 4.1% of its GDP to agricultural support (Commission [DG Agriculture] 2003b).

The costs of structural change will be only partly compensated through EU structural and regional policies:

In the event of a Turkish accession the EU's structural and regional policies will be faced with massive challenges. Besides problems of administrative capacity (for both sides) the financial implications are disquieting. Along with the considerable development gap to the EU at the national level are regional disparities greater than in any EU country. As one of the poorest members Turkey will be eligible for the full benefits of the most important programs. In *status quo* structural policy terms virtually the entire country will qualify as an Objective 1 zone and receive up to 4% of GDP in support. This would mean about €13 billion in 2014 (see Section 8).

Such a level of transfer contributions is for the initial years rather unlikely. Nonetheless, the dimensions of these potential financial receipts give some indication of the tasks facing the Turkish administrative, political and fiscal sectors in a pre-accession period. This is magnified by comparison with the present state of affairs whereby financial support is fairly modest (about 0.1 % of Turkish GDP). In the next EU financial period, if negotiations on membership begin, a yearly pre-accession assistance for Turkey of about €0.5 billion (0.3% of GDP) can be expected.

7. Political-strategic Arguments in Favour of Turkey's Accession to the EU are not Entirely Convincing.

As the EU can hardly expect substantial, if any, economic advantages should Turkey join, the arguments in favour of Turkish membership concentrate on foreign policy considerations. There are frequent assertions that accession negotiations will have positive effects on European security, on the Turkish reform process, and on the Islamic world (as a counter model to fundamentalist Islam). Many leading politicians stress this line of argument. It corresponds to the American strategic estimation and is noted in the Commission's recent Impact Study (Commission 2003b). In this context there are frequent references to '11 September'. The threat of Islamic terrorism was emphasised most fervently by the German Foreign Minister Joschka Fischer. In an interview with the BBC he compared the entry of Turkey into the EU

with the Allies' Normandy invasion in 1944. According to Fischer the modernisation process necessary for the secular Muslim state to join the EU 'would be almost a D-Day in the war against terror' and 'the greatest positive challenge for these totalitarian and terrorist ideas.' (Cf. BBC 20 October 2004; *Frankfurter Allgemeine Zeitung* 20 October 2004).

Leaving this somewhat melodramatic formulation aside, if one accepts that there is a real danger of Turkey sliding towards becoming a theocracy and that the EU could prevent this, then this would be a powerful argument.⁴ This may mean a complete reevaluation of the EU's self-conception and ambitions. A shift of accent in the European visions of some important politicians, perhaps before all Fischer (*Frankfurter Allgemeine Zeitung* 6 March 2004), is already noticeable. The goal of a political union has moved to the background. It appears that the EU shall now, with Turkey's help, operate globally as a strategic actor alongside the USA and provide additional assistance in stabilising a crisis-wracked, but for the West essential (because of oil, the terrorist threat, and potentially dangerous unsavoury regimes) region. There is no doubt that a stable democratic Turkey would play a strategically important role for the EU. It is not at all certain that this could only occur in the framework of a full membership. A strategic partnership and 'traditional' foreign policy could provide the EU with much greater manoeuvrability to pursue its own interests. In this context NATO seems to have been undervalued, by both European members and the US. This is part of a larger international game.

A perspective of EU membership supports Turkey's internal reform process. And it is often pronounced that without such a perspective many reforms would not have been introduced or at least not implemented at this speed. It would however be a bold thesis that argued that the success or failure of the reforms is dependent on the EU. The modernisation process cannot be steered by the Brussels bureaucracy. There is also an apparent contradiction here: on one hand, the European values of democracy and human rights, manifestly established in state and society, are *pre-conditions* for the commencement of negotiations; on the other hand, it is a perspective of accession to the EU that, some contend, will motivate, develop and eventually secure these values throughout Turkey's political and social structures. Arguments that entry to the EU is imperative for modernisation are further weakened by the firm emphasis of Turkish politicians that a continuation of reforms is in Turkey's interest independently of the EU decision.

If the strategic argument is pursued further then it must also be valid for an even more critical actor, namely Russia, which has enormous oil and gas reserves, a large military, is a nuclear power, and is also menaced by terrorism. In this case an overburdening of the EU could hardly be concealed, though it simultaneously reveals a failure to effectively conceptualise long-term strategic partnerships with important neighbours. The EU is increasingly compelled to guarantee stability and security on the continent and environs, which also means ensuring its own functionality. There are accession obligations towards Bulgaria and Romania, and perspectives for Croatia and other countries of South-Eastern Europe will follow. This will require considerable resources for a long time into the future. A policy regarding other eastern countries must also be developed.

EU accession for Turkey is not the means by which to hinder a 'Clash of Civilisations' and strengthen a westernised (that is, manageable) Islam. Its rather low esteem in the Middle East,

⁴ A balanced discussion of the strategic arguments and other pro and cons of Turkey's EU membership can be found in Kramer (2003).

and indeed tense relations with some neighbours, means that any notion of Turkey's functioning as a model for other Islamic states to emulate is hard to support, even if Turkey is working hard to achieve this (Cf. Beris 2004). Any implicit threats by Turkey that, in the event of a rejection by the EU, it has strategic alternatives are thereby relativised. More daring is the vision of 'Europe as global power' (Cf. Guérot and Witt 2004). The EU is for the foreseeable future neither capable in terms of material resources nor politically prepared to play such a role. In this context the statements by Commissioner Verheugen, that he could not imagine a EU enlarged to include Turkey without a CFSP, are noteworthy (Emerson and Tocci 2004). In operational terms, such a policy is in its infancy. A EU with Turkey would indeed have more military-strategic weight but variable interests in specific instances will make it more difficult to reach agreement. Turkey borders on many crisis zones and it cannot be excluded that Ankara will have different foreign policy priorities to many if not all (other) EU states.

Some scholars (Aydin and Keyman 2004) and political figures (Yilmaz 2004) argue, quite plausibly, that Turkey's cultural-religious identity and geographic location cannot and should not be deployed as tools of argument against a Turkish EU accession. Both logically, and following a 'principle of fairness', Turkey must be evaluated solely by the same benchmarks, rules and standards – the Copenhagen Criteria – that other candidates have been judged by (and which should also apply to old members). 'Culturalist' references and the use of religion or geography as factors are then, it is argued, inapplicable. Yet what are the major arguments or assertions made by almost all those political actors and academic analysts who support an imminent commencement of negotiations on Turkey's accession to the EU?

The core of this argumentation is: geography and religion. That is, it combines the factors of a critical geo-strategic location and a primarily Islamic society of some 70 million people, and emphasises that these are present in an era when the wrong political signals or developments could be explosive for Turkey and an already wayward immediate neighbourhood, with grave consequences for Europe (and the United States). Therefore, with the spectre of 11 September omnipresent, the line of reasoning suggests that it is necessary to integrate Turkey further and faster into the West. And the EU serves as the best available vehicle to do this. This could also be expressed in a more rudimentary fashion: if culture/religion and geography cannot be the basis of an argument for keeping Turkey out of the EU, it cannot be the basis of an argument for admitting Turkey into the EU.

8. Membership for Turkey would have Far-reaching Implications for the EU

A decision on commencing accession negotiations with Turkey cannot be made without discussion on the possible consequences for the EU. This touches on the 'third Copenhagen Criteria', the capacity of the Union to cope with further enlargements. In the original long-version text of the Copenhagen Criteria (which cannot be found in the Commission's web-site archives) 'the capacity of the EU to integrate new members' is stressed as an important element to be considered before any negotiations are commenced (*Frankfurter Allgemeine Zeitung* 14 October 2004). Enlargement Commissioner Verheugen gave the impression that such a discussion was politically unwelcome. He noted that it was not known - projected to some

future unnamed date when Turkey might enter - how the EU would be organised and that speculation was therefore futile (*Spiegel Online* 27 February 2004). In later interviews he conceded that such a discussion was unavoidable and that he would commission a study on the theme (AFP 13 May 2004). The Commission, with encouragement from the European Parliament, produced its own impact study on the effects of Turkish membership on the Union (Commission 2004b).

Eastern enlargement and a possible Turkish EU membership is shifting the voting power in the EU towards the cohesion countries.

The eastern enlargement changed the EU from a group of predominantly rich industrial countries to a heterogeneous club of states with enormous economic disparities. The significance of the cohesion countries (those with income levels under 90% of the EU average) has grown. If one compares the old EU-15 in 2001 with a EU-28 including Turkey in 2013, then the cohesion countries will increase in number from three to at least fifteen and their population share will rise from 16% to 36%. Their voting weight in the EP will increase from 18% to 41% and, according to the Nice IGC, to 43% in the Council. In contrast to this their share of total EU economic performance will remain at about 10%. Even under the double majority voting system proposed in new constitutional treaty, the influence of the cohesion countries will remain strong (53% of states and 36% of the EU population).

This, relative to economic strength, disproportionate power shift in favour of the cohesion countries would be accompanied by tremendous hazards, particularly in view of the expansion of those policy areas that have the largest budgets and financial implications. Growing disparities in income, economic structures, and trade orientation, would weaken the internal coherence and goal specificity of European economic and monetary policies. Social cohesion would come under challenge. While the industrial core countries are concerned with securing and extending their competitiveness in high-technology fields (Lisbon agenda), the cohesion countries must introduce a successful convergence process – for Turkey this also means overcoming typical problems of underdevelopment in some regions – and integrate themselves effectively into the European division of labour (sectoral specification).

Table 15: **Significance of Cohesion Countries in Different Scenarios¹**
(Share in % of each respective EU)

	Cohesion Countries	Population ²	Votes in Parliament	Council Votes (Nice) ³	GDP ⁴
EU-15, 2001	20	16.2	17.9	21.5	10.2
EU-25, 2004	52	29.9	36.1	42.1	14.3
EU-28, 2013	53	36.0	40.7	43.0	9.8
Of this, Turkey	3.6	14.2	11.2	7.8	3.0

Note: ¹ Cohesion countries lie under the 90% income threshold of the combined EU, measured by GDP per capita in the year noted. ² For 2004, population for 2001; for 2013, medium prognosis of the UN; ³ According to the Treaty of Nice; ⁴ For determining respective GDP per capita income and the GDP of the EU-15, a 2% rate, for the first enlargement round a 4% rate, and for the second enlargement round a 5% real growth rate, are applied. Source: Eurostat, own calculations.

The Commission's impact study is very general and does not sufficiently illuminate the effects on the Union.

The impact study (Commission 2004b) requested of the Commission by the EP and some member states represents only an initial assessment. On the bases of size, situation, and economic and military potential, Turkey's accession is assessed as incomparable, though in geo-strategic and security policy terms as advantageous. It is envisaged that Turkey could take on a stabilising function for the entire region, even if the CFSP may concurrently run into difficulties. Additionally, potential problems related to the control of the EU's external borders are highlighted. Security policy questions such as the containment of organised crime, smuggling and terrorism, represent enormous challenges.

Because of Turkey's, in comparison to the EU, limited economic power, and liberalisation introduced by the Customs Union, the economic effects on the EU are assessed as rather insignificant. The effects for Turkey are evaluated as positive. Here, however, generally expected growth and productivity effects are mixed with others that occur directly (participation in the internal market) or indirectly (political effects as a consequence of higher investment) from membership. Structural adaptation processes that could have retrospective effects on the EU are addressed. In particular this focuses on increased migration pressures, which with reference to various studies are quantified as between 0.5 and 4 million persons. Turkey's high rate of population growth could have positive effects on the ageing EU.

In contrast to previous announcements, including from the Enlargement Commissioner, the Commission also undertook an initial estimation of budgetary effects. In the framework of the present *acquis*, press reports on a first version of the impact study mentioned net costs for the year 2025 of between €16.5 billion and €27.6 billion. In the now obviously reworked and published version the 'hypothetical' net costs are posited as 0.17% of EU GDP in 2025. A presumption here is that costs related to Turkey's accession could only be evaluated on the basis of the financial perspective from 2014; implicitly an accession of Turkey is regarded as possible only after 2013. It is emphasised, nonetheless, that no further entry criteria should be introduced. In regard to institutional effects the document is very general. New voting weights in the Parliament and the Council (population component) are noted. In light of forthcoming reductions in its numbers and a proposed rotation system from 2014, direct effects of a Turkish accession on the Commission are not expected.

The Commission summarises that the 'Accession of Turkey to the Union would be challenging for both the EU and Turkey. If well managed, it would offer important opportunities for both' (Commission 2004b: 3; 2004c: 4). Although because of uncertain parameters (time and form of accession, condition of the Union, *acquis* at the time of accession) the Commission must necessarily remain rather vague in its prognoses, it sees more chances than risks. In the longer term it cannot be disguised that Turkey's accession will have extensive effects on the EU. This is expressed in regard to regulations on migration, where the possibility of a 'permanent safeguard clause' is raised, and also financing. The comment that the process is uncertain in terms of outcomes and will last many years (10 to 15), and the proposals for restrictive negotiation procedures, indicates that 'mixed feelings' also existed in the Commission and perhaps the Enlargement Directorate itself.

Commissioner Verheugen's remarks in a recent television interview (N-TV 6 October 2004), that a positive recommendation for Turkey may turn out to be a mistake, reflects some of this uncertainty. Turkey's unpredictability stimulates many questions. One of the most ba-

sic is, should a state that – tacitly, implicitly, indirectly, or in any other way – threatens to adopt an antagonistic posture towards the EU (as Turkey did in 1997 and on other occasions), and even to head in an anti-democratic direction, if it is not granted official negotiations on membership, ever be accepted as a member? For a state to take such a course suggests that democratic instincts and practices are not deeply rooted in its political culture.

Full-integration of Turkey in EU expenditure policies would cause high costs. Reform pressure on the EU agricultural and structural policies increases.

The chance to implement genuine major reforms of the CAP and structural policy was missed before the eastern enlargement. Some changes in the CAP (de-coupling of income support from the means of production) will help to reduce expenditure in future, but much remains to be done. In structural and cohesion policy a concentration on fewer objectives is indicated, but the debate is focused on different phasing-in (new member states) and phasing-out (old member states) schemes. Considering the enormous challenges that the enlarged EU faces in order to promote a successful convergence process, this is a major disappointment.

Against this background the EU's acceptance of Turkey is a risky venture. Projections initially indicated a moderate cost: an entry scenario of €5.2 billion per year in net transfers, but which could, with full integration into community policies in their present form, rise to €14 billion yearly (Quaisser and Reppegather 2004). Projections of this nature were previously derided as panic inducing and, simultaneously, not to be taken seriously.⁵ Moreover it is underscored that all relevant cost factors can be politically influenced. It is presently unclear precisely what EU expenditures at the time of a possible Turkey entry will be. The political decision process will involve the positing of *status quo* scenarios in order to calculate the extent of necessary reforms.

What has become increasingly clear is that an accession of Turkey cannot be transmitted to the European publics without a concurrent assessment of the consequences for the EU. Even before the Commission's Regular Report and Issues Paper were completed, figures from the Directorate-General for Agriculture (headed by the Austrian Commissioner Franz Fischler) appeared in the press. These indicated that agricultural costs alone could reach €11.3 billion per year. In the impact study this was revised to €8.2 billion per year (Commission 2004b: 46). Grethe (2004) predicts a lower cost of about €7.4 billion (with status quo conditions).⁶ For our calculations it seems reasonable to accept the Commission's forecasts. Employing these we also revise the costs for administration and internal policies from €1.6 to €2.6 billion.

Revision of earlier cost projections (Quaisser and Reppegather 2004) is also necessary because new GDP figures for Turkey and new growth prognoses influence the projections for structural expenditures and Turkey's own contributions to the community budget. Additionally, the price basis and the possible year of entry to the EU have been changed. The figures

⁵ Enlargement Commissioner Günter Verheugen (Spiegel Online 2004) was prominent in making such statements. For the previous eastern enlargement he had suggested that uncertainty, including for the cost, was an intrinsic feature of the project (*Der Spiegel* 13 September 1999: 220-224).

⁶ Calculations by Grethe (2004) are based on equilibrium modelling of the Turkish agricultural sector, taking its structural specificities into account. The main difference between his and the Commission's calculations is that Grethe applies the real devaluation of nominal fixed amounts for direct payments. In different reform scenarios he additionally assumes a 3% cut in direct payments yearly.

correspond to constant prices for 2004 (previously 1999) and an accession is now forecast for 2014 because this coincides with the commencement of a new finance period (following the period which begins in 2007). These alterations enable a necessary updated calculation (better comparability).

For an accession in 2014 we predict, in an entry scenario, a net transfer of €8.5 billion (0.06 % of EU-28 GDP; Germany's contribution €1.7 billion). This would be a little over one half of expenditures (obligations) going to the NMC's in 2006. If in 2014 Turkey is completely integrated into the EU's expenditure policies the net contribution would rise to about €21 billion (about 0.16% of EU-28 GDP). This would comprise a little less than one half of expenditures for new members in 2014. The Commission estimates total net transfers to a maximum of €27.6 billion for 2025 (as the projected year of full integration into EU policies; about 0.16% of EU-28 GDP). If reforms (primarily a limiting of structural funds to 2% of Turkish GDP) are enforced, these estimates would be reduced down to €16.4 billion (0.1% of EU-28 GDP). Against this background, there is a certain irony about Commissioner Verheugen's critique of some earlier cost projections.

Table 16: **Cost of a EU Accession by Turkey in 2014** (€ billion; 2004 prices)

Entry Scenario (corresponding to the first enlargement round, expenditure for 2006)	
Transfers in total	10.2
Agricultural expenditure (with 35% direct payments)	2.9
Structural funds (1.4% of GDP)	4.7
Other (administration, internal policy areas)	2.6
Own contributions (0.5% of GDP)	1.7
Net transfer	8.5
Germany's financial contribution (20%)	1.7
Authors Scenario of Full Integration in EU Policies (2014) (with 100% of direct payments and 4% of GDP as absorption limit)	
Transfers in total	24.2
Agricultural expenditure (with 100% direct payments)	8.2
Structural funds (4% of GDP)	13.4
Other (administration, internal policy areas)	2.6
Own contributions (1% of GDP)	3.3
Net transfer	20.9
Germany's financial contribution (20%)	4.2
Commission Scenario of Full Integration in EU Policies (2025) (with 100% of direct payments and 4% of GDP as absorption limit)	
Transfers in total	33.2
Agricultural expenditure (with 100% direct payments)	8.2
Structural funds (4% of GDP)	22.4
Other (administration, internal policy areas)	2.6
Own contributions	5.6
Net transfer	27.6 (Reform: 16.4)
Germany's financial contribution (18%)*	5.0 (Reform: 3.0)

Note: *The German contribution is reduced according to its declining GDP share. Source: Authors calculations, European Commission (2004a)

Table 17 shows that calculations by Quaisser and Reppegather (2004) of €14 billion hardly deviate from those of other authors. Our current higher figures are based on the Commission's

own assumptions and some technical changes (new price basis and growth projections). The net costs (based on unchanged policies) estimated in various studies range from €8 billion to €14 billion. What conclusions can be drawn from this?

Firstly, it is correct – as the Commission also remarks – that all calculations are speculative, because all modalities and the timing of an accession, as well as the configuration of EU policies at that time, are unknown.

Secondly, status-quo scenarios show that full integration of Turkey into EU policies represents a considerable financial burden.

Thirdly, if considered in isolation this disbursement could be manageable, though because of the questionable ‘efficiency’ of these policies it can hardly be justified.

Fourthly, in combination with constantly rising expenditures for new member countries, and those required for further ancillary enlargements (Bulgaria, Romania, other Balkan states) as well as those for new tasks (foreign and security policy, Lisbon process), the funds to pay for transfers to Turkey may have to be obtained through an increase in the budget (which means tax rises) or cuts in receipts for current members. Either would provoke acute political difficulties.

Fifthly, within a framework of comprehensive reforms in EU policies, solutions that would make an accession by Turkey financially bearable could be found. But it remains open whether these reforms have a realistic chance.

Sixthly, alternatives are founded on the formulation of special conditions for Turkey. The disadvantage here is that this would be very difficult to impose and would lead to permanent conflict with Ankara.

Table 17: **Other Estimates on the Budgetary Consequences for the EU**

Study	Projected Year	Method	Transfer Yearly
Flam (2004)	Present System (2000)	Regressions based on existing expenditures, income level and voting power	Net: €12 bill
Togan (2004)	Present System (2000)	Regressions based on existing expenditures, income level and voting power	Net: €14 bill
Hughes (2004)	Present System Between 2015 and 2017	Comparable amounts (per capita) as Bulgaria and Romania and 4% GDP ceiling for structural funds	Gross: starting from €11 bill in 2015 to €19 bill in 2017
European Commission DG-Agriculture (2004)	Present System (2004)	Calculation according to the present rules	Gross: agricultural expenditures alone €8.2 bill
Grethe (2004)	Present System and Reform Scenario in 2014	Model Simulation	Status Quo, Net 2014: €10.9 bill CAP Reform, Net: €6.8 bill
Zft	Present System (2001)	Calculated according to EU-15 member states' shares of expenditures and payments	Net: €8.2 bill
Dervis, Emerson, Gros, Ülgen (2004)	Present System (2001)	CAP-costs comparable share of value added; structural funds 4% ceiling	Net transfers 2015: €18 bill

Turkish migration potential is high.

Massive income differences, especially with Turkey's less developed regions, and existing networks (around 2.5 million Turks are resident in Germany), mean that the migration potential from Turkey to Germany is considerable. On the basis of a model by Sinn and Flaig, our estimate is for an additional 4.4 million from 2013, using this as a possible EU-entry date.

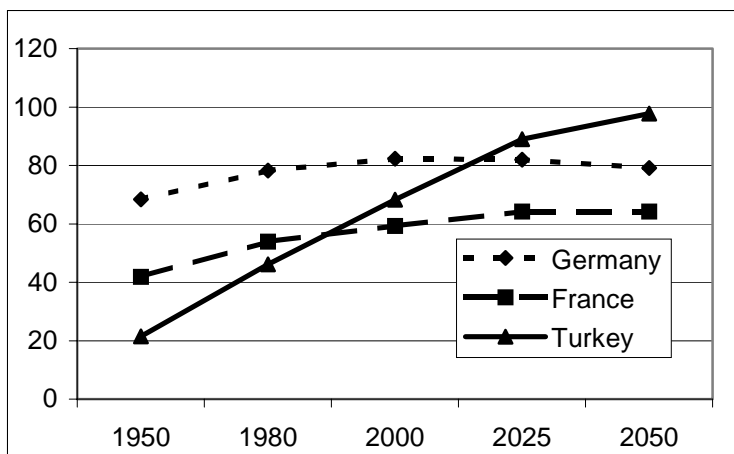
This should be treated as an upper limit. A halving of the income differential would reduce this to about 1.3 million.

Long-term transition periods, or a permanent safeguard clause currently proposed by the Commission in the area of free movement for persons, will result. Even with a population reduction in the current EU, the qualification profile (generally low levels) of the Turkish labour force does not correspond to European demands. Some integration difficulties associated with Turks already in Europe, before all in Germany, are also apparent. Immigration does not solve the problem of ageing (and linked pressures on the social system) in European core countries (see figure 5), because the reproduction levels of migrants adapt to the new context. These are reasons why projected positive welfare effects through the migration of Turks to Germany (Brücker 2004) are unlikely to materialise. However, if demographic change stimulates additional demand for labour in Germany, then a selective immigration policy would be the appropriate tool and not a general liberalisation of migration.

Table 18: **Migration Potential from Turkey to the EU-15 and Germany**

Study	Method	Migration Potential
Lejour et. al. (2004)	Migration elasticities from other studies applied to projected Turkish GDP	To EU-15: 2.7 Mill.
Hughes (2004)	DIW model (Alvarez-Plata, Brücker and Siliverstovs 2003) adapted for Turkey	To EU-15: starting at 225,000 per year with a total stock of 2.9 Mill.
Flam (2004)	DIW model (Boeri and Brücker 2000)	To Germany over 30 years: No convergence: 2.7 Mill. 2% convergence: 1.3 Mill.
Togan (2004)	DIW model (Boeri and Brücker 2000)	To Germany up to 2030: 1.5 Mill.
Quaisser and Reppegather (2004)	Sinn and Flaig (2001) model	To Germany from 2013: 4.4 Mill. Will decrease to 1.3 Mill. if the income difference is halved

Figure 5: **Demographic Trends in Germany, France and Turkey**
(Population in Millions)



Source: UN World Population Prospects; Statistisches Bundesamt 2004

Movement towards monetary union should proceed cautiously and joining the Euro should remain optional.

Entry to the EU does not mean immediate membership in the currency union, although due to the present treaty arrangements it is requisite in the long-term. Turkey does not meet any of the Maastricht criteria, though progress in monetary stabilisation, which could continue in the coming years, can be noted. In this respect, many transformation countries had similar experiences at the outset of the accession process.

The fundamental question, however, is whether in such a heterogeneous economic area it is sensible to demand that Turkey (as a current *acquis* obligation) pursues a rapid fulfilment of the Maastricht criteria and participation in EMU. The advantage of a faster linkage to or acceptance of the Euro is the import of credibility that would result. Interest rates would sink and higher FDI (a weak point in Turkish development) would be attracted. Admittedly, transition countries have higher inflation rates because of structural adaptation processes. Balanced against this, an orientation to the Maastricht criteria too early could lead to a restrictive monetary and fiscal policy with negative consequences for the Turkish economy. The EU would be well advised to refrain from forcing an integration of Turkey into EMU or alternatively enable a medium and long-term 'opting-out' mechanism.

Table 19: **Compliance with the Maastricht Criteria**

	Long-term interest rates in percent ¹	Inflation in percent ²	Fiscal balance as percent of GDP ³	Public debt as percent of GDP ³	Currency exchange rate regime
Maastricht Criteria					
	Ref. (7.5) ⁵	Ref. (2.0) ⁵	-3.0	60.0	EMS-II System ⁴ /Deviation from parity: plus or minus 15%
Euro zone 2003 (estimates)					
	4.1 Ref. (6.3) ⁶	2.1 Ref. (2.5) ⁶	-2.7	70.6	Three steps to Currency Union, starting 1 Jan. 1999 fixed exchange rate; Jan. 2002 introduction of the euro as cash
Candidates					
Bulgaria	4.5	2.3	0	53.7	Currency Board (Euro)
Romania	18.2	15.3	-2.3	26.3	Managed Float (US\$)
Turkey	42.8	25.3	-8.8	87.4	Float
Group Averages					
NMCs ⁸	5.5	2.9	-4.5	39.9	Different exchange rate regimes: Currency Board (Estonia), Crawling peg (Hungary) to Managed Float (Slovenia)
Candidate-2 ⁸	11.4	15.3	-2.3	40.0	Currency Board (Bulgaria); Managed Float Romania (USD)
EU-South 1990 ⁸	15.0	10.2	-8.3	75.6	EMS (European Monetary System)
EU-South 2003 ⁸	4.4 ⁷	3.2	-1.9	71.0	Euro

¹ For the euro zone and, if available, for the NMCs, interest rates for ten-year state bonds; shorter maturities taken for Estonia.
² Harmonised consumer goods price index. ³ Definitions might differ from those of the EU. ⁴ EMS: European Monetary System.
⁵ For interest rates, maximum of two percentage points above the best performers; for inflation, maximum of 1.5 percentage points above the best performers; reference values during the euro introduction (beginning 1999). ⁶ Reference values for 2003. ⁷ December 2003; ⁸ Unweighted averages. Sources: European Central Bank, Deutsche Bundesbank; Gros (2000)

9. From 'Privileged Partnership' to 'Extended Associate Membership'

In view of the vast geographic extension that accompanied its most recent increase in membership, the question of where the EU's borders actually lie has intensified. In early 2003 the Commission developed a strategy termed 'Wider Europe' involving the proposed construction of a 'Ring of Friends', that is, around the EU (Lippert 2004). Javier Solana reprised this at the Thessaloniki summit with the formulation: a 'ring of well-governed countries...with whom we can enjoy close and cooperative relations' (Commission 2003a; Batt et. al. 2003). This strategy coincides with an emergent ambivalence about the EU's purpose, ambitions and capacities, an ambivalence that can be expected to intensify. In cooperation with the 'EU-Outs', the 'Wider Europe' strategy proposes to form concentric circles of differentiated integration, which in the economic field could include an extended European Economic Area (EEA), free trade, customs union, and unified standards and norms. Differentiation is the operative principle: the relationship of neighbouring states will be 'tailored' to each specific case.

Implicitly, this strategy involves the drawing up of the EU's borders. In the framework of this concept, countries below the threshold of EU membership (such as Russia, Ukraine, Moldova, Belarus and those of the Maghreb) will be associated in a differentiated form. They are distinguished from others (Balkans, Turkey) towards whom the EU has taken on special obligations. Taking the very variable situations and problems into account, a flexible, differentiated strategy is required. Simultaneously the question 'what stage of integration should these countries terminate at?' is justifiable. For several of them (Ukraine, Moldova, Belarus), full membership is neither a reliable 'European anchor' nor a realistic objective in the foreseeable future. These countries are far from fulfilling any requirements to even to start negotiations. For others, like Turkey, the EU may be not be prepared to cope with their membership. Turkey may be the first case for which the EU develops a special relationship that could also serve as a flexibly interpreted model for other 'strategic partners'.

9.1. The Rapid Commencement of Entry Negotiations is Risky

The beginning of entry negotiations with Turkey sooner rather than later comes with major risks attached. Previous experiences cause serious doubts about the EU's reform capacity and the magnitude required could plunge the EU into a deep crisis that paralyses it for years. This may occur if the new constitutional treaty is rejected by a single national parliament or in a referendum. A Turkish entry would then be pushed further back and stimulate another round of bitter disappointment. Various transition periods and exceptions to the rules (restrictions on free movement of people, delayed integration into disbursement programs) can also be expected. This raises the question of just how advantageous, in the short and medium-term, a perspective of full membership for Turkey would actually be.

Weighed against this, a EU perspective for Turkey would increase Europe's credibility in a country that has had associate status for many decades. Nonetheless, it must be noted that the nature of the promise given to Turkey in 1963, in the middle of the Cold War and concerning participation in a customs and economic union, is to be evaluated differently than the decision at the Helsinki summit in 1999 (candidate status for membership of the *European Union*). According to witnesses, this 'historic' decision on the future configuration of Europe was made in three minutes. A public debate on the external borders of Europe was avoided. This

perfunctory action by the heads of state and government compelled the EU to enter into a qualitatively different negotiation agenda with Turkey.

Box 1: Extended Associated Membership (EAM)

The concept of an 'Extended Associated Membership' builds on and clarifies that of a 'privileged partnership'. It offers targeted countries a clear and attractive alternative. EAM includes:

- Full participation in an 'Extended European Economic Area' (EEEA) based on the existing EEA (see Box 2). This means incorporation into the internal market with all regulations applying. Certain specific sectors might be excluded. Labour market access would be restricted and specially tailored treaty clauses would be negotiated.
- The institutional setting and coordinating mechanism of the EAM extends that of the EEA (see figures 6 and 7). A special council for EDSP coordination has to be established.
- Participation in EU Council meetings with opportunity to present positions. Voting rights would not apply.
- EAM goes beyond the EEA concept as it also represents a custom union. EAM members have a right of consultation regarding the EU's position in trade negotiations.
- Support programs principally in the structural and cohesion policy area (including rural development). Agriculture (CAP) would be excluded.
- A special senate of the European Court of Justice would decide on treaty transgressions and other legal matters falling within areas agreed in the EAM.

EAM presumes a clear definition of Europe's (and the EU's) borders. This could involve reference to cultural, geographic, or 'consolidation phase necessary' justifications (or a combination of them).

- In the first case the declaration in Article 49 of the EU-Treaty that 'any European state can apply for membership in the EU' would have a cultural interpretation with which Turkey does not correspond.
- In the second case a geographic criterion would be applied. Over 95 % of Turkish territory lies in Asia. This would rule out Turkey from membership as it would North Africa, Israel and other extra-European states with which the EU has some form of special relationship.
- The third case envisages a pragmatic decision based on the need to avoid an over-extension and meltdown of the EU's capacities (which would not help anyone) and instead to concentrate on consolidation measures. This would have the effect of postponing any possible Turkish EU entry far into the future. For the same reason Russia's full EU membership as a quasi-European state would be ruled out. For all countries mentioned above the EAM would be the final integration level.

If a clear definition of Europe's borders is avoided then a more flexible approach could be applied. In this case EAM could be alternatively considered as a final or transitional integration level. In any instance it would be obligatory before full membership could ensue.

Yet it may also spark a different credibility crisis. Immediately upon the commencement of negotiations, discussion on the membership of other neighbouring states, with which the EU already has special relations, would intensify. The Rome Treaty's Article 49 can be noted here: 'Any European state can apply for membership of the EU'. This was declared without having defined what a 'European state' is or what it is not (Cf. Arnold 2004: 138-147). The EU cannot withdraw from the obligations it has created for itself or, for example, from the central security task of pacifying the Balkans. If Turkey is admitted, how could the EU refuse Ukraine a membership perspective should it successfully fulfil the Copenhagen Criteria?

Firstly, a cultural interpretation of Article 49 could ensue in which it was determined that Turkey was not a 'European' state. Secondly, a geographic reasoning could be applied in order to exclude Turkey (or Russia).⁷ About 95% of Turkish territory lies outside most currently accepted geographic definitions of Europe. A rejection of North African states – should they introduce the requisite democratic reforms and apply to join – by reference to geography would then be relatively uncomplicated. After a Turkish entry, however, this would be harder to justify. For countries like Moldova, Ukraine and Belarus this argument cannot be made. An entry of these some time in the future would also be in the foreign policy interests of the new EU members in CEE.

9.2. 'Privileged Partnership' and 'Extended Associated Membership' as a Integration Alternatives

The proponents of a full membership for Turkey warn of the danger that may result from a Turkish 'refusal-shock'. The danger is exaggerated as it is in Turkey's interest to maintain a close relationship with the EU and in the continuation of internal reforms. Turkey needs a European perspective but it must not necessarily be one that promises full membership.

To avoid a spatial and institutional-organisational overstretch, the EU could offer Turkey and other strategic partners a Privileged Partnership (zu Guttenberg 2004), such as proposed by the Christian Democratic parties (CDU/CSU), and also preferred by some prominent Social Democrats in Germany, or an 'Extended Associated Membership' (EAM). This presumes a clear definition and confirmation of the EU's borders. Alternatively the EU's heads of state and government could make the fundamental decision to introduce a long consolidation phase in which no additional enlargements would be undertaken.

A Privileged Partnership would be phased in and eventually surpass the status of special relations (Partnership and Cooperation Agreements) and normal Associate Membership. Privileged Partnerships could be individually negotiated and include membership in the EEA as well as particular forms of intensive political dialogue (regular summit meetings). This concept's main advantage is its flexibility. A disadvantage is that it appears less clear and attractive than full EU membership and would presently be rejected as an alternative by the Turkish government.

9.3. EAM Should Provide for Partial Integration in EU Political Structures and Cohesion Policy

The EAM goes further and attempts to better define a privileged form of relations. In the economic sphere it includes membership in an 'Extended European Economic Area' (EEEA). This would mean a full expansion of the internal market (with competition rules) for all countries concerned. Free labour movement would remain restricted and regulated in special treaties, similarly to other 'sensitive' areas.

These countries would be participants in the EU internal market with all the preferences deriving from market access, unified competition rules and through factor mobility (with restrictions noted above for labour). The economic effects of the EAM are then in large part

⁷ A potential counter-argument could be made by reference to the fact that - geographically defined - about 80 % of Russians and about 33 % of Turks live in 'Europe'.

comparable with full membership. EMU is not initially foreseen but is not fundamentally excluded. Participation in the internal market means that these countries would take on most of the *acquis* and must fulfil the already requisite economic criteria.

Extensive economic integration must be flanked by a partial integration in political structures and special cohesion programs. Only in this way would the EAM be a credible and attractive alternative to full membership. Acceptance of the *acquis* brings a wide range of obligations (and associated costs), which must be offset by equivalents in the political and financial areas. Partial political integration could follow in the context of enlarged EU Council meetings in which 'wider Europe' would decide on pan-European issues. This would not extend to voting rights but would include rights to present opinions and proposals. Defining the areas of competence for the enlarged EU Council would be difficult but not impossible. The institutional setting and political coordination scheme could follow those of the EEA (see BOX 2) but could be extended to include an intensified political dialogue and the ESDP (see figures 6 and 7). EAM countries would also have personnel employed in the European institutions, principally the Commission. This would be compatible with and assist the 'Wider Europe' strategy. Integration into EU policies would occur along with expanded support programs, before all through a newly configured cohesion policy. Participation in the CAP would be excluded and substituted by a focus on rural development.

Box 2:

The European Economic Area (EEA)

The EEA came into force on the 1st of January 2004. It includes the former EFTA countries Iceland, Norway and Liechtenstein. In a referendum Switzerland rejected the EEA-membership in December 1992. The EEA forms a common market with the EU based on the *acquis*. The agreement encompasses an important difference to other international treaties in that 'common rules are continuously updated by adding new EC legislation. This aspect is essential given the large output of Community legislation on the internal market. Each month a number of EEA-relevant pieces of legislation are incorporated into EEA Agreement by decision of the EEA Joint Committee.' (EEA 2004). EFTA experts are incorporated in the decision-making process and have a right of consultation in issues concerning the EEA. This differentiates it from the EU's bilateral treaties with Switzerland. The CAP and fisheries are not included although some issues of trade policy in these areas are mentioned. Because the EEA is not a customs union it does not affect trade policy with other partners. The agreement goes beyond the 'four freedoms' of the internal market and covers areas like research and development, education, consumer safety, environment and social policy. The EFTA countries can participate in designated EU programs and can influence their development and management through participation in corresponding committees. The EEA could be characterised as a high-level free trade area that excludes participation in the political process of the EU. The case of Liechtenstein proves that flexible solutions can be found in several fields like the free movement of labour. Influence on the EU's internal market regulations is rather limited. Several institutions ensure a proper functioning of the EEA. These include a Joint Committee (responsible for current implementation); the EEA-Council (consisting of the foreign ministers of the EU and EFTA member states); a Joint Parliamentary Committee (MPs of all states); and an EEA Executive Committee (member of various committees of the EU). In addition several other regulatory organs are involved (current Committee of the EFTA-states with coordinating functions; EFTA supervisory office; and a special court).

Figure 6: **Different EU Integration Paths and Stages**

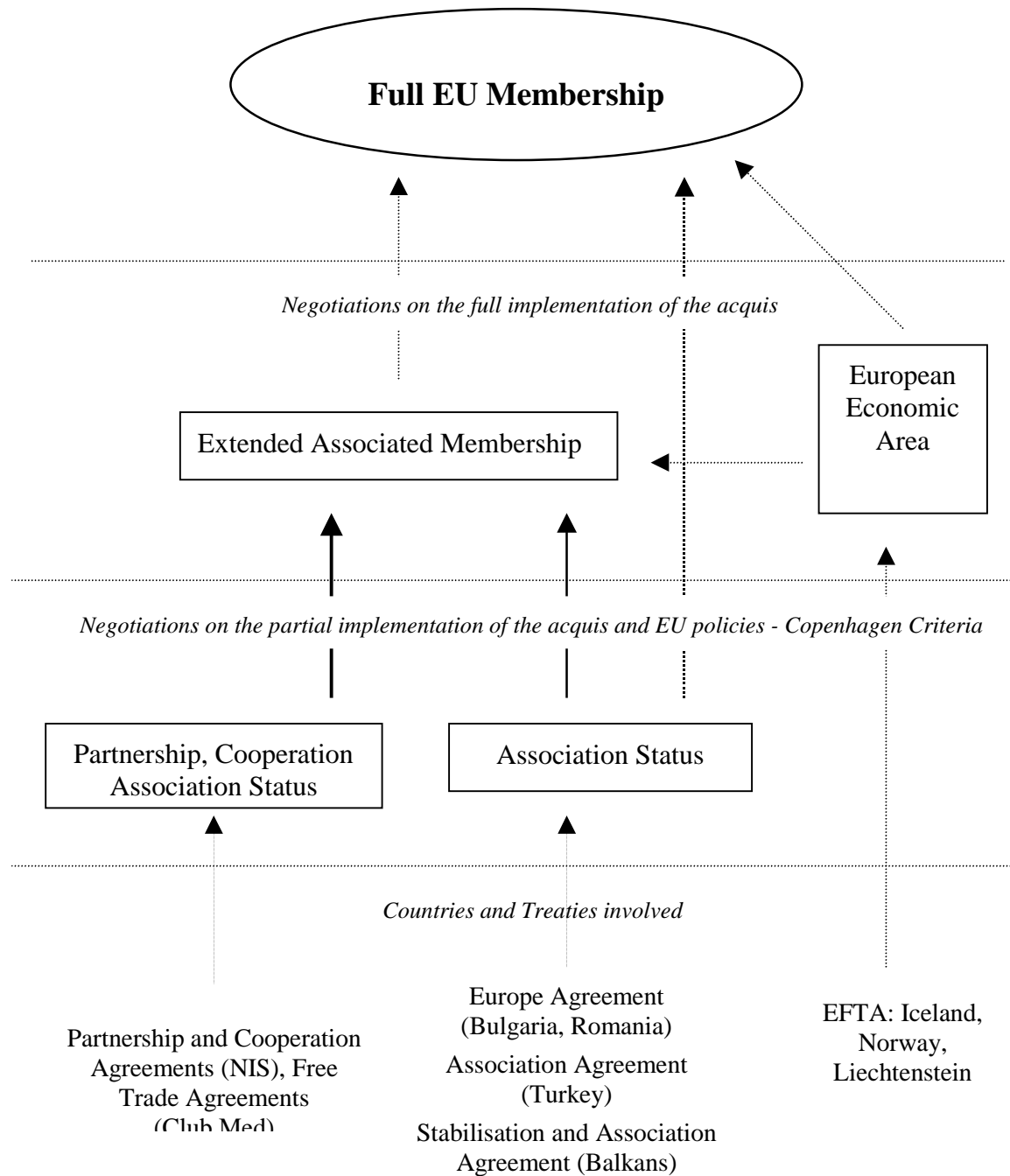
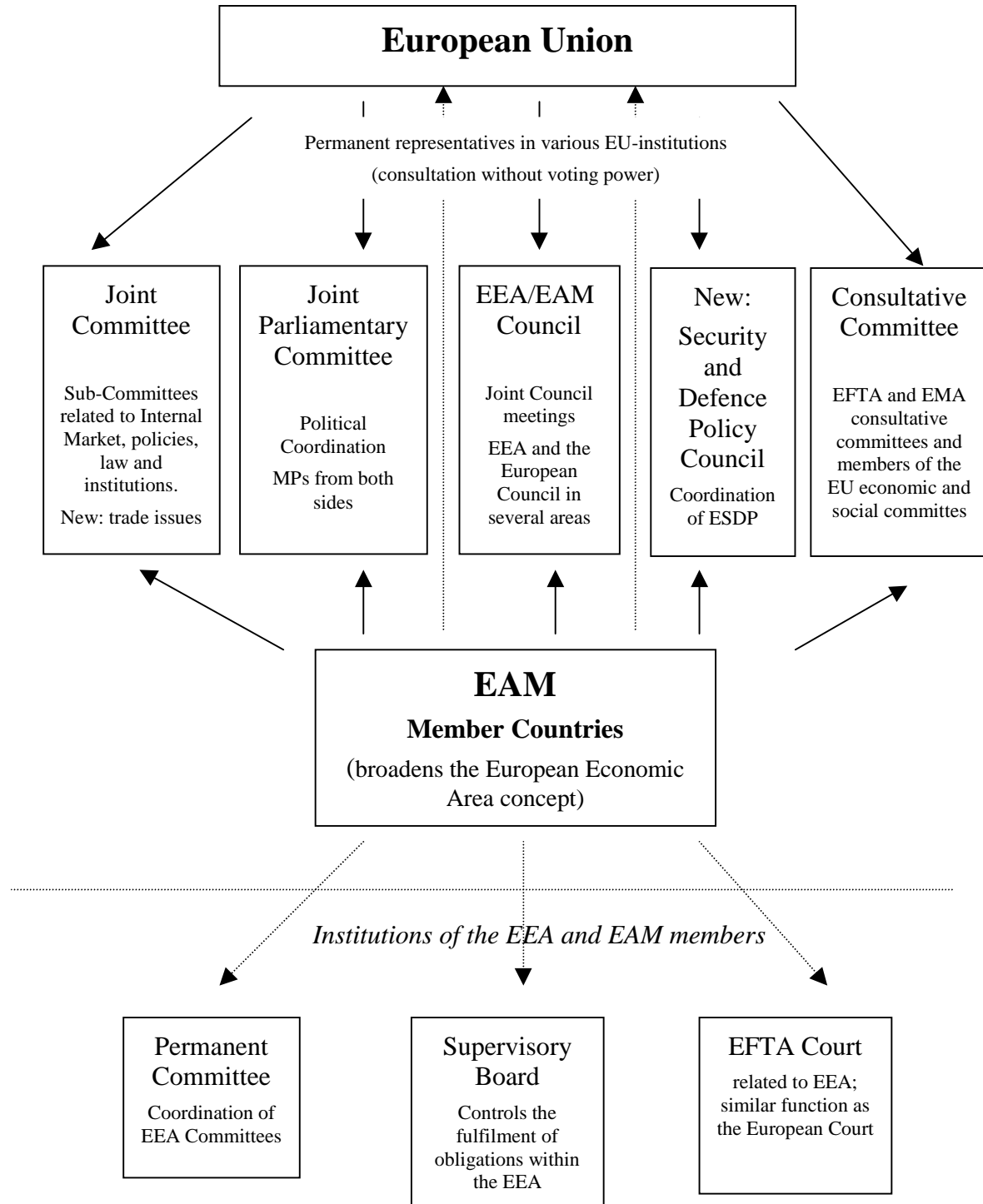


Figure 7: Institutional Framework of EU and EFTA/EAM Policy Coordination



9.4. Integration Alternatives Remain Topical

To the present Turkey has rejected any integration alternatives. This is rational in the sense of aiming to realise maximum positions. Although there are signals that EU entry negotiations will commence fairly rapidly, a discussion of alternatives is sensible. The process is featured by an underlying fragility. It cannot be excluded that the political and economic imponderables of a Turkish membership might lead to a change of thinking in Turkish estimations. The conclusion may be drawn that EU membership demands too much in the way of adaptation costs and entails excessive loss of sovereignty. This would cause an entry perspective to be pushed far into the future.

There are also further political uncertainties. From official sources it is repeatedly emphasised that only the complete fulfilment of the Copenhagen Criteria and the adoption of the *acquis* will determine Turkey's acceptance or not. It must also be remembered that the acceptance of a country must be unanimously approved and ratified by every national parliament. Turkey's membership is disputed in the EU15 and it is presently open what positions will be adopted by the NMCs. Complex EU regulations may also be responsible for delays; so too political or economic crises in Turkey, as has often happened in the past. The Commission's proposal of a restricted approach reflects these fears.

9.5. Consolidation Before Enlargement

It is often forgotten that the Copenhagen Criteria also contain provisions requiring that the EU must be capable of enlargement. We do not know what the EU will look like in ten years. Gradual policy alterations and uncertainty about the discharging of the draft constitutional treaty stimulate doubts about whether the EU with up to 30 members can function effectively. A long consolidation phase is necessary cope with the eastern enlargement and to further develop important economic projects (internal market, EMU, Lisbon process). In the political area the new constitution (if it is adopted) must be tested in practice. Further reforms are required to overcome insufficient institutional structures, the democratic deficit, and the complicated treaty and regulatory domains. A division of competences must be clarified and thoroughgoing changes in agricultural and structural policies introduced in order to avoid financial and structural collapse. If this does not happen, negotiations with Turkey would be delayed and ultimately arrive at a 'membership second class' with limited integration in key EU policy areas. Because of the striking income difference the free movement of labour must in many instances be restricted by long-term and flexible transition rules.

On the other hand the EU is endangered by a retreat from the 'solidarity' principle of interest equalisation. Because financial redistribution is losing importance as the principal linkage in the European decision process, political compromises will be ever more difficult. Increasing economic heterogeneity will make a unified economic and monetary policy harder to attain and would entail different starting points for different groups of states. Conceptualising and conducting a CFSP will not be any simpler; a larger group of states with different preferences in this area now participate in its formulation. This is especially pertinent for Turkey, which borders on many conflict regions. There is a danger that different integration levels and shifting alliances will arise, which formally or informally draw variable decision-making mechanisms to themselves. In such a situation considerable technical, organisational, and be-

fore all political problems, are likely. As a result the EU would become a club of varied memberships, hardly different to the 'Extended Associate Membership'.

Table 20: **Necessary EU Reforms before Turkey can Enter the Union**

Policy Areas	Policy reforms, actions and problems
Agriculture	Co-financing of direct income transfers for farmers; Commission concentrates on market supervision and competition
Cohesion Policy	Concentration of transfers to poorer member states; regional policy returned to the national level; Commission to monitor national policy approaches
Financing and expenditures	The budgetary system has to be transformed to become fair and transparent; the British rebate has to be abolished; a new mechanism for financial transfers has to be found
Internal Market	Regulations of the <i>acquis</i> have to be streamlined and simplified; free movement of labour has to be restricted
EMU	No automatic obligation to join EMU
Lisbon Process	Coordinated action of major EU economies; Commission's role limited to organising the dialogue
EDSP	Better coordination needed; enhanced cooperation extended; more funding required
Policy coordination	Different types of formal and informal policy coordination have to be developed according to different integration levels

In the face of such a scenario the question is posed whether the EU, as a strategic actor, can summon the strength necessary to make a quantum leap that would enable it to become a partner of the USA in global security. For German foreign policy, the idea of 'political union' (hidden behind the formulation 'Core Europe'), which was once a precondition for the sustainability of EMU, is now apparently being backed away from. If Europe wants to think 'global' or even 'continental', improve its competitiveness, and provide a major contribution to international security, then political and economic integration must be advanced. If not the EU will remain a looser 'union of states'. 'Size' alone does not equate with 'strength', neither internally nor when directed externally.

An accession process with Turkey, and possibly other states (Balkans, Ukraine, Moldavia), may as a consequence intensify endeavours by a core group of EU members oriented to strengthening political, economic and military cooperation. Expressed another way, the centrifugal forces of the European unification process (enlargement or 'widening') could give a powerful stimulus to a counter movement of important European countries to form a 'core Europe' focused on 'deepening' integration. The possibility of this occurring is present within the framework of the new constitutional treaty. If others were to block this 'core Europe' process, then new (intergovernmental) integration concepts would be pursued. Interstate coordination (bilateral/trilateral/quadrilateral) would increase and changing integration cores, variable according to national interests, would form. Not more, rather less security in Europe, could result.

Table 21: EU Integration Levels and Association Strategies

Integration Level and Target	Requirements	Economic Integration	Institutions and Politics	Financial Programs
PCAs Target: not defined; may end in EAA	Not necessary full market economy and democratic legal order according to EU-standards but should be approached; 'Copenhagen Criteria light'	Non-preferential treatment in trade Economic cooperation	Intermittent political dialogue Suspension clause	Tacis
FTAs (Associated Status) Target: not defined; may end in EAA	'Copenhagen Criteria light': legislation should be approximate to the that of the Internal Market	Preferential treatment in trade; should be extended to services	Committees, political and security dialog; cooperation in transport, energy; support for WTO-membership	Meda, MFA
SAAs (Associated Status) Vague target: full EU-Membership	Objective: Market Economy, Copenhagen Criteria; regional co-operation; monitoring	Free Trade, partial adoption of the <i>acquis</i>	Association and Stabilisation council; Committees on different issues; intermittent political dialogue	CARDS
Bilateral treaties (Switzerland) Target: not defined; short-term: association agreement; long-term: full EU-membership	Market economy; Democratic legal order; Partial adoption of EU legal norms	Partial integration in European Economic Area (EEA), Preferential Agreements, Schengen	Intermittent political dialogue, technical dialogue	Integration in some EU programs; contributions to cohesion funds
EAA Target: not defined, may end in full EU-membership	Market Economy and Democracy	Internal Market: Four Freedoms: goods, capital, labour (restricted), services	Several special institutions (i.e. joint committee, councils, supervisory organisation, special court)	Partial Integration in EU Policies; contributions to cohesion funds
Europe Agreement (associated status) Target: Full EU-Membership (no clear legal commitment)	Phased adoption of Copenhagen Criteria (democracy, human rights, market economy, competitiveness capacity) and <i>acquis</i> ; Monitoring Process	Preferential trade agreements; phased liberalisation up to free trade and capital mobility; free movement of labour excluded	Association Council; Accession Partnerships; Intensive regular political dialogue	Pre-entry assistance (e.g. PHARE, SAPARD, ISPA)
'Privileged Partnership' Target: Associate status extended to several areas – final stage	Market economy; democratic legal order; competitiveness capacity; selected areas of the <i>acquis</i>	Customs Union; selected areas of liberalisation in the field of services; labour excluded	Association Council extended; (sub-committees in several fields); Intensive regular political dialogue Close cooperation in ESDP	Individual support programs
Extended Associate Membership (Authors' proposal): Target: Final integration level but full membership not excluded	Realisation of the Copenhagen Criteria and most parts of the <i>acquis</i> before membership monitoring process	EEA, custom union including internal market; free movement of labour excluded (but partial liberalisation possible); EMU optional	Participation in the decision-making structures of the EEA (Joint Committee). Partial integration in EU political structures; Intense cooperation in ESDP	Partial integration in EU structural and cohesion policies, payments into these funds
Full EU Membership	Realisation of <i>acquis</i> and Copenhagen Criteria Schengen obligations	Internal market EMU	Full rights of a member state; Schengen obligations CFSP, ESDP	Full integration in EU policies (possible transition periods)

Explanations: PCAs: Partnership and Cooperation Agreements for Russia, Ukraine, and Moldova; FTAs: Free Trade Agreements within the Barcelona-Process. They include Association Agreements with Southern Mediterranean and North-African Countries; SAAs: Stabilisation and Association Process (SAP) ends in Agreement (SAA). Includes Croatia, Macedonia, Albania, Bosnia-Herzegovina, Serbia; Associate Membership: Europe Agreements with Bulgaria and Romania. Association Agreement with Turkey since 1963. *Source:* Authors' conception

List of Abbreviations

acquis:	Acquis Communautaire
AKP	Justice and Development Party
CAP	Common Agricultural Policy
CEE:	Central and Eastern Europe
CEECs	Central and East European Countries
CEES:	Common European Economic Space initiative (EU / Russia)
CFSP:	Common Foreign and Security Policy
DIS:	Direct Income Support
EAM:	Extended Associate Membership
EEEA:	Extended European Economic Area
EBRD:	European Bank for Reconstruction and Development
EMU:	European Monetary Union
EP:	European Parliament
ESDP:	European Security and Defence Policy
EU:	European Union
FDI:	Foreign Direct Investment
FTA:	Free Trade Agreement
GCI:	Growth Competitiveness Index
GDP:	Gross Domestic Product
GNP	Gross National Product
HDI	Human Development Index
IMF:	International Monetary Fund
INTERREG:	Inter-regional programme aiming to stimulate cooperation within the EU
JHA:	Justice and Home Affairs
Meda:	Community assistance programme for Mediterranean countries
MFA:	Macro-financial assistance
NIS:	Newly Independent States (Armenia, Azerbaijan, Belarus, Georgia, Turkmenistan, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Ukraine, Uzbekistan)
NMCs:	New Member Countries
OECD:	Organisation for Economic Cooperation and Development
OSCE:	Organisation for Security and Cooperation in Europe
PCA:	Partnership and Cooperation Agreement
QMV	Qualified Majority Voting
Phare:	Pologne, Hongrie Aide a la Reconstruction Économique (Assistance programme for the Central European candidate countries)
Tacis:	Technical Assistance for the Commonwealth of Independent States
TENs:	Trans-European Networks
UN:	United Nations
WEF	World Economic Forum
WTO:	World Trade Organisation

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