

**The Political Economy
of the
Costs and Benefits of
Turkish Accession
to the European Union**

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Abstract

This paper explores the economic and political consequences of Turkey's accession to the European Union from the perspective of Political Economy. It attempts to dispel some of the emotional arguments which developed mostly by the advocates of the accession throughout the arduous process of Turkey's multiple applications.

Introduction

At the start of its statehood, the Republic of Turkey chose democracy for its political structure and capitalism for its economic. Both systems were Western in nature and peculiar to the Ottoman domain. The economic and political life of the Ottoman Empire displayed the attributes of a feudal system somewhat unique to the orient. Even though the capitol was represented at localities by the appointees, the local officialdom and religious clergy were the major influence. With the exception of a few urban centers, commerce was largely organized around localized market units where the traditions reined heavily. The founders of the republic, the heir of the beleaguered empire sought to modernize the republic by assimilating western political, economic and cultural values often with the power of legislation and, occasionally, with indoctrination emphasizing European elements whether that be geographical, cultural or historical.

Western nations welcomed this choice, though with some degree of uneasiness. For the West, Turkey became an outpost of the western capitalist democracies in the defense against socialist expansion and was

considered, at least originally, to be a gateway to the rest of the Near-east and the Middle-east. The source of uneasiness was the suspected Turkish expansion into Europe, dominant Islamic faith in the country, and its non-Occidental culture. This discomfort occasionally resurfaced in the last seven decades, as Turkey tried zealously to become part of the West by securing memberships in Western initiated organizations such as the North Atlantic Treaty Organization (NATO), the Organization for Economic Cooperation and Development (OECD), the European Free Trade Association (EFTA) and the European Economic Community (EEC). It was never a natural process for Turkey to procure a seat in any of these organizations.

Particularly noteworthy is the saga of Turkey's application for a membership in the EU. In the last thirty-five years, since Turkey's first application for a membership in the European Economic Community, the EU membership has increased from 6 to 15 countries. Its official name has changed twice: first to European Community and then to European Union. Its population now encompasses close to 400 million up from 200 million. The organization has changed from a mere customs union to a full common market with further possibilities of common defense and political union in store.

In the same time period, Turkey has experienced a tumultuous political course containing two major military coups, occasional suspensions of basic democratic rights and liberties, the escalation of corruption and the manipulation of the democratic process. The country now faces a separatist Kurdish struggle with possible grave consequences.

On the economic front, Turkey boasts about its remarkable economic growth in the last decade. This rate is larger than that of any EU members. It averaged over 5% until the early 90's and in the last couple of years it fell down to a more moderate 3%. If one concentrates only on the output (capacity) growth this number is truly remarkable. Yet if one scrutinizes this growth more closely, its unsustainable nature surfaces. High output growth was accomplished at a cost. Environmental degradation, deterioration of income distribution, urban migration, soil erosion, loss of agricultural land, sudden disappearance of traditional sectors, and a heavy burden of international debt are some examples of this cost.

The economic and political aspects of Turkey's accession within the framework of a cost-benefit analysis are discussed in the following two sections.

Economic aspects

Even though Turkey is a signatory to several UN sponsored environmental pacts, in its leaders' frenzied pursuit of industrial growth, environmental concerns have invariably received a low priority. Evidence of this neglect is ubiquitous. In most large cities the air quality would consistently violate the EPA-level standards. Beaches close to urban-areas are unsuitable for bathing. Marine life in the Sea of Marmara is almost completely dead except in pockets where strong streams from the Mediterranean and Black Sea circulate the water rapidly. The availability of quality potable water has been diminishing as a result of surface

water pollution, and ground-water leaching. The rapid assimilation of western consumption patterns without the counterpoising developments have placed an unsustainable demand on natural resources including the environment.

On the other hand, the EU has embraced a set of environmental-protection rules, one of the strictest in the world, yet these regulations have not perceptibly affected the EU's overall economic performance. As most members of the European Union attain a post-industrial stature, concerns about economic and ecological sustainability will continue to gain imminence. The EU will have to make further hard choices, this time perhaps slowing down the growth of consumption and production. The EU membership will bring Turkey under the umbrella of these stricter environmental-protection rules and closer scrutiny of its compliance with these rules. A membership may also expedite the education process about nature. This does not however imply that western nations are better stewards of the environment. In fact, it is well known that the western concept of progress has increasingly alienated human beings from nature and helped consider it only as the source of extractive materials and depository of waste mostly alien to the ecological processes. It is also well known that each Westerner contributes to the destruction of nature many times more than a person in economically less-developed societies does. Yet, once the irreversible process of economic development is set in motion, environmental awareness becomes a function of education, economic prosperity, and the prevailing level of environmental degradation as well as a

time-honored legacy. The EU membership may speed up the education progress and help the environmental legacy root. The consequence of that may be the inhibition of Turkey's unsustainable output growth in the short run yet, its long-run welfare gains may well far surpass the welfare losses that the decline of output in the short-run causes. There would be additional EU funds and technology assistance available for sewage treatment plants, environmental clean-up, recycling, waste disposal and ecological restoration. A membership would also open up possibilities of cooperation on environmental issues between Turkey and the EU members, notably Greece, Italy and Spain. Turkey and these three countries share a common sea and similar climatological and geological patterns.

In the last fifteen years, relative and absolute economic positions of Turkish labor have steadily declined. In this time period, serious restrictions imposed on labor unions and intimidation of union leaders coincided with declining real wages, prolonged work hours and deteriorated work-safety. Also further contributing to the decline was the loss of leadership by state-enterprise unions. Traditionally, due to the sheer size of the output by the state enterprises in the GDP, their mostly industrial nature, and the unions' relative success in bargaining with the state, the state-enterprise unions were successful in maintaining the relative position of blue collar workers. Yet, the growth of the private sector and the fall of state-run enterprises out of grace caused this loss of leadership. The economic position of government employees has met a similar fate, perhaps with more

aggravation since civil servants do not have even limited freedom to organize. The adoption of EU labor standards would expand the labor rights, improve the workplace rules and raise the economic position of Turkish labor. The EU standards would also diminish the alienation of workers from the political and economic process. An increase in the economic position of workers will contribute to the improvement in the economic position of civil servants.

Turkish economy has been experiencing on average more than 75% per annum inflation for the last decade. The twin deficits: the fiscal-budget and the current-account deficits are the major symptoms. The complicated tax scheme riddled with loopholes and weakened by insufficient administrative powers does not generate enough revenues. The expenditures are bloated by a military with 500,000 soldiers and its mission in Cyprus, state subsidies to encourage an export-based economy, large infrastructure spending especially on telecommunications and transportation projects, and the drain of state owned enterprises and social programs. The situation is further aggravated by the rampant misuse of funds, a lack of accountability and inefficiency.

The external balance has shown a chronic deficit. A constant need for western technology, undiversified exports mainly consisting of raw materials, agricultural commodities and low-value added manufactured products such as textiles have helped maintain this chronic deficit. An abrupt import liberalization in a country with a long history of perceived deprivation for western-quality products has further contributed to the deficit. The remittances

of Turkish workers largely from Germany, France, Denmark and Benelux countries and international tourism revenues, though mitigating the deficit, could not reverse it.

A membership in the EU will put Turkey's fiscal house in order. This will occur for several reasons. The EU's uniform tax policy and fiscal-spending structure would bring to Turkey these well-established and tried-out practices. An EU's pledge to common defense will free some of Turkish fiscal resources presently committed to the military. The EU membership will also make available new fiscal resources. If the EMU materializes, Turkish administrations will have to give up their sovereignty of the monetary policy which may be summarized with one phrase: fiscal financing through monetary emissions. Some EU development funds will flow into less developed areas of the country freeing government funds that would otherwise be earmarked for projects in these areas.

The international trade balance however may not so quickly enjoy an improvement since the fundamental problems affecting the balance of payments can not be overcome very easily. Servicing Turkey's international debt, which is reaching \$70 billion, claims more than one quarter of its export earnings. Its dependence on imported petroleum products claims another one fifth to one quarter of its export earnings. On the other hand, an EU membership may generate new export opportunities for Turkish agricultural products to the northern EU, and help capitalize on the complementary nature of its tourism sector with that of Greece. There is also the possibility that Turkey with its inexpensive labor will become a

haven for western European maquiladoras. This aspect of the Turkish accession was in fact raised in every study. Low labor costs in Turkey are seen as the source of Turkey's comparative advantage. It is suggested that the high population growth rate will maintain an abundance of labor supply. Advocates of this point disregard the fact that the low relative labor cost can not in the long run be sustained, especially after eliminating trade-barriers unless, of course, Turkey maintains its current human power policy. That would however be a contradiction with the European ideals of democracy and perhaps even impossibility after the internationalization of its labor organizations.

On the other hand, the Europeans have another perspective on this issue. They are afraid that once Turkey becomes a full EU member its excess labor force will inundate the EU labor markets. As the major European economies mature into a post-manufacturing state, their ability to absorb additional labor will diminish. A steady flow of Turks into Western Europe therefore will then be seen as a liability. Turkish 'guest' workers in some of the EU countries and their family members have been already a point of contention.

Like most developing countries, Turkey has a limited source of domestic savings for investment. On the other hand, capacity expansion depends largely on foreign investment. Even though all private investment is very sensitive to changes in risk levels, international investors particularly feel vulnerable to the risk which political and economic uncertainty generates. In the eighties foreign investment flows to Turkey were but a

trickle as a result of the political upheavals in particular and the lack of democratic tradition in general, and also a result of the economic uncertainty generated by large external debt, rampant inflation, and a lack of long-term stable economic policies. Most investment has been therefore limited to ventures with quick return possibilities and low risk. Industries producing consumption goods and service products were the major beneficiaries.

In the eighties one exception was the investment in the tourism sector. Desperate for hard currency, the government promoted the expansion of this sector without necessarily building much infrastructure and without a clear, future-oriented vision. Many complexes were built in agricultural land driving up the price of land which was an important element in supporting the traditional agricultural communities in the western part of the country. This development either replaced people from coastal areas or forced them to change their way of life. By entering the EU, some of the traditional commodities will fetch better prices which then enable farmers to compete with tourism for the land. Also, the tourism sector will receive fair treatment similar to that of Spain, Greece and Portugal. It will also encourage Greece to develop complementary ventures with Turkey effectively increasing the size of tourism revenues flowing to the eastern Mediterranean thus benefiting both Turkey and Greece.

There is also another possibility of cooperation between Turkey and Greece. Turkish and Greek oil explorations in the

Aegean Sea has been a source of serious conflict between the two. A joint venture in this situation may be mutually beneficial.

Turkey could be the missing link between the EU and countries in the Middle-east, Near-east and Central Asia. This link would be strong due not only to Turkey's geographic position but to its historical, cultural, religious and lineal linkages. The prospect for Turkey being an EU member could include being a transportation hub and a commerce center. Turkish Airlines with its recent quality improvements is a good candidate for connecting Middle-eastern, Near-Eastern, and Central Asian Countries to the rest of Europe. Another mode of transportation which has been unfortunately neglected in Turkey yet has a great potential of connecting Europe with Asia is the railways. If peace develops in the Near-east ending domestic conflicts and international hostilities, South Asia may, once again, be reached by train. In the age of rediscovering the railways as a viable freight-transportation alternative, eastern Anatolia junctions can benefit as the eastern-most ports of the EU.

Turkey could further develop to accommodate eastern-most production and distribution facilities of EU multinationals. The arrangement could have reciprocal dimensions to accommodate Middle-eastern, Near-eastern and Central Asian ventures in their trade with Europe. The shortest feasible route to transport the Middle-eastern petroleum to Europe by a pipe-line is via Turkey. However, even though an EU membership will be an important factor in stimulating trade and investment by eliminating border formalities and non-uniform tariffs and

other trade barriers, it is not enough since Turkey has to prove that it has adequate infrastructure, human resources, and mentality. The perception is that it has so far failed to do so.

This is perhaps the only economic advantage that Turkey could bring to the EU with the exception of some cottage industries such as hand-woven carpets and metal-smithing. Any other possible source of Turkish economic contribution including inexpensive labor, Mediterranean agricultural products, and sun-lust tourism has lost its novelty by the accessions of southern European nations at the third round.

Of course, Turkey with its population approaching 70 million will continue to be an attractive market for western goods. Yet, the EU will continue to sell its products in Turkey regardless of Turkey's membership status. As long as major EU members maintain their comparative position in the production of high-tech commodities, Turkey will have no choice but to buy goods from these countries. The central question here is how Turkey could sustainably generate foreign currency to procure western goods. There are also emerging markets in Central and Eastern Europe for European finished products. So the argument that Turkey should be acceded to the EU since its a large market for European commodities is not very convincing.

Political aspects

If the Turkish application followed due course, it would take approximately 15

years once the democratization of the political process was in place.¹ However, in Turkey, democracy at European standards is not fully in place. There are violations of human rights in prisons. Some of the accused are still held indefinitely without a charge. People are afraid to cultivate political persuasions fearing that there will be a reprisal. Almost any form of political dissent can be interpreted by the law enforcement as a threat to the national security. The police have vast powers and very limited accountability. There still exists some censorship of the media.

Developing democracy, political tradition and tolerance to diverse political persuasions is a process requiring time and a mind-set. This development is an unending process with constant adjustments; it is based on a set of well-balanced institutions. The issue is not the existence of democracy, political tradition or tolerance in Turkey but their degrees. An EU membership will not suddenly bring about these virtues to the Turkish polity, yet it will strengthen the institutions which are pivotal to their exuberant existence.

One major issue is the treatment of the Kurdish minority in south-eastern Turkey. The present position of the current government is the continuation of the mentality of different administrations in the

¹This number is arrived after considering the transition periods of Greece, Portugal and Spain and the economic structures of these countries at the time of their accessions in comparison to the Turkish economy.

last three decades. This mentality includes that: there is no popular dissention; the uprising is limited to insulated incidents; several well-organized terrorist groups exploit the situation to their advantage. As a matter of fact there was even a denial among some segments of the government that Turkey did not have a Kurdish minority. According to these segments, those who called themselves Kurds were 'nomadic mountain Turks' and their language is bastardized Turkish. Their thinking went on to suggest that these mountain Turks generally rebuffed at the governments' repeated attempts to settle them in urban areas.

The region in which the majority of the Kurdish minority lives is the least economically-developed part of the country. Its economy is largely agricultural yet except in a few river basins the land is mostly arid and denuded. The land tenure borders on a typical Feudal structure and the land distribution is skewed. There are a few employment opportunities in largely state owned industrial complexes such as textile, leather processing, mineral extraction and oil rigging. But these industries are far from creating enough jobs for the explosively growing population in the area especially at a time when the trend is to dissolve state-owned enterprises or at least nullify the labor-absorption function of these enterprises. The task then is left to the traditional cottage industries, artisanry and local commerce. Yet these sectors, such as metal smithing, carpet-weaving, and leather-processing have been fast disappearing in the age of stiff competition by the substitutes mass produced in the northwest and increasingly in Cukurova,

south central. As a matter of fact, the area experiences a drain of its resources to the rest of the country. A full membership of Turkey in the EU will open up EU funds available specifically for the less developed areas. These funds will be specifically earmarked for cottage industries and preservation of regional culture and life style. It may accomplish what Turkish governments constantly failed to achieve. As it stands now funds that Greece, Portugal and Ireland each receive make up more than 2% of each country's GDP. If one considers the multiplier effect and assumes the marginal social return of these projects to be above a typical investment, it may not be unreasonable to assume that the total impact of these funds on each economy may be close to 10% of their GDP. The significance of these funds in the Turkish southeast will be especially noticeable since the southeast's economy comprises less than 10% of Turkey's GDP. All in all, on average each southeasterner's share of the gain will be equal to the present day average income per person in the region. The nature of economic development will be geared more towards the needs of the region rather than the overall needs of the Republic. This may help slow down the erosion of cultural elements, urban migration, and help empower otherwise landless peasants and sharecroppers, in turn reducing tension.

In the international sphere, one positive development will be a new level of cooperation between Turkey and Greece. Turkish and Greek economies will perforce be entwined, thus bringing stability to the region and perhaps a solution to the Cyprus problem now two-decades old.

Turkey has failed to be a regional power-broker in several major conflicts even though its geo-political situation, and historical and cultural ties in the area suggest that it was a likely candidate to assume that status. The status of a power-broker position, it seems, is an earned position rather than self-proclaimed or circumstantial. Its source largely lies in economic strength which in turn manifests in political power and military might. Normally, only after acquiring economic power, do other determinants play a role. The super powers of the cold war era maintained political influence with the support of their economic strength. Naturally, by joining the EU, Turkey will not all of a sudden emerge as an economic power to become a power-broker in the region. If anything, a membership will imply a gradual dissipation of economic self-identity within the identity of the EU. Rather, an alignment with a merging economic power, the EU will bring to pertinence the forces of the geo-political situation, and historical and cultural ties. As the EU moves toward a common foreign policy, Turkey's involvement as a member of the union may significantly add credence to the policies in matters relating to countries/regions significantly different from Christian, largely developed EU. Of course, Turkish foreign policy makers must first establish the country's political shrewdness, fair-handedness, and dependibility. That may, however, take longer than a seat in Brussels would.

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