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The EU and Turkey – Economic Effects of Turkey's Full Membership

Since October 2005 the EU and Turkey have been negotiating the accession of Turkey to the EU. In June 2006 they reached agreement on the provisional closure of the "science and research" chapter, a matter which was relatively easy to handle. Thirty-four chapters remain to be negotiated, indicating that the path to Turkey's full membership will be a long one. What are the main economic challenges facing both Turkey and the EU?

From a European perspective Turkey is a large country, in regard to both its area and its population (cf. Table1). Turkey's area exceeds that of France, the largest current EU member state, by far. With 72 m. inhabitants Turkey has only 10 m. inhabitants less than Germany and around the same number of inhabitants more than France, Italy and the United Kingdom. If Turkey became a member of the EU today the area of the EU would increase by 20% and its population by almost 16% (cf. Table 2 and Figure 1). However, since Turkey's economy is much less productive than that of the EU – even significantly less than that of the new member states – its potential contribution to the economic output of the EU is very small. Turkey's GDP is only roughly equivalent to that of Denmark, Austria or the German state of Lower Saxonia. In 2005 the accession of Turkey would have increased EU GDP by only 2.7%. Due to the low productivity of Turkey's economy the per capita income of the country is also very low (cf. Figure 2). In 2005 Turkey's GDP per capita amounted to only 17.2% of that of the EU measured at current prices and 30.7% measured in purchasing power parities (ppp).

The Turkish economy has been very dynamic in recent years. Economic growth has been significantly higher than in the EU25, although not higher than in the new member states in the period 2000-2005 (cf. Table 3). Turkey's economic growth may also exceed that of the EU, and especially that of the old member states, in the coming years. Under the assumption that the observed growth differential of the last five years will continue, Turkey's contribution to the output of the EU would be higher at the time of its accession than today (3.2% in 2015, cf. Table 2 and Figure 1). But not only economic growth has been, and may continue to be, comparatively high in Turkey: the population is also growing at a higher rate than in the EU. Assuming that the differences in economic and population growth between Turkey and the EU during the period 2000-2005 will continue (as reported in Table 4), Turkey will still be a very poor member state at the moment of its possible accession. According to these projections, in 2015 Turkey's per capita income will only reach around 20% of the EU27 average (at market prices) or 33% (at ppp) (cf. Table 2).

Given the relatively minor economic importance of Turkey compared to that of the EU it might be concluded that the effects of Turkey's accession on the existing member states will be very limited. From this point of view, it is not easy to understand the reservations against Turkey's full membership which exist in several member states. Apart from arguments with a cultural or religious background, it is the large number of inhabitants in combination with the low per capita income in Turkey which seem to give cause for concern and discussion.

In order to shed more light on the economic challenges it has to be considered, firstly, which changes in the institutional relations between the EU and Turkey will take place in the case of Turkey's accession and, secondly, which economic effects could be the result of these changes. In order to recognise the challenges for Turkey and the incumbent states it is assumed in

Table 1
Basic Economic Indicators for Turkey and the EU (2005)

	Turkey	EU15	EU10[a]	EU25	Bulgaria and Romania
Population (in million)	72.1	388.2	74.1	462.3	29.4
GDP (market prices; in billion €)	290.5	10 286.6	557.6	10 844.2	100.8
GDP (in billion PPS)	519.4	9 864.1	980.1	10 844.2	234.3
GDP per capita (market prices, €)	4 031	26 495	7 525	23 455	3 431
GDP per capita (in PPS)	7 208	25 407	13 228	23 455	7 980

[a] New member states since 2004.

Sources: Eurostat, Queen Tree (online data bank), 2006; own calculations.

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Table 2
Statistical Effects of Turkey's EU membership

	Increase (in %)				GDP per capita in Turkey (EU=100)	
	Area	Popula-tion	GDP (current prices)	GDP (PPS)	current prices	PPS
In 2005[a]	19.7	15.6	2.7	4.8	17.2	30.7
In 2015[b]	18.1	16.8	3.2	5.2	19.8	33.3

[a] EU25; [b] EU27.

Sources: Eurostat, Queen Tree (online data bank), 2006; own calculations.

Table 3
Economic and Population Growth 2000 to 2005
(annual average growth rate in %)

	Turkey	EU15	EU10[a]	EU25	BG+RO
GDP growth (market prices)	5.0	2.8	6.5	3.0	10.9
GDP growth (PPS)	4.2	2.8	4.8	3.0	7.0
Population growth	1.106	0.449	-0.082	0.363	-0.688

[a] New member states since 2004.

Sources: Eurostat, Queen Tree (online data bank), 2006; own calculations.

the following that Turkey will become a full member and will be integrated into the EU as it exists today.

Constitutional Principles of the EU to be Adopted

In order to become a full member the acceding country in principle has to accept the acquis communautaire. It contains all the regulations which have been implemented in the EU from its beginning. With regard to economic activities it aims to ensure equal conditions for all economic agents across the entire EU. In order to assess the economic effects of Turkey's accession the following issues seem to be the most important.

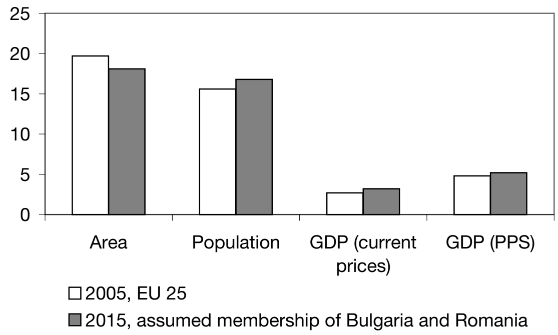
Customs Union: Full membership implies that the accession country will become a member of the EU customs union. Any existing tariffs between the EU and the accessing country have to be abolished. Furthermore, the external tariff of the EU has to be applied to imports by the new member from third countries. Finally, the new member country has to transfer competence in trade issues with third countries to the EU.

Between the EU and Turkey a customs union has been in existence since 1996. With the exception of agricultural goods, which are subject of the common agricultural policy, all customs duties and quantitative restrictions for industrial products and processed agricultural goods have been abolished. Moreover, Turkey has adopted the common external tariff and the Community's commercial policy towards third countries. Thus, in the case of Turkey's EU membership no major institutional changes in regard to trade issues are to be anticipated, at least not as far as manufactured goods are concerned.[1]

Internal Market: Full membership means that the internal market would be extended to the acceding country. The four principal freedoms, which are constitutive for the EU, would come into force between the incumbent states and the new member country. These principal freedoms consist of the free movement of goods, services, capital and people. Internal market rules should ensure that trade flows of goods and services as well as cross-border movements of capital and labour are not impeded and that firms and citizens will be able to settle in any country in the EU area.

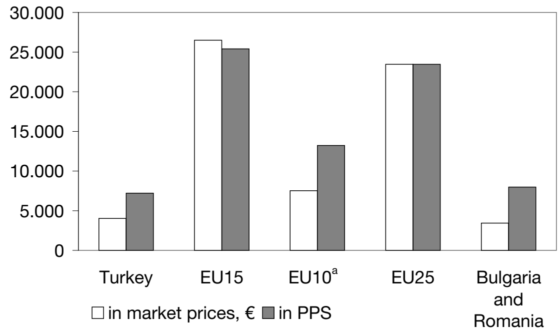
[1] D. Gros: Economic Aspects of Turkey's Quest for EU Membership, CEPS Policy Brief No. 69, Brussels, April 2005; A. Adam, T. Moutos: Turkish Delight for Some, Cold Turkey for Others?: The Effect of the EU-Turkey Customs Union, CESifo Working Paper No. 1550, Munich 2005.

Figure 1
Statistical Effects of Turkey's EU Membership
(increase in % of EU)



Sources: Eurostat, Queen Tree (online data bank), 2006; own calculations.

Figure 2
GDP per capita in Turkey and in the EU, 2005



[a] New member states since 2004.

Sources: Eurostat, Queen Tree (online data bank), 2006; own calculations.

Table 4
Turkey and the EU in 2015 - Projections[a]

	Turkey	EU15	EU10[b]	Bulgaria and Romania	EU27
Population (in million)	80.5	406.0	73.5	27.4	506.9
GDP (market prices); in billion €	473.4	13 567.4	1 046.3	284.5	14 898.2
GDP (in billion PPS)	787.5	13 007.0	1 569.6	461.6	15 038.2
GDP per capita (market prices, €)	5 884	33 414	14 238	10 382	29 391
GDP per capita (in PPS)	9 789	32 034	21 359	16 842	29 667

[a] Based on trends in 2000-2005; [b] New member states since 2004.

Source: Eurostat, Queen Tree (online data bank), 2006; own calculations.

As far as the free movement of manufactured goods is concerned, applying the internal market rules constitutes comparatively little change. Due to the existing customs union between Turkey and the EU, trade in manufactured goods is already liberalised to a large extent. Certainly, through the adoption of EU norms and standards by Turkey and the abolishing of still existing impediments to trade, especially in services, the conditions for growing exports and imports between Turkey and the EU will be further improved. But this effect will presumably be small. Moreover, the adoption of EU norms and standards will cause costs for Turkish enterprises, thus hampering their competitiveness at least in the short run. As far as the free movement of capital is concerned, no general rule has impeded flows across the borders between Turkey and EU in recent years. Nevertheless, the potential for foreign direct investment from EU countries seemed to be underused. Thus, through the extension of the internal market to Turkey more legal certainty for investors from EU countries will be created. This will also improve the conditions for an intensified division of labour between the EU and Turkey with positive effects on welfare and income within the integrating area.

One very important change caused by the extension of the internal market to Turkey will be the free movement of people. Until now migration between the member states and Turkey is strictly regulated. Abolishing all impediments to cross-border movements of people will mean a substantial change for both Turkey and the member states. However, it is not very probable that the free movement of people will be granted to Turkey at the moment of its accession. In the case of the East European states which joined the EU in 2004, the old member states have been allowed to restrict immigration from these countries for up to seven years. It seems very probable that EU membership of Turkey would include similar regulations for a certain period. If the free movement of people between Turkey and the incumbent states were generally excluded, a constitutional principle of the internal market would be violated. In this case Turkey would not be granted full membership.

EU Budget: The new member country would be included in the EU budget system. On the one hand, it has to contribute to the budget. Under the rule of the forthcoming budget period (2007-2013) every member state has to pay 1.04% of its GDP. On the other hand, the acceding country would receive financial resources from the budget. The major EU expenditures are earmarked for agriculture and for regions with a low per capita income. Under these conditions those countries benefit most from the EU budget which are comparatively poor and have a large agricultural sector.

Under the current and forthcoming rules under which the member states are involved in the EU budget, Turkey's full membership would cause substantial financial cross-border flows between the integrating areas. Due to its low per capita income and its huge population Turkey will presumably become the largest net beneficiary, both in absolute terms and in relation to its GDP. Taking the amount of assistance other poor member states have received within the framework of regional policy as a benchmark, Turkey could expect transfers for regional policy issues which could reach 4% of its GDP. Furthermore, extending the common agricultural policy to Turkey will change the economic conditions for farmers in that country substantially. As far as the incumbent states are concerned, especially those countries will have to accept a deterioration in their net transfer position which will become statistically richer simply because an even poorer country joins the EU.

Decision–making: The new member state has to be included in the institutions which are relevant for making decisions within the EU, namely the European Council and the European Parliament. The existing rules regarding the number of seats (European Parliament) and votes (European Council) per country, and concerning the voting procedure for reaching decisions, are laid down in the Treaty of Nice. The Treaty establishing a Constitution for Europe includes new decision-making rules. After the negative votes in France and the Netherlands against the Treaty in 2005 it is very uncertain whether and when these rules will be modified.

Assuming the rules of the Treaty of Nice are valid at the moment of Turkey's accession, the country would have to receive the same number of votes in the European Council as Germany, the United Kingdom, France and Italy. If a modification of the decision-making rules in line with those laid down in the Treaty establishing a Constitution for Europe has been decided upon in the meantime, Turkey's political influence would be even greater because the rules in the Treaty establishing a Constitution for Europe reflect the number of inhabitants of the member states more than the Treaty of Nice does. Turkey – presumably with more or less the same number of inhabitants in 2015 as Germany – would get more votes than France, Italy and the United Kingdom. Of course, a prediction regarding the consequences of Turkey's membership for this issue is rather speculative. But in any case it can be taken as certain that the political influence of Turkey's full membership on the EU would be considerable and would exceed its economic importance by far.

European Monetary Union (EMU): Full EU membership includes membership in the EMU. It is true that the "old" member States Denmark, Sweden and the United Kingdom do not take part in it, but for the "new" member states opting out is not allowed. In any case, it is probable that Turkey would have to go through various stages comparable to those which the present members of the euro zone had to go through before they became members of the EMU. The new member states which joined the EU in 2004 also have to follow this path. Thus, EU membership for Turkey will not automatically include EMU membership at the moment of accession, but Turkey will presumably be committed to undertake all measures to fulfil the criteria which are necessary for joining EMU.

Effects of Turkey's Full Membership

The presumable institutional changes in economic relations between the integrating areas caused by Turkey's full membership are manifold. In order to assess the impact of these changes on the Turkish economy as well as on the economies of the incumbent states in quantitative terms the following effects would have to be taken into account:

- static gains from trade and the dynamic effects of trade integration
- static and dynamic gains of integration through capital flows
- static and dynamic gains through migration
- costs of structural change, especially on the labour markets

Table 5
Net Transfers for Turkey in the Case of Full Membership

Author	Common Agricultural Policy	Cohesion policy	Other policies	Turkish contribution to EU budget	Net transfer to Turkey
		€ billion			
Dervis et al.[1]	9.0	8.0	3.0	2.0	18.0
Oskam et al.[2]	6.5	11.9-20.8	2.0	6.8	13.6-22.5
Quaisser/ Wood[3]	8.2	13.4	2.6	3.3	20.9
		in p.c. of EU GDP			
Dervis et al.[4]	0.08	0.16	0.01	0.05	0.20

[1] referring to 2004 in 2004 prices. – [2] referring to 2015 in 2015 prices. – [3] 2014 in 2004 prices. – [4] in 2015.

Sources: K. Dervis, M. Emerson, D. Gros, S. Ülgen: The European Transformation of Modern Turkey, Brussels: CEPS, 2004; W. Quaisser and S. Wood: EU Member Turkey? Preconditions, Consequences and Integration Alternatives. forost Arbeitspapier No. 25, Munich, 2004; A. Oskam, N. Longworth, I. M. Vilchez: Consequences for the EU-27 of Enlargement to Turkey. In: A. Burrell, A. Oskam (eds.): Turkey in the European Union, Oxfordshire and Cambridge, MA, 2005, pp.217-250; own grouping and addendum.

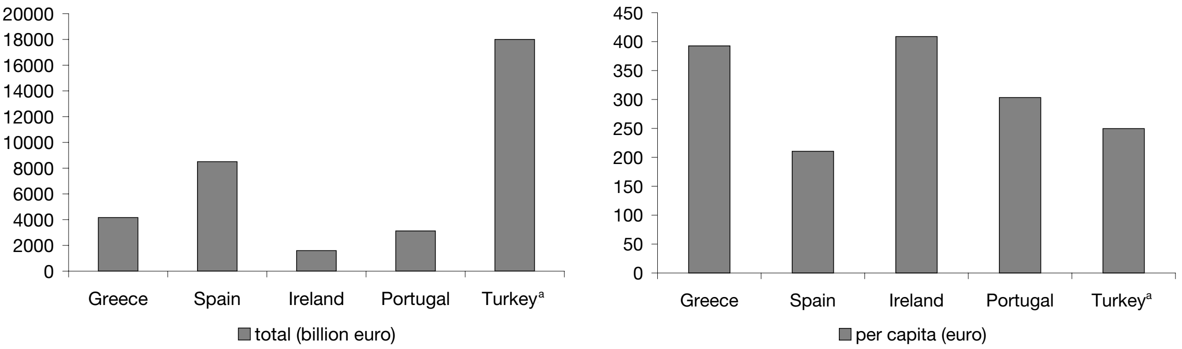
- effects of the transfer of resources by EU policies, especially with regard to the common agricultural policy and regional policy, in favour of regions with a low per capita income.

In recent years a number of studies have been undertaken in order to shed light on these effects. But – to the knowledge of the author – no study exists considering all the effects together within one consistent framework. Most of the studies focus on a special issue. In particular, the migration issue and the transfer of financial resources caused by EU policies have often been considered.

As far as the transfer of financial resources is concerned, Table 5 presents the results of several studies. Although the studies differ in regard to the years under consideration and the applied estimation method, the results show a rather consistent picture.

- Turkey would receive considerable transfers within the framework of the common agricultural policy and, especially, of regional policy.
- In contrast to that, the contributions which Turkey would have to make to the EU Budget are comparatively small.
- As a result, under current rules and regulations Turkey's full membership would lead to net transfers in the range of €14 to 25 billion from the incumbent states to Turkey (in 2015 in 2004 prices). As a per-

Figure 3
Net Transfers of EU Member Countries and Turkey (2004)



[a] for the EU member countries: actual transfers; for Turkey: transfers as calculated by Dervis et al. (2004).

Sources: Europäische Kommission: Bericht über die Aufteilung der EU-Ausgaben 2004 nach Mitgleidsstaaten, September 2005, Statistischer Anhang; Kemal Dervis, Michael Emerson, Daniel Gros, Sinan Ülgen: The European Transformation of Modern Turkey, Brussels 2004, p. 71; own calculations.

centage of the EU GDP the net transfer could amount to up to 0.2%.[2]

These figures may be not very illustrative in regard to the consequences for the EU. More information can be drawn from comparisons of Turkey's hypothetical net transfers position with those of other net beneficiaries. Such a comparison reveals that Turkey, assuming the country had already been a full member of the EU in 2004, would have received a much greater volume of transfers than the four "old" cohesion countries. However, in per capita terms Turkey would have received less than Greece, Ireland and Portugal (cf. Figure 3).

Of course, any calculation and estimation of the transfers involved in Turkey's EU membership is based on assumptions which are uncertain. It could be argued that, especially, the growth rates assumed for Turkey and the EU up to the year 2015 are rather uncertain. Another argument could be that the policy regulations and budget rules in force in 2015 will be other than those of today. Indeed, it is rather probable that these regulations and rules will be modified. But assuming an unchanged framework indicates exactly the challenges the incumbent states have to face in the case of Turkey's full membership.

As far as migration is concerned Table 6 presents the results of various studies. Due to the different methods of estimation, the different time periods considered and the different scenarios assumed, especially concerning the speed of closing the income gap between Turkey and the EU, the range of the reported figures is rather large. Considering all the reported figures together, a total number of 2 to 3 million persons seems to be the average. The expected flow of immigrants from Turkey is more or less in line with the number of

Table 6
EU Immigration from Turkey after Turkey´s Accession

Authors/ Source	Number of additional immigrants per year (thousands)	Total number of additional immigrants (thousands)	Additional immigrants in per cent of population in the EU-15/Germany in 2030[a]
	total EU area		
Lejour/De Mooij/Capel[b]		2700	0.7
Hughes	225	2900	0.6
Erzan/Kuzubvas/Yildis		613-1888[e]	0.1-0.4
	Germany only		
Lejour/De Mooij/Capel[b]		2025[b]	2.5
Quaisser/Reppegather[c]		1300-4400[c]	1.6-5.4
Flam[d]		1300[f]	1.6

[a] own calculations. – [b] 15 years after accession. – [c] potential number of immigrants from 2013, depending on speed of convergence in per capita income. – [d] within 30 years, depending on speed of convergence in per capita income. – [e] 2015-2030. – [f] from 2000 to 2030.

Sources: A. M. Lejour, R. A. de Mooij, C. H. Capel: Assessing the economic implications of Turkish accession to the EU, CPB document No. 56, The Hague; K. Hughes: Turkey and the European Union: Just another enlargement? A Friends of Europe working paper on the occasion of the "Turkey`s EU end-game?" conference Brussels, June 2004; R. Erzan, U. Kuzubas, N. Yildiz: Growth and Immigration Scenarios for Turkey and the EU, Centre for European Policy Studies, EU-Turkey Working Papers No. 13, Brussels, December 2004; W. Quaisser, A. Reppegather: EU-Beitrittsreife der Türkei und Konsequenzen einer EU-Mitgliedschaft, Osteuropa-Institut München, Working Papers No. 252, Munich, January 2004; H. Flam: Turkey and the EU. Politics and Economics of Accession, CESifo Economic Studies, Vol. 50,1/2004, pp. 171-210; own grouping and addendum.

[2] Kemal Dervis, Michael Emerson, Daniel Gros, Sinan Ülgen: The European Transformation of Modern Turkey, Brussels 2004, p. 71. The authors regard the results of their calculations as an upper ceiling.

Table 7
Macroeconomic Effects of Turkey's Accession – Increase in GDP (%) – Summarised results from Lejour et al.

Effects considered	in Turkey	in EU15	in EU10
internal market (trade effect due to abolishment of NTBs)	0.8	0.0	0.0
institutional reforms in Turkey (which improve the competitive position of Turkey and lead to additional exports)	5.6	-0.0	0.0
migration from Turkey (assumed: same skill composition as in EU15)	-2.2	0.7	- [a]
migration from Turkey (assumed: all migrants are unskilled)	-1.8	0.5	- [a]
considered effects together	4.2[b] 4.6[c]	0.7[b] 0.5[c]	-

[a] Not reported. – [b] Same skill composition. – [c] All migrants are unskilled.

Source: A. M. Lejour, R. A. de Mooij, C. H. Capel: Assessing the economic implications of Turkish accession to the EU, CPB document No 56, The Hague 2004.

the expected immigrants from the eight East European member states which joined the EU in May 2004.[3]

In relation to the population of the EU a figure of 2 to 3 million additional migrants does not seem to be important; it is less than one per cent of the population of the EU15. However, it is very probable that the immigrants will prefer to move to those member countries in which large Turkish communities already exist, such as Germany and the Netherlands. Thus it could be expected that the additional Turkish immigrants will be concentrated in these countries. Integrating these people into the labour market could be far more difficult than in the case of immigrants from the eastern European member countries because their qualifications can be expected to be – on average – superior to those of the latter.

The implications of Turkish membership with regard to transfer and migration issues have received much attention in both academic and public discussions. However, most of the studies do not show the effects in a welfare or macroeconomic framework. Moreover, the static and dynamic effects which may occur as a result of integrating the markets for goods, services and capital have drawn much less attention. As far as trade effects are concerned a study by Togan comes to the conclusion that full membership will lead to an increase of 1.5% in the Turkish GDP.[4] More comprehensive is a study by Lejour et al. which covers trade effects as a result of the implementation of the internal market, growth effects due to institutional reforms in Turkey, and the effects of migration. According to this study – derived from gravity equations for trade and an applied general equilibrium model – the accession of Turkey would lead to an increase of 4.2 to 4.6% in the GDP of that country (cf. Table 7). The incumbent states (EU15) could also expect a positive effect, although a very small one (0.5 to 0.7% of their GDP). The most powerful effect in Turkey consists in reforming the national institutions in response to EU membership, whereas the trade effect is comparatively small. The model simulations show that migration reduces GDP in Turkey and increases that of the old member states, all the more so since the skill level of migrants is high. It is noteworthy that – according to this study – the migration effect is not only positive for the old member states but it is also the most important effect for them.

All in all, the study confirms the expectation of economists that both partners are winners in the integration process between them from a macroeconomic perspective. However, it should be noticed that the analysis does not consider the effects of transfers. The inclusion of this effect would surely enforce the positive impact in Turkey, whereas it would reduce the positive impact in the EU. It cannot be precluded that the overall impact including transfers would be negative for some member countries, especially for those losing their highly favourable transfer position in the case of Turkey's accession. Furthermore, it has to be noted that the macroeconomic perspective does not consider the adjustment costs of structural change necessary to realise the positive effects. It presumes for instance that the Turkish migrants will be integrated into the production process of the countries which they favour. As a result, the labour markets of the respective countries will come under pressure, calling for more flexibility in order to absorb the additional workforce. Generally, migrants from Turkey will put additional pressure on workers' wages and jobs in the countries to which they move.

Conclusions

From a purely macroeconomic perspective Turkey's full membership could be an advantage. This can be taken as certain in the case of Turkey. As far as the incumbent states are concerned the advantages or disadvantages in relation to their GDP seem to be small. They depend on the degree of the deterioration which the states have to face in their transfer position. Although migration from Turkey into the current member states could lead to positive production effects the costs necessary to realise them are regarded as high, at least by some member countries. Thus, Turkey's

[3] For the results of various studies cf. K. Lammers: How Will the Enlargement Affect the Old Members of the European Union?, in: INTERECONOMICS, Vol. 39, No. 3, pp. 132-141, Table 5.

[4] S. Togan: Toward EU Accession, in: The World Economy, Vol. 27, No. 7, pp.1013-1045. The author does not provide estimated GDP effects for the EU area.

accession is not a problem for the EU economy as a whole but it seems to be a problem for some members. Furthermore, it is not the economic integration of two areas itself which may create negative effects. Rather, it is the existing EU framework of agricultural and regional policy establishing a certain pattern of favoured member states.

Of course, full EU membership of Turkey presumes and implies a high degree of structural change in the private sector as well as fundamental institutional reforms in that country. The costs of the adjustment processes will be high, but the economic benefits will be high too. Not only Turkey would have to adjust, however; the EU and the member states would also have to implement changes in order to be able to integrate such a large, poor country. The EU has to reform its common agricultural policy as well as its regional policy. The recent decisions on the EU budget for the period 2007-2013 do not include any substantial change reducing the distribution conflicts which have to be envisaged in the case of Turkey's membership. It is true that it has been agreed that in 2008 or 2009 fresh decisions can be taken on all revenues and expenditures. But it is still to be seen whether the EU is willing to come to decisions which are more appropriate for a European Union including Turkey. As far as the single member states are concerned, they have to show that they are willing and able to liberalise their labour markets and to bear and handle the costs involved.

If the EU and the member states do not move in this direction, Turkey's full membership will become very improbable. This holds true independently of considerations with a political, cultural and religious background, which may be much more important than those made from an economic perspective.