



Economic Aspects of Turkey's Quest for EU Membership

Daniel Gros*

Introduction

The EU has now decided to open membership negotiations with Turkey in late 2005. Given the determination with which Turkey has pursued the goal of EU membership, it is likely that these negotiations will in the end lead to accession. But this will not happen quickly; 2015 is the most likely date of membership often mentioned on both sides. Nevertheless, even if one accepts this time frame, it is worthwhile exploring the economic dimension of Turkey's accession.

The EU has by now acquired a lot of experience in admitting poorer countries. Would Turkey pose any special challenges (apart from its sheer size)? In economic terms, Turkey's accession would in some respects mean 'just another enlargement', but in others, it would be quite different. Accession of Turkey would be 'just another enlargement' in the sense that in terms of relative GDP per capita and the weight of agriculture in employment, Turkey resembles the less-advanced CEECs that have already or are about to become EU members. Moreover, in terms of economic mass and population, Turkey would represent a bit more than double the 2007 enlargement (Bulgaria and Romania). This applies also to the budgetary costs.

In three aspects, however, the Turkish case is quite different:

- *Advanced trade integration.* Through its customs union agreement, Turkey is much further integrated than were the CEECs until they became members. For most practical purposes, it is already part of the internal market (for goods) and is scheduled to take over large parts of the *acquis*.
- *Low human capital.* In terms of indicators of formal education, the CEECs are rather close to the EU average. Here Turkey clearly lags behind – with potentially important consequences for its growth prospects.

- *Demographic dynamism.* The workforce in Turkey will continue to grow by more than 1% p.a. for at least another generation, whereas it is declining in most CEECs, giving Turkey potentially more dynamism.

There are also two areas in which some similarities at first sight disguise important qualitative differences:

- *Duality of the economy.* Turkey's average GDP per capita is similar to that of Bulgaria and Romania, the two CEECs scheduled for membership in 2007. But its economy is more dualistic, with a small, but rather high-performing modern sector (which is as efficient as its counterparts in the new member countries). At the same time, however, approximately half of its labour force has essentially not yet been touched by the modern economy.
- *Migration.* The spectre of a massive influx of poor Anatolian migrant peasants is one of the most powerful obstacles inhibiting a rational discussion of the Turkey issue. A key difference in Turkey's accession compared to the 2004 and 2007 enlargements lies in the large stock of Turkish citizens who have been firmly established for some time in the EU and their concentration in one country in particular (Germany). This testifies to the fact that (given existing regulations on family reunification) a substantial net flow of migrants is taking place even at present (with no formal mobility for workers).

With these considerations as background, this contribution discusses the following issues: Section 1 starts with the question that weighs heavy on everyone's mind: how much will Turkey's accession cost? The next section then deals with the one area where Turkish-EU relations are already very deep, namely trade. This is followed by an examination of the human potential of the Turkish economy, its dynamic demography, its low level of human capital accumulation and its dual employment structure (Section 3). Section 4 draws the analysis together for an evaluation of the long-term growth prospects. Section 5 deals with migration.

1. How much will it cost?

How much will Turkish membership cost the then incumbent members? This question is at one and the same time both straightforward and impossible to answer. It is impossible in the sense that the EU is constantly evolving so that it is difficult to predict with any precision the financial consequences of Turkey's accession, say in

* Daniel Gros is Director of CEPS. This paper previously was published in *Aspenia* (No. 28, 2005). It is reprinted with kind permission of the Aspen Institute Italia in Rome.

2014. It is straightforward exercise, however, to calculate how much Turkey would cost the EU budget if it were to enter under present rules.

Key factors determining the EU budget are the financial envelopes set by a multi-annual framework called financial perspectives. The current framework, which was decided among the EU-15 in 2000, and thus long before the current enlargement, runs until 2006. The next framework, which is being negotiated à 25, will run until 2013. By that time Turkey is not likely to have already become a member country so that it will have only a limited influence for the following financial framework, which would run until 2020. Assuming accession by 2015 this would imply that the financial envelope for the first three years of Turkey's membership would have been decided by the EU-28 (the current EU-25 plus B, R and HR). In this respect the situation of Turkey might thus resemble that of Bulgaria and Romania, which are likely to join by 2007, so that their first years of membership will also be covered by a financial framework in whose negotiations they did not participate.

In terms of negotiations, Turkey would thus become fully part of the EU's financial framework only during the 2021-2027 round. Given that for all present and former member states it took between 5 and 10 years before they were integrated into all support programmes, it is thus likely that Turkey will benefit fully from the EU's budgetary support schemes only some time after 2020.

What will determine Turkey's share in the EU budget in the decade of the 2020s are the rules that will by then be in effect for everyone else and the level of development reached by the EU and Turkey itself. Because no one can know with certainty what these rules will be, any long-term projections are highly speculative.

In reality, however, the discussion about the financial burden Turkey would represent for the EU budget usually focuses on the current rules.¹

Some illustrative calculations

Many analysts choose the 'maximum' that Turkey would receive after a transition period under current rules as a 'starting point'. There are two variants to this approach:

- a) How much would Turkey receive if it were a fully established member today?
- b) How much is Turkey likely to receive under current rules by a likely accession date, e.g. 2015?

The overall calculations are actually quite simple in both cases since the budget of the EU is dominated by two items: Structural Funds (destined for regions with a GDP per capita at PPP below 75% of the EU average) and the Common Agricultural Policy (CAP). The gross receipts of any member country are to a large extent determined by these two items. Since the results are similar, we will concentrate on the second variation.

When making projections for the year 2015, it does not make sense to base the calculations on current euros as both the EU and the Turkish economy are likely to grow over the next decade. Under the growth prospects presented below, Turkey will grow much more quickly than the EU over the next decade and Turkish GDP could reach about 4% that of the EU-28's GDP in the middle of the next decade (at present it amounts to only a bit above 2%). This implies immediately that the cost of extending current Structural Funds to Turkey would cost at most 0.16% of EU-28 GDP ($=0.04 \cdot 0.04$).

The calculations for agriculture are potentially more complicated since one would have to guess the output structure of agriculture in Turkey in about a decade and then calculate to what extent this would change if Turkey participates in the CAP. This would actually be an exceedingly complex operation as one would have to take into account the entire input/output matrix (e.g. some commodities (maize) are used as an input in the production of others (meat)). However, this is not necessary as an indirect approach based on support relative to production in this sector can yield a better result.

The starting point is that Turkish farmers are likely to obtain at most 20% of their value added from the EU's CAP, for the simple reason that this is what farmers in the EU-15 obtain today: the CAP costs at present amount to 0.5% of GDP and the value added produced by agriculture is about 2.5% of EU-15 GDP.

Agriculture produces at present around 12% of GDP in Turkey, but taking into account that its share has been declining continuously over the last decade, a reasonable assumption might be that in about another decade agriculture will account for about 10% of Turkish GDP at most. On this basis, one can easily calculate the potential maximum cost of extending the present rate of support of the CAP to Turkey. Assuming, as before, that the Turkish economy accounts for 4% of EU GDP (and that agriculture contributes 10% to this), the cost of providing an 'equivalent rate of support' for Turkish agriculture would be 0.08% of EU-15 GDP ($=0.02 \cdot 0.04 \cdot 0.1$). To repeat, this is again an upper bound. Other estimates, arrive at much lower numbers: see, for example, Quaisser & Reppegather (2004), who argue that the cost of

¹ The experience with the current enlargement process suggests that over time the discussion will shift from how much it will cost to who will bear the (minor) burden. But this point is still some way in the future. Current circumstances have another impact, however, in that it is usually assumed that the burden would have to be borne by the current EU-15 because it is usually assumed that most of the new member countries will remain net beneficiaries for quite some time to come. By the early 2020s, this might no longer be the case, but again it is impossible to forecast with any precision which of the new member countries would no longer qualify for financial support (under current rules) by that date.

extending the CAP to Turkey should only be around 0.045% of the EU's GDP.²

The gross cost (Structural Funds plus CAP) might thus amount to around a quarter of 1% of EU-28 GDP. Against the gross receipts one would have to set the contribution that Turkey would have to make to the EU budget. At present, and this is unlikely to change at any time, all member states contribute at the same rate, or rather percent of GNP, to the EU budget. The contribution rate is equal to the share of the EU budget in overall GDP. Assuming that the EU budget will continue to be limited to around 1-1.2% of GDP, this implies that Turkey will have to contribute about 1.2% of its own GDP to the EU budget. Under the assumptions made so far (Turkish GDP at about 4% of that of the EU-15), this would then amount to around 0.048% of EU-15.

The ceiling for the net cost should thus be around 0.20% of EU GDP (equivalent to about €20 billion given today's EU GDP of around €10,000 billion). Table 1 below summarises the main findings.

Table 1. Maximum budgetary cost, full membership

	Turkey 2015 in an enlarged EU (in % of EU GDP)
Structural Funds	0.16
CAP receipts	0.08
Total receipts	0.25
Contributions to EU budget	0.05
(Max) Net receipts for Turkey	0.20

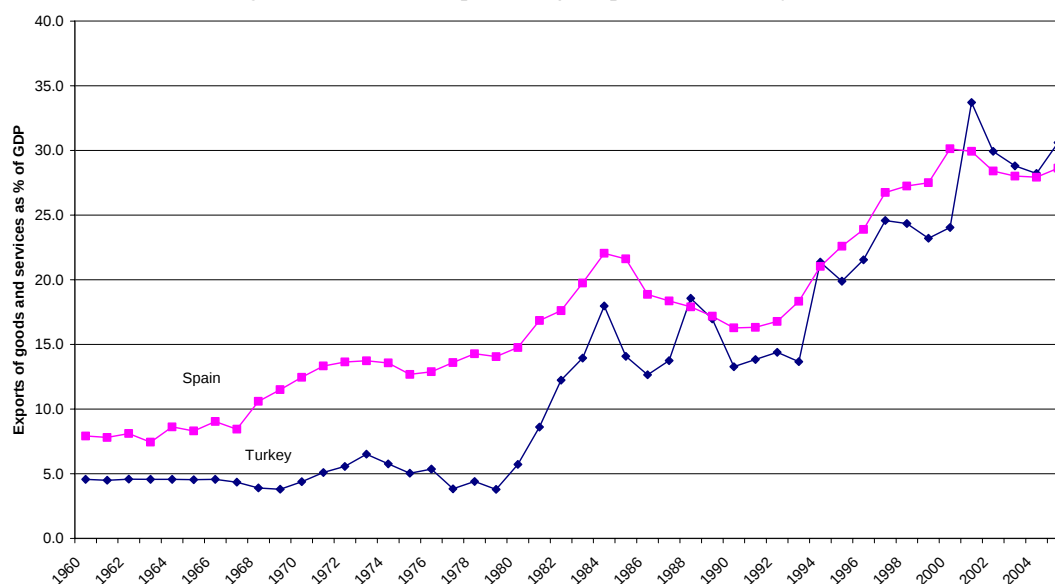
Source: Own calculations based on current EU budgetary rules and regulations.

2. A special relationship? Trade integration and the EU-Turkey customs union

Those who argue that Turkey should be offered a 'special relationship' instead of full EU membership often overlook the fact that this special relationship already exists in the economic field – namely in the form of a customs union – which has been operational for some time now.

The influence of this 'special relationship' on the Turkish economy is illustrated in Figure 1, which shows the standard measure of openness, namely the share of exports of goods and services in GDP. Looking at the data over almost the last half century it is apparent that until about 1980, Turkey was effectively a closed economy. Exports accounted for only 5% of GDP, much less than even in Franco's Spain (used here as a comparator because it is also geographically somewhat on the fringe of the EU). Turkey started to open to the rest of the world with a first set of reforms during the early 1980s, leading basically to an increase of the openness ratio by a factor of three, i.e. to 15% of GDP, similar to the values recorded by Spain, which was by then joining the old European Community. Another factor pushing the Turkish economy to open to the rest of the world, with exports climbing successively to almost 30% of GDP, was the EU-Turkey customs union treaty of 1995. Again, this value is close to that of Spain, which has by now been part of the internal market for quite some time.

Figure 1. Trends in openness for Spain and Turkey



Source: Eurostat.

² The number calculated above is again an upper limit, as the CAP is likely to change over time, inter alia, because of the commitments made by the EU in the context of the WTO to abolish exports subsidies, and the general limitations the WTO imposes on various types of domestic agricultural subsidies in general.

Despite this considerable progress, however, Turkey is somewhat less dependent on trade with the EU than even the larger new member countries. Exports to the EU account for ‘only’ 15-16% of Turkey’s GDP, compared to over 20% for Poland (the least open of the new member states). This lower degree of trade integration is the result of two factors. First, the share of trade in GDP is still somewhat lower for Turkey than even for a country like Poland. Part of this difference might be due to a residual protectionist attitude on the part of the bureaucracy that has been noted in many Commission reports. But another, perhaps equally important factor is Turkey’s geographical position (much further away from the core of the EU market than most CEECs) which makes it natural that the geographical distribution of Turkey’s foreign trade is a bit less focused on the EU.

3. The human potential of the Turkish economy: Dynamic demography coupled with insufficient human capital formation

The success of any economy is ultimately based on its people. In this respect Turkey shows some remarkable features, which set it apart from most old and new member countries. As mentioned above, the first and best known difference is the fact that Turkey’s population is still growing – whereas that of most member countries is already, or is about to start, declining. A second difference concerns the educational system, which again sets Turkey apart from most member states. Finally, a third difference arises from the dual nature of the Turkish economy with its stark difference between those working in a strong modern sectors and the remainder, whose productivity is very low.

Demographic dynamics

In contrast to the situation in most member countries, Turkey’s population is still growing, but the rate of increase has already slowed considerably compared to the last decades. Figure 2 shows the evolution of the population of Turkey and that of the four largest member countries. It is apparent that ‘old’ Europe has been either stagnating (Germany and Italy), or growing rather slowly over the last 30 years. By contrast, the population of Turkey has doubled over this period. The available projections imply, however, that Turkey’s demographic growth will moderate in the future. For the next two decades the population of Turkey is thus forecasted to grow by another 25%, which represents a much lower growth rate than that of the past, but which should be compared to the declining populations forecast for Germany and Italy. For the next generation, Turkey will thus remain much more dynamic in population terms than all other member countries.

Whilst being more dynamic Turkey is also in the midst of a demographic transition, reflecting a fairly rapid decline of the population growth rate, from the 2.5 to 3.0% range in the 1950s and 1960s, to close to less than 1.5%, at the beginning of the new century. This implies a rising proportion of the 15 to 64 age group in the total population, as fewer new babies are born to fill the below-15 age group, and as life expectancy, while lengthening, is not yet long enough to result in a large proportion of the total population above age 64.

Figure 2. Demographic dynamics compared: Turkey versus ‘old’ Europe

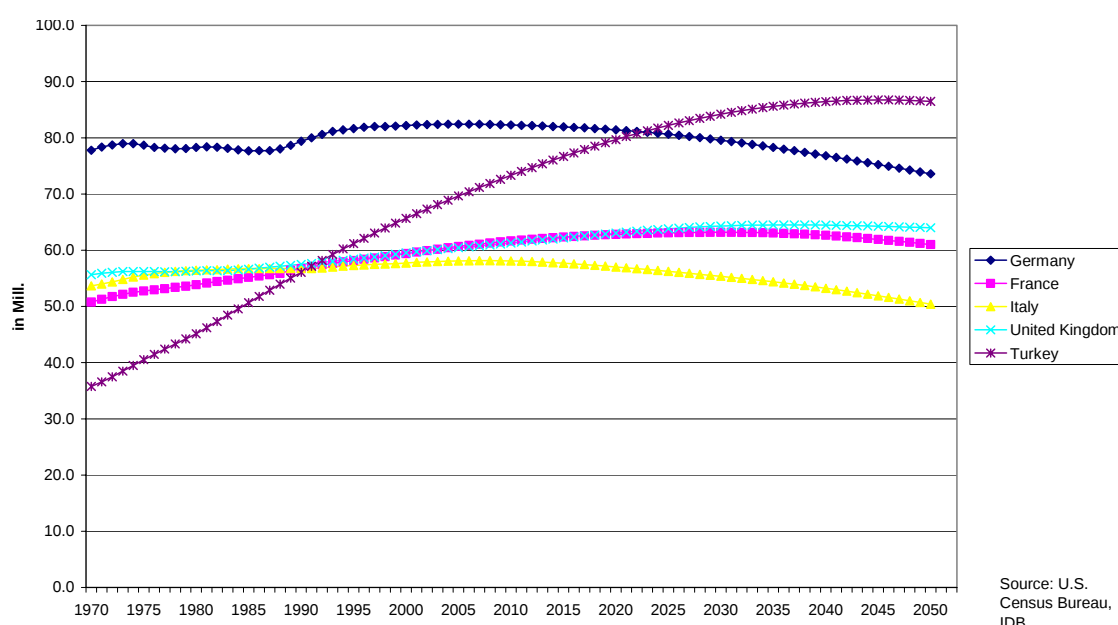


Figure 3. Demographic bonus
Change in potential labour force (25-64)/total population

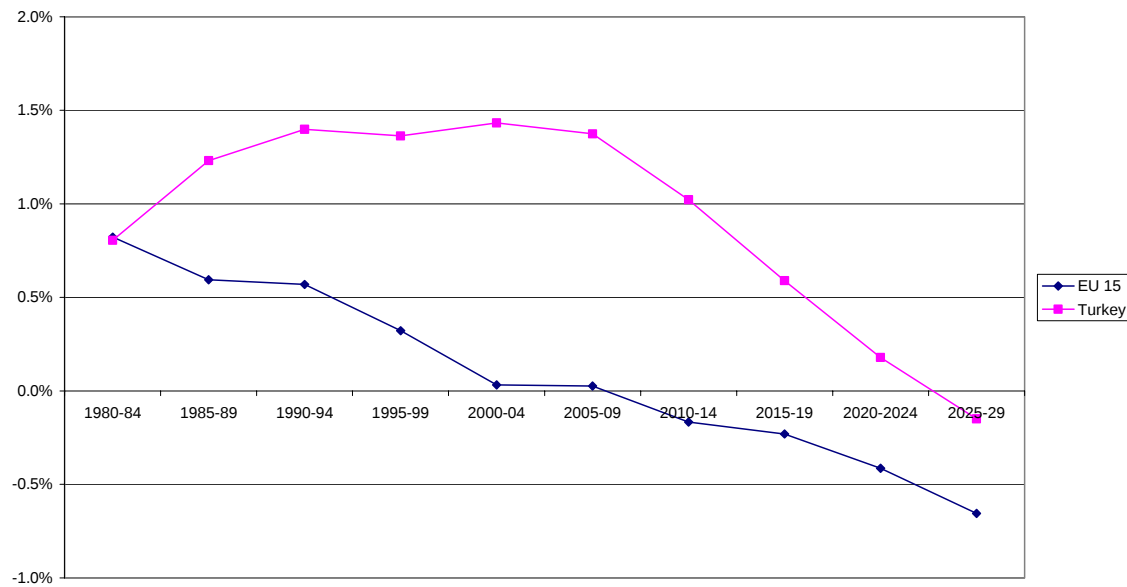


Figure 3 above shows the demographic bonus in the form of the change in the share of the total population that could be potentially active (i.e. those between 25 and 65). The level of this ratio measures in a certain sense potential GDP per capita. Changes in this ratio show, *ceteris paribus*, to what extent the room for re-distribution is affected by demography. For example, if this ratio increases by 1%, potential GDP per capita should go up by 1% *ceteris paribus*, i.e. holding constant productivity, employment rates, etc. A fall in this ratio indicates the opposite, a potential decrease in GDP per capita, implying that there is less to re-distribute to pensioners and other interest groups. The large hump shaped curve of Turkey puts it well above the average for the EU-15, whose curve is declining all the time and will even turn negative over the next decade. Turkey is in this respect also better off than all current and prospective member countries, taken individually because their demographic ‘transition’ happened a generation earlier. Even the poorer among the EU-15 had their demographic transition earlier. The Spanish and Portuguese curves would be below that of Turkey and anticipate its movements by about 20 years.³ Turkey can thus rely on a strong demographic bonus. The size of this bonus can be read directly from the figure: it was about 1.5% per annum in the five-year period preceding 2005, implying that each year the working age population increased by 1.5% more than the total population (allowing, *ceteris paribus*, as explained above, for an increase in potential GDP per capita of 1.5%). On

this count Turkey has clearly a strong advantage over the EU-15 (and even the poorer EU member countries).

An expanding population provides an economic opportunity only if employment increases as well. This does not seem to have been the case for Turkey so far. Table 2 describes the basic age structure and employment ratios in Turkey and selected new member countries that are used here as comparators because employment rates tend to go up with income. The key result is that the ratio of total employment to total population is substantially below (almost one third lower) than in the comparator countries, because of a lower ratio of the 15 to 64 age group as well as a lower participation rate. Similar differences in labour force participation rates also exist among the EU-15, with generally the highest value to be found among the Scandinavian countries. But Turkey would find itself at the lower end even of the ‘Southern’ group within the EU. One explanation for the lower employment ratio of the population in working age in Turkey constitutes the very low labour market participation rates of women.

To sum up: The Turkish population in working age has grown rapidly, but employment has not, leading to the low employment ratios documented above. This is a pattern that needs to be broken if Turkey is to use its demographic bonus.

³ Poland is a special case because of the horrendous losses the country suffered during World War II. This implies that until 2015 there will be each year fewer pensioners falling out of the labour force. However, after 2015, the low birth rates will make themselves felt in rapidly deteriorating demographic situation.

Table 2. Employment, 15-64 age group and total employment/ population, (15/64 age group), 2002

	Employment (thousands)	(15-64) Age Group/ Total Pop	Total Emp./ (15-64) Age Group	Total Employment/ Total Pop
	(1)	(2)	(3)	(4)**
Bulgaria	2998	0.68	0.55	0.37
Czech Rep.	4760	0.70	0.67	0.46
Hungary	3855	0.68	0.55	0.37
Poland	13782	0.67	0.52	0.35
Romania	7745	0.68	0.52	0.35
Turkey *	20836	0.64	0.44	0.28

Source: Calculated from EUROSTAT, SY, SIS.

* Year 2000.

** (4)=(2)x(3).

Human capital accumulation

For economic growth, it is not the quantity, but the quality that counts. In other words the economic potential depends crucially on the quality of the actual and potential work force in terms of its 'human capital'. On this score Turkey starts from a weak position. Tables 3 and 4 below show the relevant data concerning both how investment in formal schooling takes place and the output in terms of educational achievements. It is apparent that Turkey is investing relatively little in education, less than most, but the poorest EU member states. The difference would be even larger if one takes into account that the share of the schooling age population is so much higher in Turkey.

Table 3. Total expenditure on education and adult population with upper secondary education

	Total expenditure on education as % of GDP	% of adult population with upper secondary education
Turkey	3.91	24.3
Poland	5.31	45.9
Portugal	5.69	19.8
Greece	3.86	51.4
Hungary	5.15	70.2

Source: OECD.

Table 4. Percentage of the population that has attained at least upper secondary education¹, by age group

	Age group				
	25-64	25-34	35-44	45-54	55-64
Poland	45.9	51.7	47.5	44.5	36.4
Portugal	19.9	32.5	19.9	13.6	8.5
Greece	51.4	72.6	60.3	43.1	27.6
Turkey	24.3	30.2	23.5	19.2	13.3

Source: OECD.

In terms of educational achievements, the picture is similar: there is only one member state that shows a worse performance. It is not surprising that it is Portugal which is showing signs of facing increasing difficulties in adapting to the increased competition in the internal market resulting from enlargement. The two new member countries, for which these internationally comparable data are available, Poland and Hungary, are both investing much more in education and set off from a much better starting point. Turkey is unique in having both a very low rate of investment in education and a bad starting point.

The available data on enrolment rates and the educational attainment level of the younger generation indicate that the gap in terms of education is not about to be closed soon, even in the cohort that just entered the labour force (the 25-34 years old): less than a third has finished at least upper secondary education. In terms of investment in human capital Turkey will thus face a considerable handicap in a 'convergence race' with the new member countries.

Duality

Aggregate figures provide important information on national averages, but in the case of Turkey it becomes particularly important to look closer at sectoral and regional data because they reveal the existence of two economies. A large and poor agricultural (or rather rural) sector, and a modern sector that is at the level of the new member states.

Table 5 below shows that Turkish average labour productivity (measured by value added per employed person) is close to that of the Czech Republic, Hungary and Poland, the three biggest countries among the new EU members. This is so *despite the fact* that gross value added per person employed in agriculture lowers the Turkish average (with the exception of Poland in this case). Productivity in services, construction and, even more so in industry, is high in Turkey, when compared to the new member countries, reflecting the degree of modernity and sophistication reached by Turkey's 'modern sector'. The situation looks even more

favourable to Turkish industry when productivity levels are compared to Romania and Bulgaria, the two remaining candidate countries other than Turkey.

Table 5. Sectoral gross value added per person employed, 2000 (thousands of current euros)

	Agriculture	Industry	Services	Economy average
Bulgaria	4.3	3.7	4.3	4.1
Czech Rep.	9.7	12.4	12.1	11.7
Hungary	7.6	12.0	12.1	11.5
Poland	2.1	11.8	13.5	10.9
Romania	1.1	5.8	7.5	4.2
Turkey	4.6	13.5	15.7	10.9

Source: EUROSTAT.

These productivity comparisons show that the Turkish economy is not only on average 'more developed' than the economies of Romania and Bulgaria, but Turkish productivity outside agriculture is close to, or in some cases even higher than what we observe in the new member countries.

The very large sectoral differences in productivity levels are also reflected in regional disparities as the modern, productive sector (mainly industry plus some services) is concentrated in a small number of regions in the western part of the country. The result being that the poorest regions produce less than one-fourth of the GDP per capita than the richer ones.

4. The outlook for growth

Sustained rapid growth will be essential to create a positive background for the membership negotiations that might last for quite some time. If Turkey can start narrowing the gap in terms of GDP per capita over the next decade, the perception that the EU is about to take in 'yet another poor country' will be weakened. Moreover, a booming economy will make it easier for Turkish policy-makers to adopt all the domestic changes that will be required in the run-up to membership. But how do the factors discussed so far influence the outlook for growth?

Over the last three years, Turkey has experienced a strong rebound, with growth rates in the 5-7% range. But how durable will this boom be? Can Turkey grow at these rates for the next decade? Assessing the longer-run growth prospects of the Turkish economy is rather difficult. Even a cursory examination of the Turkish growth record leads one back to the fundamental difficulty of judging the prospects of a country whose past performance has been so variable. Indeed one finds periods of extraordinary dynamism followed by deep slumps (and vice-versa) in both a longer-run and a shorter-run perspective.

A first conclusion must thus be that Turkey has a potential for strong growth, but that macroeconomic

volatility has made sustained growth impossible so far. In other words – the patient must have a very strong constitution given that he has survived all the mistreatment administered over the past!

Looking towards the future, all of the factors that inhibited growth during the last two decades should improve, especially if compared to the 1990s.

In particular, the new economic and political anchor of the start of EU membership negotiations should ensure the consolidation of the structural and governance reforms undertaken in the 2001-03 period. In particular the consolidation of the deep reforms of the banking system and fiscal policy whose implementation has already started should now allow a growth path without episodes of financial collapse. Together with a medium-term membership perspective, this should encourage FDI flows of the order of 2-3% of GDP, helping to increase raise the investment rate in a sustainable way. A high investment rate would then allow Turkey to unlock its vast potential for extensive growth by drawing the remaining half of the population into its modern sector. Over time the qualification of the new entrants into the labour force could also increase considerably if the EU provides some financial support for Turkey's own efforts in this area.

What are the magnitudes of these factors? How fast could Turkey converge once the major impediment to growth, namely macroeconomic instability, has been removed?

The accumulation of factors of production can take mainly three forms: investment in physical capital, investment in human capital and population growth.

The strongest factor working in favour of Turkey is the demographic trend. The key point here is not the (declining) growth rate of the overall population, but the favourable evolution of its composition with an increasing proportion in working age. As illustrated above, this factor alone should lead to an increase in the potential GDP per capita of around 1.5% per annum over the next decade. As the proportion of the working age in overall population is not rising (in some cases it is actually falling due to ageing) in the EU-15, this factor should thus, on its own, allow Turkey's GDP per capita to grow 1.5% per annum faster than that of the EU-15.

Moreover, Turkey has the potential for large-scale absorption of underemployed labour, especially from the rural areas and among women, into higher-productivity activities in industry and services.

Over a decade it should be possible that about a third of those currently employed at extremely low productivity rates in the rural areas will shift to industry and services. This would on its own constitute about 10% of the overall workforce. Although the productivity of these migrants from the rural areas might be somewhat lower than the existing workforce, this factor should provide for an additional increase in potential GDP per capita of almost 1% per annum. This differentiates Turkey again from the eight CEECs of the class of 2004 and should thus allow

for some narrowing of the difference in GDP per capita with respect to the new members. Only Romania shares with Turkey the potential of deriving substantial growth from the internal transfer of labour from low productivity to much higher productivity sectors.

Drawing from the pool of those currently outside the workforce (mainly women) would provide an additional boost to growth. As documented above, only about 44% of the population in working age is currently employed in Turkey, compared to about 55%, on average, for the new member countries (and an even higher 64.4% for the EU-15). Even if only one-half of the current difference between Turkey and the new member is eliminated over the next decade, this would mean an increase in the labour force of about 1% per annum. This factor could provide for another boost to GDP per capita of close to 1% per annum (less than 1% because the new entrants are likely to have a somewhat lower productivity than those already working).

Finally, with an increasing transfer of technology (partially via higher FDI) total factor productivity should accelerate. For the new member countries one has observed over the last years that labour productivity has consistently increased by between 3 and 4% per annum. This is substantially more than the meagre 1-1.5% achieved by the EU-15. If Turkey were to match the performance of the new member countries (during their pre-accession period) in this respect, its TFP should grow faster than the EU by up to 2.5% per annum.

What does this all add up to? If one compares Turkey to the EU-15 one finds that the total effect of all the growth-enhancing factors could be between 3 and 6% per annum, suggesting that rapid convergence should be possible. Compared to the new member countries, Turkey would mainly have the labour supply working in its advantage, which sums up to somewhere between 1 and 3% per annum. This suggests that if Turkey were to be able to take full advantage of its potential labour supply, it might even catch up with respect to them.

Table 6 below summarises this brief evaluation of the factors that should boost potential growth in Turkey, both compared to the EU-15 and to the new member countries.

The arguments and data presented so far suggest that the biggest potential advantage of Turkey could be a better utilisation of its human resources.

What does the illustrative quantification of the growth boosting factors imply for convergence? Dervis et al. (2004) in a contribution to the CEPS project on Turkey pursue two approaches, which come to a similar result: within the next decade the gap in GDP per capita could be substantially narrowed so that by the time of its potential accession Turkey could have about the same GDP per capita in relation to the EU-27 as the new member countries had when they joined in 2004. Over an even longer perspective, say up to the year 2025 (when transition periods for the full mobility of labour might expire), GDP per capita in PPP terms might increase from the present 25% to about 60% of the EU-15 (the likely target for migration).

5. Migration

The starting assumption of any discussion on this point should be that it is likely that Turkey will not be treated any better than the recent new member states in terms of labour mobility. The incumbent EU-15 member states gave themselves the possibility to keep their labour markets closed to workers from the new member states for potentially up to 7 years after accession (2 plus 3 plus 2 years). When Portugal and Spain acceded, the transition periods were even longer. Only 11 years after accession did Luxembourg have to lift restriction on the movement of workers from Portugal. If Turkey accedes by, say, 2015 the full mobility of workers might thus come only in 18-20 years, or possibly even later.

By that time EU labour markets will reflect strongly the progressive ageing of the population (not only among the EU-15, but also the new members). By that time there might thus be actually labour shortages, instead of the widespread unemployment that is still the rule today. Moreover, if Turkey has progressed well in the convergence process, it might no longer be so attractive for Turkish workers to emigrate. For all these reasons it does not make sense to speculate how many Turkish workers might move to the EU-15 using today's labour market data.

Table 6. Factors boosting potential growth in GDP per capita (in % per annum)

	Turkey compared to EU-15	Turkey compared to new members
Higher proportion in working age	1.0 - 1.5	0.5 - 1.0
Transfers from rural sector to industry and services	0.5 - 1.0	0.5 - 1.0
Increasing labour force participation rate	0.5 - 1.0	0 - 0.5
Total factor productivity (TFP)	1.0 - 2.5	0 - 0.5
Sum total	3.0 - 6.0	1.0 - 3.0

Source: Own calculations.

Moreover, in the debate about Turkish EU membership and free movement of labour it is often overlooked that the EU cannot exercise a zero migration policy even if permanent safeguards were used. Even under the currently prevailing strict regime, there is an annual net migration from Turkey to the EU-15 in the order of 35,000 people. This net figure is the difference between a gross inflow of about 70,000 and an outflow of about 35,000. Any slowdown or suspension in Turkey's accession process is likely to lead to lower growth and higher unemployment in Turkey. Moreover, the reform process might slow down or be partially reversed. The consequence of such a combination would be felt on both sides: through presumably larger gross inflows and fewer people wanting to return to Turkey. As a result a drastically higher number of net migrants would be finding their way into the EU – as experience has shown irrespective of legal restriction. It is thus possible that if Turkey loses the membership perspective, the EU may end up having more immigrants than under a free movement of labour regime with a prosperous EU member Turkey. Moreover, the composition of this migration would be less conducive for the EU labour markets – and for integration in the host societies.

The experiences of Greece, Portugal and Spain indicate that a successful accession period with high growth and effective implementation of the reforms reduces and gradually eliminates the migration pressures. There is no *a priori* reason why Turkey would not go through a similar experience. How quickly Turkey would graduate from the status of strong emigration is impossible to say at this point. But it appears clear that the only scenario under which there would be an open-ended process of large-scale emigration is the one of an unstable Turkey outside the EU.

6. Concluding remarks

'Health not wealth' should be the decisive criterion when considering the prospects of Turkey's application for EU membership. Viewed this way, the outlook is promising. Turkey is still very poor, compared to the present EU members, but is also more dynamic. Full catch-up in terms of GDP per capita might take more than a generation, rather than years, but full catch-up is not the relevant criterion if one is concerned about the impact of the accession of Turkey on the EU. Experience has shown that problems are much more likely to arise from established rich member countries with stagnant economies (Belgium in the 1980s, Italy and Germany today) than from initially poor, but more dynamic states (e.g. Ireland today). The fact that most of the so-called 'periphery' is now growing more strongly than the 'core' confirms that within an enlarged EU the poorer member countries are likely to prosper and thus cause fewer problems than widely anticipated.

Turkey should now be able to embark on a sustained period of convergence which should reduce the huge differential in GDP per capita of today to a more (politically) acceptable level by the time Turkey joins the EU. This optimism is not based on the growth performance of the Turkish economy over the last decade, which has been rather weak. We observe that the macroeconomic instability over the last decade has been so severe that it is actually surprising that there has been any growth at all. With macroeconomic stability and with the negotiations process providing an anchor for the political system, these vital forces should now come to the forefront.

References

- Derviş, Kemal, Daniel Gros, Faik Öztrak, Fırat Bayar and Yusuf Işık (2004), *Relative Income Growth and Convergence*, CEPS EU-Turkey Working Paper No. 8, September.
- Quaisser, W. and A. Reppegather (2004), *EU-Beitrittsreife der Türkei und Konsequenzen einer EU-Mitgliedschaft*, Working Paper No. 252, Osteuropa-Institut, Munich.

About CEPS

Founded in 1983, the Centre for European Policy Studies is an independent policy research institute dedicated to producing sound policy research leading to constructive solutions to the challenges facing Europe today. Funding is obtained from membership fees, contributions from official institutions (European Commission, other international and multilateral institutions, and national bodies), foundation grants, project research, conferences fees and publication sales.

Goals

- To achieve high standards of academic excellence and maintain unqualified independence.
- To provide a forum for discussion among all stakeholders in the European policy process.
- To build collaborative networks of researchers, policy-makers and business across the whole of Europe.
- To disseminate our findings and views through a regular flow of publications and public events.

Assets and Achievements

- Complete independence to set its own priorities and freedom from any outside influence.
- Authoritative research by an international staff with a demonstrated capability to analyse policy questions and anticipate trends well before they become topics of general public discussion.
- Formation of seven different research networks, comprising some 140 research institutes from throughout Europe and beyond, to complement and consolidate our research expertise and to greatly extend our reach in a wide range of areas from agricultural and security policy to climate change, JHA and economic analysis.
- An extensive network of external collaborators, including some 35 senior associates with extensive working experience in EU affairs.

Programme Structure

CEPS is a place where creative and authoritative specialists reflect and comment on the problems and opportunities facing Europe today. This is evidenced by the depth and originality of its publications and the talent and prescience of its expanding research staff. The CEPS research programme is organised under two major headings:

Economic Policy

Macroeconomic Policy
European Network of Economic Policy
Research Institutes (ENPRI)
Financial Markets, Company Law & Taxation
European Credit Research Institute (ECRI)
Trade Developments & Policy
Energy, Environment & Climate Change
Agricultural Policy

Politics, Institutions and Security

The Future of Europe
Justice and Home Affairs
The Wider Europe
South East Europe
Caucasus & Black Sea
EU-Russian/Ukraine Relations
Mediterranean & Middle East
CEPS-IISS European Security Forum

In addition to these two sets of research programmes, the Centre organises a variety of activities within the CEPS Policy Forum. These include CEPS task forces, lunchtime membership meetings, network meetings abroad, board-level briefings for CEPS corporate members, conferences, training seminars, major annual events (e.g. the CEPS International Advisory Council) and internet and media relations.