

**Czech University of Life Sciences Prague**

**Faculty of Economics and Management**

**Department of Economics**



**Diploma thesis**

**Perspectives of Turkey's accession to the European  
Union**

**Kateryna ZAVALYUK**

© 2012 CULS Prague

## **DECLARATION**

I hereby declare that I have written the diploma thesis “Perspectives of Turkey’s accession to the European Union” independently with use of quoted resources in bibliography.

In Prague, on November 29, 2012

---

Kateryna Zavalyuk

## **ACKNOWLEDGEMENT**

I would like to thank my supervisor Ing. Zuzana Křístková Ph.D. from the Department of Economics for the guidance, precious advices and for the time devoted for the consultations.

# **Perspectives of Turkey's accession to the European Union**

---

## **Perspektivy vstupu Turecka do Evropské unie**

### **Summary**

The aim of the thesis is to evaluate the overall preparedness of Turkey to enter the EU and the country's fulfillment of the Copenhagen criteria, which remain a main obstacle for Turkey on its way to the European union. The main part of the thesis deals with a macroeconomic analysis of the Turkish economic situation, which considers a 5-year period changes and the overall progress achieved, as based on the current Progress Reports of the European Commission. The practical part of the thesis is based on the analysis of the Turkish economic figures in comparison with the new EU Member States – Romania and Bulgaria.

The theoretical part provides a short description on country's political situation, the process of modernization and transformation, which dates back to the origins of Turkey as a republic.

### **Souhrn**

Cílem práce je zhodnotit celkovou připravenost Turecka ke vstupu do EU a posoudit plnění kodaňských kritérií, které zůstávají hlavní překážkou Turecka na cestě do Evropské unie. Hlavní část práce se zabývá makroekonomickou analýzou turecké ekonomické situace, která znázorňuje 5-leté období změn a celkovou míru dosaženého pokroku, a to na základě současných zpráv o pokroku Evropské komise. Praktická část diplomové práce se zabývá analýzou ekonomických ukazatelů Turecka v porovnání s novými členskými státy EU - Rumunsko a Bulharsko.

Teoretická část poskytuje krátký popis politické situace v zemi, proces modernizace a transformace již od počátků existence Turecka jako republiky.

**Keywords:** EU-Turkey relations, Copenhagen criteria, EU integration, kemalism, macroeconomic indicators, Customs Union, community acquis, aspects of entry, Cyprus

**Klíčová slova:** vztahy EU a Turecka, kodaňská kritéria, integrace do EU, kemalism, makroekonomické ukazatele, celní unie, komunitární acquis, aspekty vstupu, Kypr

## Contents

1	Introduction.....	5
2	Objective and Methodology.....	8
2.1	Objectives of the thesis.....	8
2.2	Methodology .....	8
3	Literature Overview .....	11
3.1	Economic and political characteristics of the country.....	11
3.1.1	Political overview.....	11
3.1.2	Economic overview.....	16
3.2	Common Foreign and Security Policy .....	19
3.2.1	Common Foreign and Security Policy after the Second World War .....	19
3.2.2	Common Foreign and Security Policy today .....	20
3.3	The problematic issues of Turkey's Foreign Relations.....	21
3.3.1	Turkey vs. Greece .....	21
3.3.2	The Kurdish issue.....	23
3.3.3	Turkey vs. Armenia.....	24
3.3.4	Turkey vs. Syria .....	25
3.3.5	Turkey vs. Israel.....	26
3.3.6	Turkey vs. the USA.....	26
3.4	Turkey - EU relationships .....	27
3.4.1	History of Turkey's relations with the EU .....	27
3.4.2	Trade relations with the EU .....	31
4	Empirical part .....	34
4.1	Detailed analysis of the Turkish economy .....	34
4.1.1	General overview .....	34
4.1.2	The analysis of Turkey's current economic performance.....	35
4.1.3	Economic development of the country over the last 5 years .....	37
4.1.4	Turkey's Trade Statistics.....	44
4.1.5	Economic predictions.....	49
4.1.6	Fulfilment of the Copenhagen economic criteria.....	50
4.2	Economic comparison of Turkey with the new EU Member States – Bulgaria, Romania.....	54

4.2.1	Macroeconomic indicators' comparison .....	54
4.2.2	FDI Attractiveness Comparison .....	60
4.3	Final economic analysis .....	63
4.4	Benefits and drawbacks of Turkey's accession into the EU .....	67
4.5	SWOT analysis of Turkey's accession into the EU .....	70
5	Conclusions.....	74
6	Bibliography .....	76
7	List of tables and figures.....	84
8	Appendix.....	85

# 1 Introduction

If we think of the most discussed and the most problematic EU's candidate for the membership, what will come to your mind? Definitely, it will be Turkey. Its long history of the EU relations has been followed by the wide audience exceeding the Europe's borders. There were lots of articles published, numerous books written and many words said on this very controversial issue. This membership has been viewed in many national governments and it attracted considerable public attention around the world. However despite all this, the question of Turkey's accession still remains unresolved. There is still a lot to talk about, as the Turkish entrance into the EU is under the question mark today and it seems to be discussed for a while.

The Turkey's membership in the Union seems to be controversial for many reasons. First, Turkey's geographical position, which is located mostly in the Asian part of the continent, is considered to be a crucial reason for the non-acceptance to the Union. Second, the social contrast, which resides in different religion, attitudes, social norms, seems to create a big gap between the EU nation and Turkey. The third issue is the fulfilment of the Copenhagen criteria, which are set as the precondition for the accession and will be the main subject for the thesis.

The key aspects of the disagreement between EU and Turkey are mainly of political and economic nature. The question is whether Turkey is economically developed enough to cope with the EU competition and to meet all the EU requirements. The next important factor of the accession is the human rights observance and protection of the minorities within the constitutional regulations. This point also belongs to the Copenhagen criteria for the entry. And the last and very important aspect of the accession process is the Turkish foreign relations' politics, which is also considered as a problematic issue in terms of recent negotiations with Turkey.

The thesis is divided into several chapters, which analyze the abovementioned issues from the both sides, the side of Turkey and the side of the EU. The aim of the thesis is to highlight the most important points of the Turkish membership, provide the deep economic analysis, and to assess the overall Turkish preparedness for the accession.



The theoretical part of the thesis provides a short introduction to the main factors of the Turkish membership in the Union, starting from the period of the first republic up to the latest events on the economic, political and foreign affairs stage.

The political part deals with the crucial historical events and their influence on the country's stages of development as a republic. It describes the alternating governmental systems, the process of Turkish europeization and the changes in constitution. It emphasizes the differences between EU and Turkey's systems of government. Also this chapter concentrates on the ruling of the current political party and its main attitudes.

The economic part explains the important economic activities since 1930s, the process of the overall Turkish liberalisation during the 1980s and the economic booms and crises up to the early 21st century. The chapter also analyzes the drawbacks and benefits of Turkish liberalization, and its impact on the following crises and EU relations.

The Common Security and Foreign Policy chapter describes and analyzes the most problematic relationships Turkey is facing nowadays. In terms of external security the whole history of Turkey's foreign relations up to the current events is introduced. The emphasis is put on the crucial issues necessary for the EU accession. Also this chapter presents the security aspects of entrance and the overall process of gradual integration into the EU security organizations.

The next part of the thesis goes through the whole history of the mutual integration with the EU and it assesses the current situation of the negotiation processes. The relations with EU are described since Turkey's first EU application for the membership. The current events give an overview of the Turkey's overall preparedness for the entrance. Also the integration process is presented in terms of economic alliance and trade co-operation under the Customs Union Agreement.

Additionally, the drawbacks and benefits of this potential membership are introduced. This part is presented from the distinct viewpoints of both - Turkey and EU.

The practical part of the thesis introduces the country's crucial macroeconomic indicators, which describe the current economic situation on the basis of the 5-year period changes. It also provides an assessment of the progress reached in terms of the economic

Copenhagen criteria fulfilment, which set the economic requirements for the EU entry. The main aspect of assessment is the progress in terms of new legislation, its application in practice, country's economic stability and growth.

The economic analysis is also based on the evaluation of the Turkey's economic situation in comparison with the EU countries' average and new Member States – Romania and Bulgaria. The comparison is based on the macroeconomic data analysis taken from the statistical sources. Also, the overall level of FDI attractiveness is compared among the chosen countries. It provides an overview of countries competitiveness and credit ratings comparison. The final part aims to analyze the information provided and to determine the level of economic development in Turkey achieved within the last few years. In concerns the harmonization of legislation, as based on the economic Copenhagen criteria, the country's macroeconomic stability and growth. Also the index of country's competitiveness is evaluated to discover the Turkey's ability to deal with the international competition.

## **2 Objective and Methodology**

### **2.1 Objectives of the thesis**

The main objective of the diploma thesis is to answer the question whether Turkey is economically and politically prepared to enter the EU borders. The issue of the Turkish accession is being discussed currently in terms of positive and negative impacts it would bring on the overall development of the Union. The accession criteria, setting particular political and economic conditions, should be met by all its Associate Member States, including Turkey. The criteria include implementation of community acquis and reforms necessary for its functioning.

The partial objective of the study is to evaluate the overall level of progress reached in the area of the current Turkish legislation applied in terms of the harmonization with the EU standards and directives. The Copenhagen criteria should be analyzed to determine the Turkish preparedness for the entry in terms of necessary legislation. The aim is to assess the ability of Turkey to unify its political interests with the norms of the European Union comparing main political views, forms of governments, the systems of law and foreign relations policies. Finally, the benefits and drawbacks of the Turkish accession should be analyzed, from the side of Turkey and from the side of the European Union.

From the economic point of view, the aim is to review all the important macroeconomic indicators of Turkey for the 5-year period to be able to evaluate the current economic situation in the country and to compare it with the countries, which currently entered the European Union - Romania and Bulgaria. On the basis of this comparison it should become clearer whether Turkey is economically capable to enter the EU and to face the competition in the EU market.

The partial objective from the economic perspective is to discover the shortcomings of the Turkish economic system and its benefits in comparison to the EU countries.

### **2.2 Methodology**

As it was mentioned for the main objectives of the thesis, the economic situation of Turkey should be examined closely to determine the coherence of the Turkish economic indicators with the EU requirements. Among the main questions of research the country's

economic stability, growth and FDI attractiveness is analyzed on the basis of further indicators.

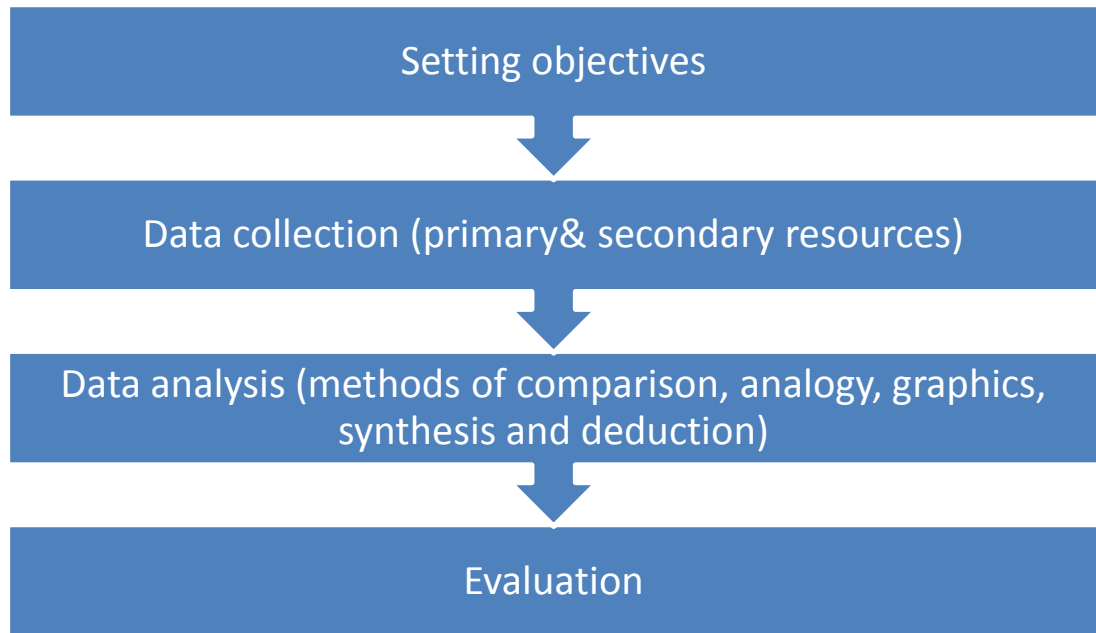
The term “EU’s economy” is commonly generalized as it includes less developed and highly developed countries, so the average level of EU’s indicators is taken as the basis for the economic comparison. The evaluation of the economic situation of the newly accepted candidates Romania and Bulgaria should serve as a basis for analysis of efficiency and productivity of the Turkish economy. This comparison of fundamental macroeconomic indicators of the countries should prove the sufficient economic situation and relatively high potential of Turkish market to access the European Union. The indicators should be compared within the certain period of time (about 5-year period) to determine the overall level of the Turkish development. The newest data are supposed to be matched with the Copenhagen economic criteria set as the condition for accession.

From the political point of view, the main aim is to analyze the question of political stability and the progress achieved in terms of harmonization of the Turkish legislation with the EU principles and regulations. The fulfilment of the Copenhagen criteria is assessed according to the Progress Reports for Turkey. On the basis of these characteristics the ability of Turkey to integrate the EU’s Institutional Structure is being determined.

The economic evaluation is mainly based on the data taken from the secondary resources of Eurostat, OECD statistics and World Bank statistics, Ministry of Finance and Ministry of Economy of Turkey.

For the main methods of data analysis the method of analogy and comparison were used to compare the Turkish economic indicators with the indicators of Bulgaria and Romania. The graphical method aims to explain the results more clearly. The method of deduction was used for the conclusions based on the economic theories or arguments. The method of synthesis is finally applied to form the cohesive thought of the thesis. The Scheme 1 below represents the sequential steps of data and methodology processing. First of all, it is necessary to set the main and partial objectives of the study. Subsequently, the author should collect the data either from primary or secondary resources and to analyze it on the basis of the different methodological theories. After, the results should be described and evaluated.

**Scheme 1: Objectives & Methodology**



Source: own elaboration

## **3 Literature Overview**

### **3.1 Economic and political characteristics of the country**

#### **3.1.1 Political overview**

This chapter describes the important political events, which changed the historical past of Turkey as a republic. The description goes through the early beginnings of country's existence until its current political activities. The main objective of this part is to communicate controversial political interests, different ideologies presented by the opposing political parties and a certain level of disagreement in the current political system. The main reason for this disagreement resides in the different view on the issue of secularization of the country. The secularist principles, which used to be a part of the Ataturk's doctrine, are not shared by the current government which is rather in support of the firmer religious traditions. The today's government however tries to present a moderate and more democratic version of Islam by expressing its favour for the EU membership.

The section also deals with the issues of the strong involvement of the military forces into the governmental decision-making process. The political unrests during the existence of the Republic of Turkey led to the multiple military interventions in the past. The military had several times overtaken control and ruled the country. The power of the military in Turkey is still significant today, which is highly disruptive to the EU standards of full democracy.

##### ***3.1.1.1 The modern Republic of Turkey – Mustafa Kemal***

The founding of the Republic of Turkey dates back to the 20th century, specifically October, 29<sup>th</sup> 1923, the day when the Ottoman Empire was dissolved. The new republican system replaced the former monarchy. The Ottoman Empire, which existed for 623 years, was defeated in World War 1, when the Allies occupied the territory of Istanbul and forced the Ottoman government to sign the peace Treaty of Sèvres. However, before its final ratification the Turkish nationalists, led by Mustafa Kemal, during the War of Liberation (1919-22) managed to ratify the new Treaty of Lausanne, which determined the new borders of the Turkish Republic and officially declared the existence of new modern Turkey. Thanks to the new system, which came into force with the Treaty of Lausanne, numerous changes have been established within the process of modernization of the newly

formed Republic of Turkey.<sup>1</sup> Mustafa Kemal, known as “Father of the Turks”, brought the modern principles of the Western world to the Turkish society. He had developed several reforms, which included principles of secularism and etatism as a part of Kemalist tradition. The governmental control over economic activities and separation of the state authorities from religious institutions were the important aspects of these doctrines. The Islam was eliminated from the constitution as a national religion. The completely new constitution, which adopted the main principles of the European law, was introduced to the public. However, not all of the Western principles were presented in the new system. The rule of freedom, democracy and political pluralism were the most important points, which the new system was lacking. The country was led by the only existing party RPP, Kemal’s Republican People’s Party, which remained the single ruling party till the end of the Second World War.<sup>2</sup>

### ***3.1.1.2 The political situation in Turkey after 1950. The military coups***

The Democrat Party, formed in 1946, represented a newly established opposition to the aforementioned RPP. In 1950 the Democrat Party won the parliamentary elections in Turkey with unbelievable 83.8% of total votes. The arrival of the DP has significantly reinforced the principles of democracy in the country. With the aim to address the wider part of population the newcomers mainly promoted the attitudes of populist ideology. The Democrats supported the industrial development, modernization of the country and at the same time they managed to return the Islamic traditions to the Turkish society. However, these first periods of reformation have been followed by the times of military intervention, when the military forces ruled the government in the periods of economic instability in the country. In the first period of military power the Democrat Party was closed down in 1960 by the National Unity Committee. The main reason of the military interference was the breach of the basic principles of the constitution, which led to the overall public discontent and violent demonstrations. In 1961 the new constitution was introduced to the public and it was successfully admitted by 61.7% of votes. There were particular changes established in the new constitution. The bicameral system, which involved Senate and the former National Assembly, formed the new government. Also the presidential election was carried

---

<sup>1</sup> FAUCOMPRET E., KONINGS J. Turkish Accession to the EU: Satisfying the Copenhagen criteria, p. 3-4

<sup>2</sup> BARLAS D. Etatism and Diplomacy in Turkey: Economic and Foreign Policy Strategies in an Uncertain World, 1929-1939, p.42

out by the two houses of Parliament and the President was elected for a seven-year period. The newly introduced constitution was even more westernized and brought more liberties to the Turkish population, especially to the working class. This gave a rise to the Justice Party, headed by Süleyman Demirel, which strongly supported the Western ideology.<sup>3</sup>

The two other successful military interventions followed afterwards in 1971 and 1980. The first was terminated with the national elections in 1973 and the latter brought significant changes to the Turkish political system. The army dissolved the government and did not allow the political parties to take part in the further elections. The new Constitution of 1982 replaced its predecessor from 1961 and became its last version, which is valid up to now.

Under the new, more democratic constitution the elections were held by the general public in 1983. After the elections the man named Turgut Özal appeared in the Turkish political life. His party called Motherland Party won the majority of voices and Turgut Özal became the new Prime Minister of the Republic of Turkey. Özal also became a prominent figure from the economic point of view. His modern economic approach open to the total liberalization of the country, free market economy and strong co-operation with the European Community brought the new hopes and visions to the Turkish ground. On November 9, 1989, Özal also became the new Turkish president replacing the former Kenan Evren. Nevertheless, his ruling was soon terminated by aforementioned Süleyman Demirel, his main political oppositionist, who became the next Prime Minister in 1991. The most criticism of Turgut Özal was connected with the period of crisis of 1990, which significantly undermined his reputation as a strong economic figure. However, Demirel as well as Özal was the famous proponent of secularist tradition.

The next military coup was undertaken by the Turkish army in 1997 and was known as the “bloodless coup”. The coup was indispensable in order to prevent the rising popularity of Necmettin Erbakan and his Islamic Welfare Party. Erbakan promoted the strong principles of Islamic fundamentalism and anti-EU positions, which were in conflict with the military secular ideology.<sup>4</sup>

---

<sup>3</sup> FAUCOMPRET E., KONINGS J. Turkish Accession to the EU: Satisfying the Copenhagen criteria, p.8-11

<sup>4</sup>ibid, p. 8-16



### **3.1.1.3 The current politics of the AK Party**

The November 2002 elections completely changed the political system in Turkey. The former three parties which had formed the coalition before and their opposing parties did not receive enough votes to remain at the National Assembly and were out of the newly formed government. The conservative-oriented Justice and Development Party (AKP) came as a winner from the elections with 34.2% of votes and became the single-party in the Turkish governmental system. The opposing party was formed by The Republican People's Party CHP with 19.4% of votes.<sup>5</sup> As usual, the new political system brought the new hopes and expectations. Recep Erdogan, has announced just after the elections his aim to support Turkey on its way to the European Union and his vision of Turkey as a full member of the Union. This attitude was very different from the other pro-Islamic parties, which mainly represented anti-Western views and strong religious attitudes. The objective of the party was to create a new vision of Islamic politicians, much more moderate and democratic.

After the elections the process of reformation has started. The leader of AKP Recep Erdogan has officially become the Prime Minister of Turkey in 2003. A lot of changes have been implemented within Turkey's preparation for the EU's membership. It mainly concerned the political changes in legislation – abolition of the death penalty, the protection of minorities, the support for human rights and other principles of democracy.<sup>6</sup>

The AKP party arose from the prohibited Welfare party and its main leader Recep Tayyip Erdogan became the new follower of Necmettin Erbakan. For this reason the military did not fully agree with the politics of AKP and kept a careful eye on their actions. Several conflicts followed with regard to the elections of a new president of the Republic. Abdullah Gül was nominated on the post of a new president by the majority of AKP, nevertheless the military forces together with the parties supporting secularist policies protested against Gül becoming a Turkish president.

In the year 2007 the new round of elections were held. This time AKP received even higher public support by obtaining 46.7% of votes. CHP party, which represented the army, got total percentage of 20.9% votes. The rest won the Turkish Nationalist Movement

---

<sup>5</sup> UGUR M.; CANEFE N., Turkey and European Integration: Accession prospects and issues, p.175

<sup>6</sup> *ibid*, p.207

Party MHP receiving 14.3% of votes.<sup>7</sup> The AKP, after winning the elections re-nominated Gül for the second time, which finally proved to be successful. On 28 August, 2007 Abdullah Gül became an official president of the Republic of Turkey and remains the Turkish president up to now. However there are still certain controversies regarding the issue of presidency. Neither military, nor secularists have admitted the choice of the government and still have certain concerns about the total islamization of the country.<sup>8</sup>

In 2011 the next round of elections were held and AK Party managed to win the third time. Erdogan stayed in the function of the Prime Minister of the country receiving 50% of total votes. Even despite the fact that Erdogan cannot become the Prime Minister of Turkey for the fourth time, there are some speculations about his future political career as a president of Turkey in 2014.<sup>9</sup>

After going through the brief history of the Turkish political events it becomes obvious that the issue of religion and the secularization of the country was always a main point of disagreement in the Turkish society. Secularist tradition came to Turkey with the Atatürk's doctrines promoting westernization of Turkey and convergence with the European traditions. The alternating governmental systems were either in support or against the main idea of secularism, which promotes the separation of religion and the state. The current government is recently trying to find a certain alternative. As being an Islamic party, the AKP is trying to promote the modern version of Islam by encouraging the main secularist principles. Nevertheless, the military, which has a strong position within the Turkish society, seems to be in opposition to the current government, not being fully trustful to their promises. The high number of Turks still perceives the military as a powerful and capable system of ruling. However, the strong involvement of the military power into the country's governing contravenes the democratic norms of the EU. This fact is as well being considered as a problematic issue of the Turkish political system and EU is currently requiring for the limitation of the military power in Turkey.

---

<sup>7</sup> ARVANITOPOULOS C.; TZIFAKIS N., Turkey's Accession to the European Union: an unusual candidacy, p.125

<sup>8</sup> FAUCOMPRET E., KONINGS J. Turkish Accession to the EU: Satisfying the Copenhagen criteria, p. 17-18

<sup>9</sup> *THE ECONOMIST*. Is there life after Erdogan? [online]. 14.12.2011 [cit. 2012-07-22].

### **3.1.2 Economic overview**

#### ***3.1.2.1 Brief history of the Turkish economy***

The politics of a strong state control or so-called “etatism” was typical for the Turkish economic system since 1930, when it was introduced as one of the Ataturk’s reforms by CHP party, led by the aforementioned Mustafa Kemal Ataturk.<sup>10</sup> In 1931 the Turkish government had to intervene into the economic activities of the country in order to prevent the economic disaster, which seemed to be inevitable due to the world crisis. The centralized economic activities and governmental planning strategies hindered the real development of Turkey.

Several reforms were held only in 1950 by the Democratic Party, when Turkey resigned from the former politics of country’s isolationism. The development of private sector, FDI inflow and a certain level of trade liberalization were presented among the newly established reforms. The 1960s is considered to be the period of the economic boom, when the country’s growth rates were considerably high and entrepreneurs finally had a possibility to develop. The beginnings of Turkey’s transformation from agricultural country to more industrialized economy took place in the period of 1960-1979. However, the considerable government involvement remained till 1980s with a very low level of privatization and strong public performance. Import substitution strategy, which substituted foreign production with local goods and services, was a part of the Turkish economic system. The import tariffs set for the external products were extremely high and import of the foreign products was highly restricted. However, the system of fixed exchange rates and limited imports was no more sustainable for the Turkish economy. An increase in oil prices of 1973-74 and the shortage of foreign currency led to the rise of the external debt and intolerable inflation rates. Due to this crisis, which occurred in the second half of 1970s, the government had to establish further important changes to the system. The reduction of the industrial tariffs began in 1973 and followed in 1979 in preparation for the EU membership. Within the new reforms the government devaluated

---

<sup>10</sup> BARLAS D. *Etatism and Diplomacy in Turkey: Economic and Foreign Policy Strategies in an Uncertain World, 1929-1939*, p.42

the Turkish lira in order to increase exports and raised the interest rates to attract the foreign investors.<sup>11</sup>

### **3.1.2.2 Post 1980s' trade liberalization**

In 1980 after the military coup, the economic reform was held by Turgut Özal, the Deputy Prime Minister. The new reforms brought significant changes to the economic system. The state control over the market was reduced and the Turkish economy became more open to the foreign investors. Özal introduced the programme of trade liberalization, currency devaluation and encouraged the politics of exports. The privatization of state economic enterprises helped to develop the entrepreneurship and brought the high level of FDI inflows into the country. Özal was the one who paved the way for Turkey to the EU by his new governmental reforms.

Nevertheless, the liberalisation programme except for the abovementioned benefits brought certain drawbacks for the Turkish economy. The problem was that Turkey was not sufficiently prepared for such significant changes. Economic stability, strong system of regulations and strict implementation of laws – this was the Turkish economy lacking. The economic growth led by the exports caused the unexpected strong trade imbalance. Dr. Mehmet Ugur in his book accuses the process of liberalization of the current economic instability of the country. The author emphasizes the significance of macroeconomic instability in the Turkish economic system and its impact on the Turkey-EU relations. *“Macroeconomic instability has not only prevented Turkey from realizing its growth potential, but also exacerbated the credibility problem that haunted Turkey-EU relations for four decades.”* After the liberalization process Turkey became economically less stable. Also its economy diverged significantly from the European system. How did it happen? The Turkish exchange rate changed from fixed to floating, strict fiscal principles shared by the EU countries were replaced by more generous and less stable in Turkey. Thus, Turkish government lost its control over the budget and economic activities. This was also the reason for the economic crisis, which occurred in the following years.<sup>12</sup>

---

<sup>11</sup> NAS TEVFIK F., Tracing the Economic Transformation of Turkey from the 1920s to EU Accession, p.17-25

<sup>12</sup> UGUR M., CANEFE N., Turkey and European Integration: Accession prospects and issues, p.76

### **3.1.2.3 The economic overview of 1990s**

The period of 1990s was rather unfavourable for the Turkish economy. It can be characterized by insignificant economic growth, fiscal deficit and strong instability in the country. The important downfall for the economy was the war in the Persian Gulf in 1991. The delivery of oil exported from Iran to the European Union through the territory of Turkey was abolished on the basis of UN embargo for Iran. Thus, Turkey lost its pipeline fees paid to the Turkish government for the export over the territory. Moreover, Turkish trade with Iraq decreased significantly in the result of the war, thus bringing numerous losses to the Turkish economic system.<sup>13</sup>

The consequent crisis of 1994 caused by high inflation and increased interest rates led to rise in imports and the overall trade deficit. The Turkish external debt equalled \$65 billion at the end of the year 1993. This time government also had to intervene into economy by selling its foreign reserves and requesting for the financial support from the International Monetary Fund.<sup>14</sup>

After ending the crisis, the Turkish economy was again on a rise. The inflow of foreign direct investments caused the significant increase of GDP. However, the country's fiscal and financial situation was still unsure and very unstable, which led to the next crisis in 1999. The Turkish government together with the IMF issued the stabilization program for Turkey to suspend the crisis. Nevertheless, except of the external debt, the Turkish economic situation was strongly influenced by the external shocks from the rest of the world, which was also burdened with the financial crisis on the markets. Only after the end of 2002, the Turkish economy passes the period of significant economic growth. Macroeconomic stability in the country brought the next wave of foreign investments, which contributed to the reduction of public debt and the decline of inflation.<sup>15</sup>

After the assessing of the economic situation from 1930s until the beginning of the 21<sup>st</sup> century, we can realize the overall instability and fluctuations presented in the Turkish economic system. The numerous financial crises were mainly caused by the trade

---

<sup>13</sup> FEDERAL RESEARCH DIVISION, Turkey: A Country Study, p.190-192

<sup>14</sup> Ibid p.185

<sup>15</sup> FAUCOMPRET E., KONINGS J. Turkish Accession to the EU: Satisfying the Copenhagen criteria, p.

imbalances, high external debt and intolerable rates of inflation. In order to integrate into the EU system Turkey still needs to go through the reformation process and to establish the fixed system of regulations to control the unstable rate of inflation and to reach the macroeconomic stability. However, this will be further discussed in the empirical part of the thesis.

## **3.2 Common Foreign and Security Policy**

### **3.2.1 Common Foreign and Security Policy after the Second World War**

After the Second World War Turkey entered numerous Western organizations in order to escape from the Soviet Union supremacy in the region. The two important European organizations appeared in 1948 as the reaction to the Truman doctrine: NATO and OEEC. The main aim of these organizations was to fight against their common enemy – the Soviet Union. The USA also co-operated closely with the Republic of Turkey. The US military bases were placed on the Turkish territory. That time Turkey was involved into the process of westernization of the country. In 1952 Turkey decided to join NATO and subsequently the country applied for the membership in the European Community, which was also a part of its internal security policies. For the European Community Turkey was an important partner due to its efforts to prevent the Soviet Union from its further expansion in the Middle East. Turkey thanks to its geopolitical location was able to control the operations held by the Soviet Union in the Black Sea and to provide its territory for any counteractions from the side of the EC. Even after the military coup held in Turkey in 1980, EU did not express a negative position towards the Turkish government in pursuit of keeping friendly relations with the country in terms of the security policies. Turkey, from its side, tried to take advantage of the EU's affection and to use it as a bargaining chip, when applying for the full membership in the EU in 1987.

However, the collapse of the Soviet Union weakened the position of Turkey as a strategic partner for the EU, as there was no more need to be afraid of the Soviet power. For this reason, Turkey in an effort to increase its political significance got involved into the Gulf War in 1990. The participation in this war enabled Turkey to emphasize its importance for the EU as a partner in terms of the security policies once more. The EU from its side, after realizing of the Turkish power in the Middle East, tried to establish closer relations with Turkey inviting it to become an associate member state of the Western

European Union in 1992. In such way Turkey was even given the right to decide about the military actions taken by WEU, in which Turkey has involved its forces.<sup>16</sup>

### **3.2.2 Common Foreign and Security Policy today**

There are several important organizations to be defined, which deal with the security policies on the territory of the EU. Nowadays, the biggest challenge for Turkey is to adapt to the main principles of these organizations in order to ensure the total protection to the all EU citizens. In 1975 at the Paris summit EU created TREVI group with its main objective to fight against violence, terrorism, illegal migration, and drug traffic on the territory of the European Union. The group functioned on the basis of mutual co-operation and exchange of information between the member countries of the Union. Subsequently, the TREVI group was integrated into the newly established third pillar of Justice and Home Affairs brought by Maastricht Treaty in 1993.

The second pillar, known as Common Foreign and Security Policy, increased the importance of the EU's internal and external security and its concept was further reinforced by the Amsterdam Treaty introduced in 1997. The WEU became responsible for the implication of security and defence policy within the Union. However in 2001 the organization's responsibilities were redirected to the Common Security and Defence Policy as a part of Common Foreign and Security Policy.<sup>17</sup>

Europol, the European Police Office, which came into force on October 1, 1998 also belongs among other important security policies. It defines itself as an instrument providing the highest level of security to the European citizens. Turkey within its integration into the Union has already signed so-called "operational agreement" with Europol necessary for the exchange of information.

The Treaty of Schengen, which came into force on March 26, 1995, aims to protect the borders of the EU from the third countries and potential risk connected with migration, terrorism and drug traffic.<sup>18</sup> According to the latest news, visa regime for the Turkish citizens is finally expected to be terminated in 3-4 years thanks to the agreement concluded

---

<sup>16</sup> ARIKAN H. Turkey and the Eu: An Awkward Candidate for Eu Membership?, p.198-202

<sup>17</sup> LACINER S.; OZCAN M. European Union with Turkey: The Possible Impact of Turkey's Membership on The European Union, p.88

<sup>18</sup> ibid

between the EU Minister Egemen Bağış and the European Commissioner for Home Affairs Cecilia Malmström.<sup>19</sup>

Nowadays, the EU deals with the Turkish integration in the Common Foreign and Security Policy via strategic dialogues, which discuss the most important security issues. In the newest report of the European Commission assessing the progress made by Turkey in the year 2011 is stated that the country has reached 48% alignment with the EU declarations and Council decisions in terms of Common Foreign and Security policy.<sup>20</sup> However, the chapters on External relations and on Foreign, Security, and Defence policy still remain blocked due to the unresolved issues, which are discussed closely in the next chapter.

### **3.3 The problematic issues of Turkey's Foreign Relations**

Within the Copenhagen political criteria Turkey is obliged to keep all its border relationships in peace. However, nowadays Turkey is experiencing numerous conflicts with its neighbouring countries. Most of them are of international character and several of them have become crucial for the Turkish entry into the EU. In the next section I aim to cover all the disputes and problematic issues between Turkey and other bordering and globally important countries.

#### **3.3.1 Turkey vs. Greece**

Since 1960s the relationships between Turkey and EU have worsen due to Turkey's foreign politics towards Greece. The Cyprus issue and the territorial conflict over the continental shelf in the Aegean Sea are the main reasons for these conflicts. Despite the efforts of the European Union to resolve these issues, the conflicts still persist.

##### ***3.3.1.1 Aegean conflict***

The Aegean conflict was caused by the disputes between Turkey and Greece around oil found in the continental shelf of the Aegean Sea. The conflict has not been resolved yet and it still remains one of the crucial problems within Turkey-Greece foreign policies. The European Union tried to resolve the dispute at Helsinki summit in December, 1999, when giving Turkey the official candidate status, two conditions were set. The first condition was that the problem of sovereignty over the shelf will be submitted to the

---

<sup>19</sup> DAILY NEWS. Visa exemption in 3-4 years, says EU minister [online]. 23.06.2012 [cit.2012-08-20].

<sup>20</sup> EUROPEAN COMMISSION. Turkey 2011 Progress Report [online]. 12.10.2011 [cit.2012-08-20].



International Court of Justice. The second condition was related to Cyprus problem and it stated that Cyprus would join the EU, even though the reunification of the island fails.<sup>21</sup> Nevertheless, Turkey still refuses to give up its supremacy over this area in the Aegean Sea.

### **3.3.1.2 Cyprus issue**

The next issue still to be resolved is the Cyprus conflict, which is considered to be the main critical point for the further negotiations with Turkey. In 1974 Turkey invaded the northern part of Cyprus as a reaction to Greek military coup against the Cypriot president Archbishop Macarius and their attempt to take over the power in the island. This military conflict led to the subsequent division of Cyprus and the declaration of the Turkish Republic of Northern Cyprus, which is nowadays recognized only by the Republic of Turkey.

In the year 2004 the plan of reunification was presented by the United Nations and its main Secretary-General Kofi Annan to the Cypriot citizens in the form of referendum. The unity plan suggested two-part federation with a rotating presidency. However, the proposal was rejected by the Greek part of the island's population. Even though the reunification has not been realized, Republic of Cyprus, which is the "Greek part" of the island, was allowed to enter the EU in 2004.

Nowadays, Turkey still has not admitted the existence of the Republic of Cyprus and its ports and airports remain closed for the country. Furthermore, Turkey denied expending the provisions of Customs Union to the Republic of Cyprus within the Additional Protocol issued by the EU in 2005. In reaction to this EU has decided to suspend the talks with Turkey on 8 out of 35 chapters.<sup>22</sup>

The further problematic issue currently appeared in the Greece-Turkey relations. The Noble Energy corp. has recently discovered the huge reserves of natural gas on the territory of the Greek Cyprus. In reaction to this Turkey has begun drilling in its territory of northern Cyprus, which led to further conflicts between Turkey and the rest of the world. As it was mentioned before, the Turkish Republic of Northern Cyprus has never

---

<sup>21</sup> ARVANITOPOULOS C.; TZIFAKIS N., Turkey's Accession to the European Union: an unusual candidacy, p.123

<sup>22</sup>EURACTIV. Turkey accession and Cyprus [online]. 12.05.2011 [cit.2012-08-25].

been officially recognized by any other country, except Turkey, and for this reason Turkey is not entitled to draw the Cyprus' gas.<sup>23</sup>

Today, the leaders of both parts of the island are trying to restore the mutual relations via further negotiations and to find the mutually beneficial solution. There were several options offered in order to resolve the issue: the possibility of reunification, the creation of two independent countries or annexation of the Turkish Republic of Northern Cyprus, however the latter option is naturally the less acceptable for the Turkish Cypriots.<sup>24</sup> In the second half of 2012 Cyprus is taking over the Presidency of the EU Council and its current president Christofias has expressed the necessity to continue with the dialogues regarding the Cyprus problem with Turkey. Turkey should also be interested in the resolution of the issue due to the EU's requirements for the entry.

### **3.3.2 The Kurdish issue**

There are several ethnic groups inhabiting the area of Republic of Turkey, however the only group, which has never been assimilated with Turkish nation are the Kurds. According to CIA Factbook, 18% of people living on the territory of Turkey are the Kurdish, which accounts about 13 million of people.<sup>25</sup> The Kurds mainly occupy the south-eastern part of the country. Some of the Kurdish representatives live at the borders with Iraq and Iran, and about 1 million of Kurds is currently living in Syria.<sup>26</sup> The main reason for the long-lasting fights and mutual unfriendliness bears mainly historical events. The Turks for many years tried to exclude the Kurds from the society due to their strong nationalist traditions. The public use of Kurdish language used to be prohibited by the Turkish government and the rights of the minority used to be suppressed considerably. Amnesty International provided EU with lots of documents regarding the abolition of human rights in Turkey in 1990s, however no action from the side of the EU was taken. The fights between Turkish army and supporters of PKK, Kurdistan Workers' Party, continued. Even despite the numerous protests of human organizations EU let Turkey proceed in integration and join the Customs Union without any delay in 1996.

---

<sup>23</sup>UNITED PRESS INTERNATIONAL. Turkish gas drill in Cyprus hikes tensions [online]. 27.04.2012 [cit.2012-08-25].

<sup>24</sup>REUTERS. Turkey says could annex north if Cyprus stays split. 04.03.2012 [cit.2012-08-25].

<sup>25</sup>THE WORLD FACTBOOK. CIA. Middle East: Turkey [online]. 24.08.2012 [cit.2012-08-25].

<sup>26</sup>FLAM H., Turkey and the EU: Politics and economics of accession, p.6

Nowadays, the situation is changing under the pressure of the EU and the new constitution with the laws on minority protection has already been introduced. However, to implement the law in practice requires certain time.

### **3.3.3 Turkey vs. Armenia**

The relations between Turkey and Armenia are still under the question mark today. In October 2009, within the establishment of mutual relations between Turkey and Armenia, two important protocols were introduced. Protocol on establishment of Diplomatic Relations between the Republic of Turkey and Republic of Armenia 2009 and Protocol on the Promotion of Relations between the Republic of Turkey and Republic of Armenia 2009 aiming to restore the previous relationships and open the borders between these two countries. However, as it is stated in the newest European Commission Report the protocols are still waiting to be ratified.<sup>27</sup> The borders between countries remain closed. There are several important issues to be introduced regarding Turkey-Armenia relations. The Armenian genocide, which started in 1915, is the most important issue discussed nowadays in terms of Turkey-Armenia relations. The genocide still has not been approved by the Turkish government as an intentional killing of Armenian nation during the First World War. Nevertheless, a lot of European parliaments have already recognized the existence of genocide, when thousands of Armenians were deported and killed by the Turkish army. However Turkey still cannot admit this fact from its own history. Currently, France has passed the bill, which considers the denial of officially recognized genocides as a crime, including the “Armenian genocide”. The Turkish Prime Minister Recep Tayyip Erdogan found this bill insulting for the Turkish identity, which has significantly deteriorated the relations between Turkey and France.<sup>28</sup> The issue of Armenian genocide has been also a crucial point in the EU Commission Reports.

In 1991 Turkey officially recognized the existence of Republic of Armenia, however it did not try to restore the diplomatic relations with the country. Armenia was also involved in the dispute with Azerbaijan over the territory of Nagarno-Karabagh in 1992, in which Turkey sided with the Azeris. In relation to this conflict Turkey closed its borders with Armenia in 1993. Until the conflict between Armenia and Azerbaijan is

---

<sup>27</sup> TERZI O. The Influence of the European Union on Turkish Foreign Policy, p.92

<sup>28</sup> ARSU, Sebnem – SAYARE, Scott. French Bill on Genocide Is Denounced by Turkey. *The New York Times* [online]. 24.01.2012 [cit.2012-08-27].

resolved, there will be no possible option for the normalisation of relations between Turkey and Armenia. This issue has a great international importance in regard to the Turkey's EU accession, as EU puts pressure on Turkey to open the borders with Armenia to ensure its external security.<sup>29</sup>

### 3.3.4 Turkey vs. Syria

Turkey's relations with Syria have deteriorated after the 1980s in the result of the disputes over the water resources used within GAP project released by Turkey. GAP was designed in order to support regional development in South-eastern Anatolia by the construction of irrigation and hydraulic energy production systems aiming to increase the quantity of fertile land in the region. However, numerous tensions from the side of Syria and Iraq did not allow Turkey to finish the project. As the counterattack against Turkey, Syria supported Kurdistan's Worker Party (PKK), the Kurdish terrorist organization. PKK managed to make significant damages to the project by destroying dams and canals, killing the workers. Subsequently, in October 1998 the main leader of PKK Abdullah Öcalan was expelled from the territory of Syria as Turkey was threatening Syrian government with the military intervention. After the expulsion the relations between the two countries have improved, as Syria in its mutual agreement with Turkey promised to stop supporting PKK.

Syria is considered to be a very important strategic partner due to its dominant position over Lebanon, Iraq and Palestine. Syria is also on the list of the countries, which support terrorist actions, according to the US declarations.<sup>30</sup>

In the current period of the Syrian civil war Turkey is a public opponent of Assad's politics since the Turkish F-4 Phantom was shot down by his military in June, 2012. The Turkish government supports the idea of military intervention in Syria by NATO's forces and its army has been mobilized along the Syrian borders. Turkey also currently cancelled its trade co-operation with Syria existing on the basis of free-trade agreements concluded in 2004.<sup>31</sup>

---

<sup>29</sup> TERZI O. The Influence of the European Union on Turkish Foreign Policy, p.87

<sup>30</sup>ibid p.111

<sup>31</sup>KMIECIK J. Turkish-Syrian Relations Amid the Syrian Uprising. *International Policy Digest* [online]. 09.07.2012 [cit.2012-09-27].

### **3.3.5 Turkey vs. Israel**

Turkey was the first Muslim country, which recognized the official status of Israel as a country in 1949. However, during the Gaza War in 2008, Turkey sided with the Palestinian people in Israeli-Palestinian conflict, which significantly impede their mutual relations. According to the latest report made by the European Commission the relations between Turkey and Israel have reached the critical point.<sup>32</sup>The main reason for it was the “Gaza Flotilla” incident from 2010, when six ships of “Gaza Flotilla” aiming to destroy the Israeli legal blockade of the Gaza strip were attacked by the Israeli Defence Forces. The “Gaza Flotilla” was supported by the Turkish Humanitarian Relief Foundation, which is closely related to Hamas and other Turkish terrorist groups. Due to the military actions of Israel, nine Turkish activists were killed. The incident led to sharp criticism from the side of Turkey and expulsion of Israel’s ambassador from the Turkish territory. Nowadays, the situation still has not been resolved due to Israeli refusal to apologize for its actions.<sup>33</sup>

### **3.3.6 Turkey vs. the USA**

The relations between Turkey and the US have been considerably influenced by the Turkish entry to the NATO alliance and other international organizations in 1950s. The US provided the Turkish government with a loan, which mainly served for the economic and military aims. However, these mutually favourable relations were damaged by the US invasion on the territory of Iraq, when the Turkey’s Parliament did not allow the U.S. troops to deploy on its territory. The reason for this reaction was the Turkish concerns about the possibility of the Kurdish nationalist movements in the Northern Iraq.

Nevertheless, the co-operation between these two countries seems to recover today. The visit of the U.S. president Barack Obama to Turkey in 2009 confirms this fact. The US government is also in support of the Turkish accession into the Union.

---

<sup>32</sup>EUROPA. Summaries of EU legislation. Turkey – External relations, Common Foreign and Security Policy [online]. 03.01.2012 [cit.2012-08-27].

<sup>33</sup>Republic of Turkey. MINISTRY OF FOREIGN AFFAIRS. Relations between Turkey and Israel. [online]. 2011 [cit.2012-08-27].

## 3.4 Turkey - EU relationships

### 3.4.1 History of Turkey's relations with the EU

The relations between Turkey and EU date back to 1959, when Turkey applied for the membership in the European Economic Community. It became its fully-fledged associate member in 1964 under so-called Association Agreement, also known as Ankara Agreement. The Ankara Agreement supposed the subsequent creation of the Customs Union between Turkey and EU by the year 1995.<sup>34</sup> However, a lot of uncertainties from the EU side accompanied the establishment of this pact. The EU was mainly interested in the trade co-operation with Turkey and it was able to provide the financial aid to the country. The Turkish government from its side expected the closer relations with EU with the promise of the full membership in the Union. Nevertheless, in 1970s the relations between EU and Turkey deteriorated due to several reasons, which led to the freezing of the mutual negotiations. Turkey refused to meet the requirements of the EC set within the preparation for the common Customs Union and did not make any concessions for the tariff reduction. Additionally, the Turkish forces set up the next conflict by invasion on the territory of Northern Cyprus, which was highly criticized by the EU member states.

The April 14, 1987 is the day when Turkey officially submitted its application for the EU membership. However, Turkey received a denial from the EU authorities. There were several reasons for this answer. Primarily, the Turkish political and economic situation did not correspond to the EU's standards. Secondly, the concerns about the inflow of foreign labour to the EU market seemed more than realistic. In addition, the unsolved Cyprus issue was the subject to numerous discussions and critics. Meanwhile, Turkey continued with the implementation of the requirements for the Customs Union. On January 1, 1996 Customs Union came into being, as predicted. This step was expected to bring many advantages for the both sides. At the same time EU started negotiations with Cyprus to enter the European Union.<sup>35</sup>

In December, 1997 at the official meeting of the European Council in Luxembourg, Turkey was excluded from the list of potential candidates for the entry, which was the

---

<sup>34</sup> HOEKMAN B. M.; TOGAN S. Turkey: Economic Reform and Accession to the European Union, p.17

<sup>35</sup> *ibid*

further reason for the deterioration of relations between Turkey and the EU. Turkey unlike the ten other CEEC countries did not comply with the EU economic and political requirements, as stated in the Presidency Conclusion of the European Parliament, 1997.<sup>36</sup> We should remember that European Union has stated inviolable principles of entry, so-called Copenhagen criteria, which should be respected by any country involved into the process of the EU membership. The criteria include three main areas of discussions: the political requirements, including human rights protection, the economic aspects and the ability to fulfil all the necessary obligations of the Union. Below there are listed the main criteria for the accession, as stated in the main conclusion of the Copenhagen European Council of June 1993.

- **Political criteria:** *stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;*
- **Economic criteria:** *existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union;*
- **“Acceptance of the Community acquis” criteria:** *ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.*<sup>37</sup>

Madrid European Council in 1995 has already set the further criteria for the candidate countries in form of adjustment of administrative and judicial structures, which nowadays represent the additional necessary requirements for the accession.<sup>38</sup>

The new stage in Turkey-EU relations has been reached when Turkey was officially recognized as a candidate country for the EU entry in Helsinki on December 10-11, 1999 at the official meeting of the European Council. “*Turkey is a candidate State destined to join the Union on the basis of the same criteria as applied to the other candidate States*”,

---

<sup>36</sup> EUROPEAN PARLIAMENT. LUXEMBOURG EUROPEAN COUNCIL. *Presidency Conclusions* [online]. 12.-13.12.1997 [cit.2012-08-29].

<sup>37</sup> EUROPA. Summaries of EU legislation. Accession criteria (Copenhagen criteria) [online]. [cit.2012-08-30].

<sup>38</sup> EUROPEAN PARLIAMENT. MADRID EUROPEAN COUNCIL. *Presidency Conclusions* [online]. 15.-16.12.1995 [cit.2012-08-30].

as it was mentioned in the Presidency conclusions from Helsinki, 1999.<sup>39</sup> The countries, which mainly opposed the Turkish membership – Greece, Germany and Austria, decided to withdraw their original intentions.<sup>40</sup> The new title brought new hopes for Turkey and the process of entry has officially started. What did it mean for Turkey as for the candidate country? The most important task was to adopt the common EU's legislation called *acquis communautaire*, which has not been fully adopted by Turkey up to now. The National Programme for the Adoption of the Acquis was created for the Turkish government to fulfil the necessary criteria required by the European Union. There were 85 short-term economic reforms and 32 political reforms within the Programme.<sup>41</sup> Mainly, the political reforms were considered the issues of the highest importance. As a reaction 34 amendments were adopted to the Turkish Constitution in October 2001. The reforms made involved mainly the laws on the human rights protection. Subsequently, in February 2002 the government passed the further set of reforms on antiterrorism law. And in August 2002 the most important changes regarding the rights of the Kurds and the abolishment of death penalty were added to the Constitution.<sup>42</sup> However even despite the main requirements of the National Programme were fulfilled, the budget provided by EU was very limited and the conditions set were much more demanding than those set for the Eastern European countries. Turkey was still on its long way to the EU entry as a full member.

Copenhagen summit, held in December 2002, set the official date for the accession negotiations with Turkey, which was agreed for December 2004. However, it was mentioned that the negotiations would start only under the condition that Turkey would fulfil the Copenhagen political criteria. Even despite the condition made, this decision was a next step forward to the EU's door. At the summit held in Brussels on December 16, 2004 it was confirmed by the Commission that Turkey has successfully fulfilled all the conditions necessary to open the accession process. The official date set for the opening of negotiations was October 3, 2005.<sup>43</sup> Nevertheless, there was another unresolved issue – the Additional Protocol to the Ankara Agreement, which Turkey denied to conform fully due

---

<sup>39</sup>EUROPEAN PARLIAMENT. HELSINKI EUROPEAN COUNCIL. *Presidency Conclusions* [online]. 10.-11.12.1995 [cit.2012-08-30].

<sup>40</sup> FLAM H., Turkey and the EU: Politics and economics of accession, p.2

<sup>41</sup> UGUR M.; CANEFE N., Turkey and European Integration: Accession prospects and issues, p.75

<sup>42</sup> UGUR M.; CANEFE N., Turkey and European Integration: Accession prospects and issues, p.23

<sup>43</sup>NATIONAL PROGRAMME OF TURKEY FOR THE ADOPTION OF THE EU ACQUIS [online]. 2008 [cit.2012-08-29].



to its reluctance to recognize the Republic of Cyprus as a member of EU. As it was emphasized in the Conclusions of the Presidency of 2004 - these negotiations were of the open-ended character, which meant that the EU did not want to make a promise of the full-fledged membership for Turkey. In December, 2006 the EU Council suspended the negotiations with Turkey on 8 chapters once again due to still unresolved Cyprus problem. For all these reasons the public support for the Turkish entry has declined. The Turks were more and more sceptic about the EU's willingness to accept them as the official member. The concept of "privileged partnership" proposed by Germany and France had to replace the full membership; however it did not seem favourable for Turkey. The number of protests held in the European countries and never-ending negotiation talks with the EU also did not convince the Turkish public in European desire for the integration.<sup>44</sup> Nowadays, each of the remaining 23 chapters of community acquis is being discussed closely. The Table 1 below shows which of the chapters have already been opened.

**Table 1 : Negotiation chapters of the EU acquis between Turkey and EU**

Negotiation chapters	
Open	Provisionally closed
Free Movement of Capital Company Law Intellectual Property Law Information Society and Media Food Safety, Veterinary & Phytosanitary Policy Taxation Statistics Enterprise & Industrial Policy Trans-European Networks Environment Consumer & Health Protection Financial Control	Science and Research

Source: European Commission, 2012

After the total harmonization of acquis and opening of all the chapters, the Turkish membership is supposed to be unanimously approved by all the member states of the Union, which is supposed to be the next barrier to the Turkish accession in the short-term period.

<sup>44</sup> TOGAN S. Economic Liberalization and Turkey, p.17

### **3.4.2 Trade relations with the EU**

#### **3.4.2.1 Customs Union**

The creation of the Customs Union was signed on March 6, 1995 and on January 1, 1996 it has finally come into existence. The Customs Union between Turkey and EU was initially concluded on the basis of Ankara Agreement in 1963. It comprised 3 main integration phases:

1. preparatory phase (1964 – 1970)
2. transition (1973 – 1995)
3. completion phase (1996 to full economic integration).

The Ankara Agreement was amended with the Additional Protocol of 1973, which introduced the elimination of the customs duties between Turkey and EU. Nowadays Turkey is the only non-member country, which co-operates with the EU on this basis.<sup>45</sup>

New position allowed Turkey to import industrial goods from the EU without any restrictions. At the same time, EU had the possibility to widen the limits of its potential consumers to the Turkish market. This was the next step in the liberalization process in the Turkish economy. The biggest issue of today's discussions is the agricultural sector, which is still not the subject to the free trade. The average tariff on imports of agricultural commodities from EU to Turkey was set at unbelievable 21.4%.<sup>46</sup>

Among other policies adopted within the Customs Union Agreement we can mention the preferential trade agreements, which Turkey has concluded with 16 countries so far (See table 2). The EU Common Customs Tariff on imports of industrial goods from the third countries has also been implemented by Turkey within the new agreement. Nevertheless, some of the countries, which concluded FTA with the EU are not willing to conclude the same type of agreement with Turkey, as it seems less favourable for them. For example, Algeria, Mexico and South Africa are already co-operating with Turkey indirectly on the basis of their agreements with the EU, which gives them a right of tariff-free export to the European Community, including the Turkish market thanks to the Customs Union. Under the new FTA agreement they are expected to have fewer

---

<sup>45</sup> ECONOMIC DEVELOPMENT FOUNDATION. Customs Union [online]. [cit.2012-09-03].

<sup>46</sup> HOEKMAN B. M., TOGAN S. Turkey: Economic Reform and Accession to the European Union,

preferences as Turkey's exporters will also gain the right for a tariff-free export rate, which put these countries into less advantageous positions.<sup>47</sup>

**Table 2: Turkey's Free Trade Agreements**

<b>Country</b>	<b>Status</b>
EFTA	In force
Macedonia	In force
Croatia	In force
Bosnia-Herzegovina	In force
Albania	In force
Israel	In force
Palestine	In force
Morocco	In force
Tunisia	In force
Egypt	In force
Syria	In force
Georgia	In force
Serbia	In force
Montenegro	In force
Chile	In force
Jordan	In force
Lebanon	Under ratification process
Mauritius	Under ratification process
Republic of Korea	Under ratification process

Source: Republic of Turkey Ministry of Economy, Free Trade Agreements, 2012, own elaboration

Some further policies were also set by the EU's Commercial Code, such as antidumping law, harmonization of technical standards for industrial goods and protection of property rights. Nowadays, more than 90% of the EU standards have been implemented by the Turkish government. In terms of institutional co-operation Customs Union Joint Committee was established to follow the functioning of the newly formed Union.<sup>48</sup>

### **3.4.2.2 Turkey and the Common Agricultural Policy (CAP)**

The agriculture still plays a significant role in the country's employment rate, which accounts 25%, and the particular contribution to GDP of 9.3%. In the European Union the employments rate in agriculture makes only 4.7% and the contribution to GDP is 1.8%, which is significantly lower as compared to Turkey.<sup>49</sup> Agricultural support in

<sup>47</sup> ECONOMIC DEVELOPMENT FOUNDATION. Customs Union [online]. [cit.2012-09-03].

<sup>48</sup> HOEKMAN B. M., TOGAN S. Turkey: Economic Reform and Accession to the European Union, p.17

<sup>49</sup> CIA. Middle East: Turkey. *The World Factbook* [online]. 24.08.2012 [cit.2012-09-03].

Turkey is also very high, as the government is trying to protect its own market. Nowadays, a lot of reforms have been conducted in order to reduce the level of support to farmers and to approach the EU criteria. During the years 2007-09 the support provided to farmers made about 34% in Turkey, expressed as % of producer' revenues. If we compare this number to the support provided to the whole EU farmers, it is only 23%.<sup>50</sup> These numbers indicate that the Turkish protectionist policies should be the subject to further liberalization. Adoption of the Common Agricultural Policy is a part of accession process, which includes the new system of direct income support to farmers based on the land holdings instead of the input subsidies and the output price support as it used to be in the former Turkish agricultural system. The government used to provide the farmers with a wide range of grants, subsidies and low-cost services. The CAP system within the accession policy is currently trying to decrease the Turkish agricultural prices, so that they can be comparable to the lower world market prices.<sup>51</sup>

---

<sup>50</sup> OECD. Agricultural Policies in OECD Countries: At a Glance [online]. 2010 [cit.2012-09-03].

<sup>51</sup> FLAM H., Turkey and the EU: Politics and economics of accession, p.21-23

## 4 Empirical part

### 4.1 Detailed analysis of the Turkish economy

#### 4.1.1 General overview

First, the most important factors about the Turkish economy should be presented to provide an overall outlook of the country's current economic system. The Progress Report of 2006 stated that Turkey has a fully functional market economy, in such way upgrading its position in the world economy.<sup>52</sup>

Being a functioning market economy requires:

1. *the existence of a broad consensus about essentials of economic policy,*
2. *macroeconomic stability,*
3. *a free interplay of market forces,*
4. *free market entry and exit,*
5. *an adequate legal system and a sufficiently developed financial sector*<sup>53</sup>

The overall compatibility of Turkey with these factors today is further analyzed in the next chapter.

In general, Turkey is regarded as diversified economy with a strong manufacturing base. Private sector of the economy significantly contributes to the country's GDP growth by its numerous investments and the amount of private consumption.<sup>54</sup> Small and medium-sized businesses drive the Turkish economy forward. Service sector is a leading sector of the economy, which creates 62.2% of the country's GDP (as for the year 2011), however industry and agriculture still have a strong position in the Turkish economic system, which differentiates Turkey from the EU countries.<sup>55</sup> Turkey is also an attractive region for foreign investments, as around 30,000 companies with international capital are currently operating in the Turkish market. The country's location at the borders of Asia and Europe

---

<sup>52</sup>GUERIN S.S.; STIVACHTIS I. On the Road to EU Membership?: The economic transformation of Turkey, p.11

<sup>53</sup>EUROPEAN COMMISSION. Economic accession criteria [online]. 13.12.2011 [cit.2012-10-08].

<sup>54</sup>TODAY'S ZAMAN: Robust private sector gives Turkey fastest H1 growth [online]. 12.11.2011[cit.2012-09-03].

<sup>55</sup>THE WORLD FACTBOOK. CIA. Middle East: Turkey [online]. [online]. 04.2012 [cit.2012-10-13].

is crucial for the investors' attractiveness. The infrastructure of Turkey has also reached the high level of development with the established transportation and energy routes.

The standard corporate income tax in Turkey is set at the level of 20%, which is rather high in comparison to some EU countries (ex. in Germany corporate income tax equals 15%, in Bulgaria - 10%, in Romania - 16%).<sup>56</sup> However, the Turkish government offers diverse tax exemptions from corporate income tax or specific grants with the aim to increase the level of entrepreneurship in the country. The investors can be supported in form of free land or R&D support income tax exemption for qualified R&D personnel.<sup>57</sup>

The EU strongly supports the Turkish development in form of FDI inflows, which mainly comes from the EU countries. As stated in the Progress Report of 2011, the FDI from EU reached 76% of Turkey's total investments in the year 2010. The Stock of FDI inflow into Turkey reached \$102.6 billion, as for the year 2011. On the contrary, the stock of FDI from Turkey to abroad amounted only \$19.35 billion, as for the same period. From this perspective Turkey is perceived as economically attractive country with high potential for growth and promising market for the foreign investors.<sup>58</sup>

#### **4.1.2 The analysis of Turkey's current economic performance**

In the period from 2002 till 2008 Turkey experienced the high annual growth of 6%. After the 2001 crisis Turkey entered into the agreement with the International Monetary Fund in order to develop the stabilization programme for its unpredictable economic system. Nevertheless, the 2009 world financial crisis significantly affected the Turkish economy. According to the Progress Report of the EU Commission from 2009, the strong negative impact of financial crisis led to a substantial decline in domestic and external demand. Thus, the Turkish economy entered the period of deep recession reaching -13%. From a positive side, the country's current account deficit improved by 22%, from \$23 billion to \$18 billion due to lowered domestic demand. However, Turkey managed to recover rapidly after the crisis. Even after the crisis Turkey held its status of the functioning market economy thanks to its rapid recovering process. The years of 2010-2011 proved to be successful for Turkey. The growth rates unexpectedly increased and the

---

<sup>56</sup> DELOITTE. Corporate Tax Rates 2012. [online]. 2012 [cit.2012-11-14].

<sup>57</sup> PWC Turkey. Doing Business in Turkey 2011 [online]. [cit.2012-10-24].

<sup>58</sup> THE WORLD FACTBOOK. CIA. Middle East: Turkey [online]. 04.2012 [cit.2012-10-13].

unemployment rates declined. However, increase in demand and higher imports widened the CA deficit. Only in mid 2011 the economy slowed its tempo of growth and reached higher balance.<sup>59</sup>

Continuous GDP growth accompanied by improvements in fiscal political system moves the Turkish economy forward. The analytics predict the successful future for the country's economic system. However, the external debt of Turkey has reached unbelievable heights in form of \$306.6 billion as for December 31, 2011. According to the Turkish Ministry of Finance total Turkey's debt to the International Monetary Fund amounted 39.9% of country's GDP as per year 2011.

In terms of investing Turkey attracts the foreign assets even despite its high risk environment. The higher the risk, the bigger are the revenues. A lot of investors follow this rule when investing into Turkey. The biggest problem is that Turkey's further development is conditioned by the external financing. The investors' behaviour is naturally not easy to predict. The investors either tend to put more money into the country's stock market and bank accounts, in case of promising interest rates, as it gives them an opportunity of receiving higher revenues. Or they would rather withdraw the money in case of crisis or increased instability of the country. Thus, the Turkish economy is still very unstable and volatile. With the increasing FDI in the country, the Turkish currency also goes up, which leads to higher consumer spending on imported products and total increase in the current account deficit.<sup>60</sup>

The important indicator for the stock market, which affects the investors' behaviour, is the rating agencies' evaluation. In 2012, Moody's rating agency decided to upgrade sovereign debt rating of the country to Ba1, which is one grade under the investment grade. This decision was made according to the economic results of the year 2011, when GDP growth rate reached around 10%. Also the performance of the stock market with double-digit results convinced the rating agency.<sup>61</sup>

---

<sup>59</sup>THE WORLD FACTBOOK. CIA. Middle East: Turkey [online]. [online]. 10.2012 [cit.2012-10-13].

<sup>60</sup>THE ECONOMIST: Turkey's economy: Istanbul and bears [online]. .07.04.2012 [cit.2012-10-15].

<sup>61</sup>THE WALL STREET JOURNAL. Moody's Upgrades Turkey [online]. 20.06.2012 [cit.2012-10-15].

### **4.1.3 Economic development of the country over the last 5 years**

In order to assess the overall progress the Turkish economy has gone so far, it is necessary to follow the economic situation in the country for a certain period of time. For this reason the next part depicts the 5-year period of the country's development.

#### **4.1.3.1 Main macroeconomic indicators**

##### **4.1.3.1.1 GDP**

Macroeconomic indicators are mainly used to evaluate the overall economic situation of the particular country. The measurement of GDP is based on Purchasing Power Parity, which is more accurate when taking into account the figures for the other countries. According to the data taken from the CIA Factbook, Turkey has the GDP (PPP) of \$ 1.026 trillion for the year 2011, with the 17<sup>th</sup> position in the world, which proves that Turkey has a strong economy with a significant outcome. The GDP (PPP) per capita indicator includes the country's total population. In global comparison Turkey takes the 67<sup>th</sup> place, according to the CIA Factbook publications. The GDP (PPP) per capita in Turkey reached \$14,700/year per person in 2011, which makes the half of the EU 27 average result.<sup>62</sup>

##### **4.1.3.1.2 Real GDP growth rate**

The further important indicator of the country's economic activity is the GDP real growth rate. The chart below depicts the development of GDP growth rate for the 5-year period. In March, 2009 during the global financial crisis Turkey's GDP growth rate dropped to negative values reaching -13,55% of the economic decrease. However, after the crisis the Turkish economy went through the period of extremely rapid recovering process accompanied by the high economic growth values of 12%. Nevertheless, the rapid growth rates can sometimes bring negative impact on the country's economic situation. The consequences of this growth also touched the economy of Turkey in form of high inflation and substantial current account deficit.

Currently, the growth rate declined and Turkey has reached a period of healthy and steady GDP growth rate of 3%. Goldman Sachs speaks about the high potential of Turkey in terms of its high economic growth in the future. The company's Managing Director Ahmet Akarli stated that he believed that the Turkish economy can become the second

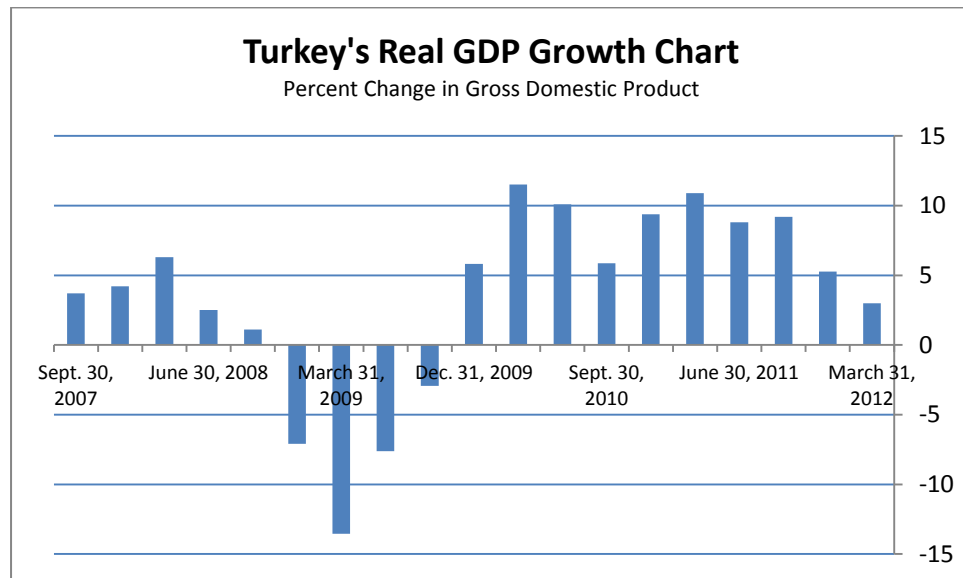
---

<sup>62</sup> EUROSTAT. GDP per capita in PPS [online]. 01.06.2012 [cit.2012-10-18].



largest economy in EU by 2050, excluding Russia. However, the reforms need to be done for this potential to be used properly.<sup>63</sup>

**Figure 1: Turkey's Real GDP Growth (%)**



Source: data-Ycharts; 2012; own elaboration

#### 4.1.3.1.3 Inflation rate

Inflation rate in Turkey seems to be very unstable and volatile moving around 6-10% with extreme fluctuations, as indicated on the Figure 2 below. The current inflation rate is moving around 9%, which is rather above the expected rate of Turkey's Central Bank set at the level of 5% for the end of the year 2012.<sup>64</sup> Increase in the world energy and food prices pushes the inflation up, as the producers set the higher prices for the goods. However, the main reason for the high inflation mainly rests in the depreciation of the Turkish currency against the major world currencies and increase in the indirect tax rates. In December, 2011 the inflation rate in Turkey reached the double digit level.<sup>65</sup> Among the other policies CB set the high reserve requirements for the commercial banks. These measures were undertaken in order to limit rapid economic growth accompanied by the high inflation. In June, 2012 governmental policies already managed to decrease the level

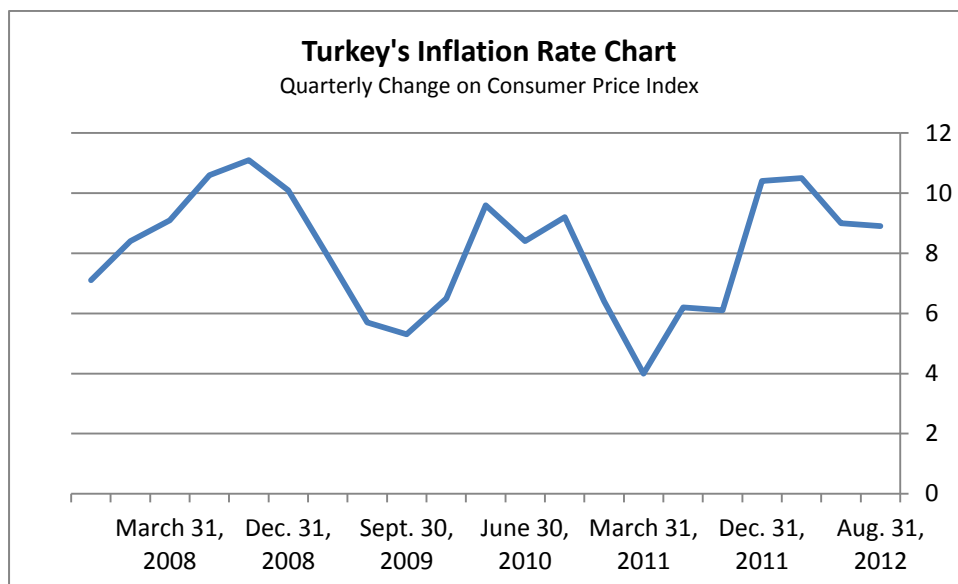
<sup>63</sup>GOLDMAN SACHS. A view from Turkey [online]. 04.2012 [cit.2012-10-20].

<sup>64</sup>BLOOMBERG. Turkey Central Bank Keeps Rates Unchanged to Counter Inflation[online]. 19.07.2012 [cit.2012-10-20].

<sup>65</sup>ECONOMIC AND SOCIAL SURVEY OF ASIA AND THE PACIFIC 2012[online]. 10.05.2012 [cit.2012-10-20].

of inflation back to single digit level, approaching 9%. The World Bank report predicts 7% inflation rate for the year 2012, which seems more realistic today.<sup>66</sup>

**Figure 2: Turkey's Inflation Rate (%)**



Source: data – Ycharts; 2012; own elaboration

#### 4.1.3.1.4 Unemployment rate

In 2011 the unemployment rate declined from 12%, reached in 2010, to 9.8%. Today, the unemployment rate is gradually moving downward reaching its lowest values of 7.7%, which is a sign of the improved economic policies. However, the ratio of female labour force employed remains very low at the level of almost 30%, according to the latest Progress Report of 2011.<sup>67</sup> Also the rate of youth unemployment remains at the level of 21.7%.<sup>68</sup> This is predicted to have a substantial influence on the Turkish migration level, when entering the European Union. As mainly young population is expected to leave the country in search of new job opportunities abroad. In the year the total labour force in Turkey accounted over 27 million, which makes one third of the total population.<sup>69</sup>

According to the OECD Better Life Index, which compares the well-being factors in OECD countries, the level of the household net adjusted disposable income in Turkey

<sup>66</sup>WORLD BANK. Turkey Regular Economic Brief [online]. 01.2012 [cit.2012-10-21].

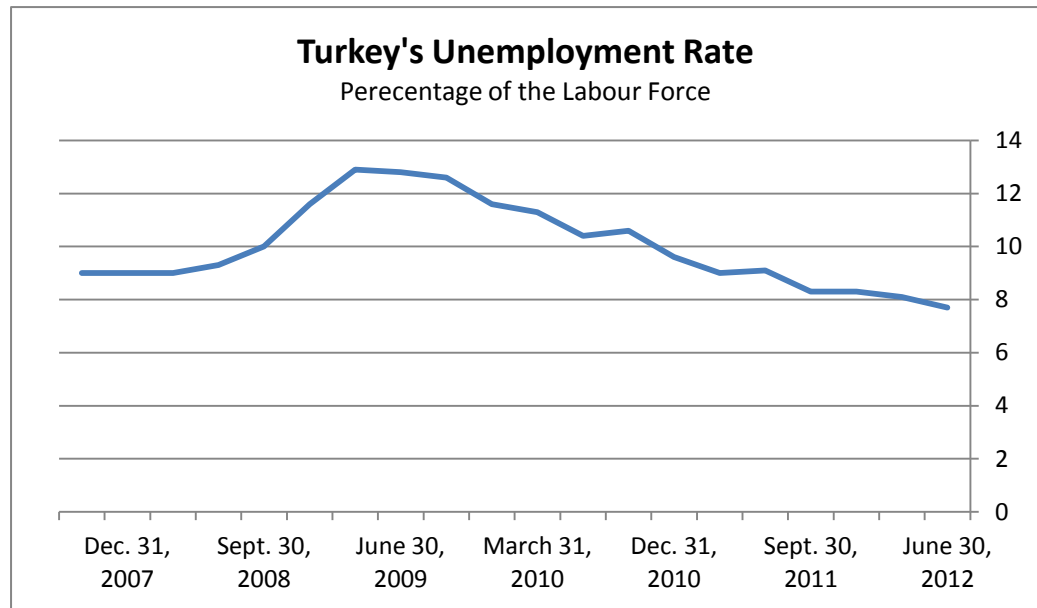
<sup>67</sup>EUROPEAN COMMISSION. Turkey 2011 Progress Report [online]. 12.10.2011 [cit.2012-10-21].

<sup>68</sup>WORLD BANK. Main macroeconomic indicators-Turkey[online]. 06.2012 [cit.2012-10-21].

<sup>69</sup> Foreign Trade. *Invest in Turkey* [online]. [cit.2012-10-21].

equals \$10,997 per year, which is half in comparison to the OECD average of \$22,387.<sup>70</sup> The level of social inequality already reached 8.1 score, which signifies a substantial income disparity in the country. However, the gross minimum wage in Turkey equals €412 or \$532 per month, which is rather high as compared to other EU countries, which lately entered the European Union, ex. Bulgaria, Romania or Lithuania (See appendix 1).<sup>71</sup>

**Figure 3: Turkey’s Unemployment Rate (%)**



Source: data – Ycharts; 2012; own elaboration

#### 4.1.3.1.5 Interest Rate

The chart below shows the 1-week Repo rate, which is still kept by the Central Bank at the level of 5.75%. This level of Repo rate is considered to be record low, which signifies that commercial banks can borrow more funds today from the Central Bank. Since the year 2008 the interest rate was lowered significantly to fight the high inflation rates in Turkey. In October, 2008 the 1-week Repo rate reached the level of 16.75%, which is almost three times higher than today.

Currently, the Central Bank tightened the IR corridor but at the same time kept the Repo rates low, which still can guarantee low borrowing for the banks and higher economic activity of the country. However, the tightened IR corridor should ensure the

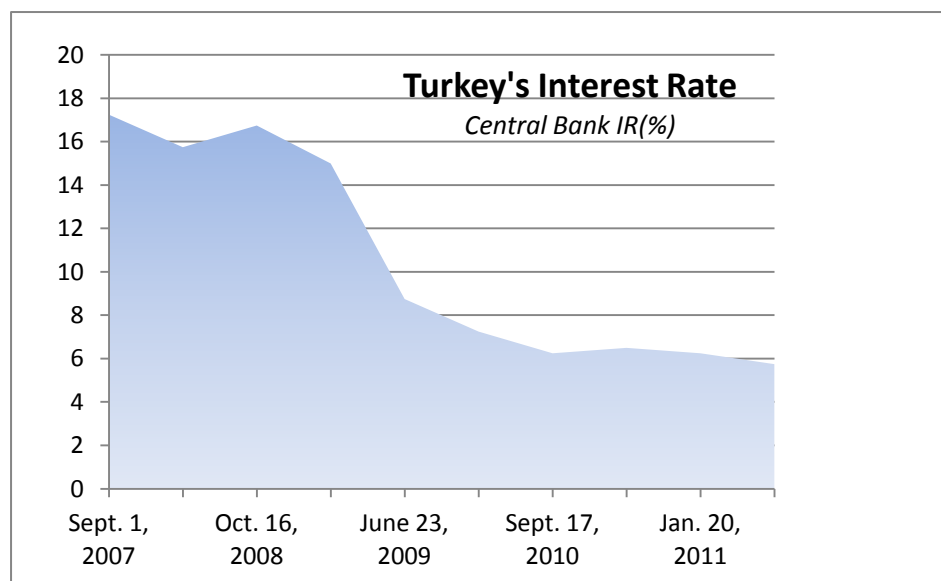
<sup>70</sup>OECD. Better life index: Turkey [online]. 2012 [cit.2012-10-21].

<sup>71</sup>EUROPEAN COMMISSION. EUROSTAT. MW EUR July 2012 [online]. 08.2012 [cit.2012-10-21].

decrease of inflation rates and support the national currency. The borrowing rate was kept at 5%, while the lending rate was lowered to 11.5%.<sup>72</sup>

The Repo rates of Turkey in comparison to the other world significant economic areas are still much higher. The Fed Funds rate equals 0-0.25% and the 1-week Repo rate of the Eurozone has reached the level of 0.75%.<sup>73</sup> These record low rates should increase the spending and stimulate the economies of the developed countries, which today suffer from the deep economic stagnation.

**Figure 4: Turkey's Interest Rate (%)**



Source: data – DeltaStock; 2011; own elaboration

#### **4.1.3.2 TRY Exchange rates**

Turkey has a floating exchange rate system, which is regulated by the demand and supply on the markets.<sup>74</sup> The chart below depicts the average year changes in the exchange rates of the Turkish national currency, the Turkish lira against the US dollar. The today's exchange rate for the USD is at 1.735 TRY, which means that in comparison with a previous year the Turkish currency weakened. The domestic demand for the dollar is increasing and it pushes the price for the USD up, which leads to the TRY depreciation.

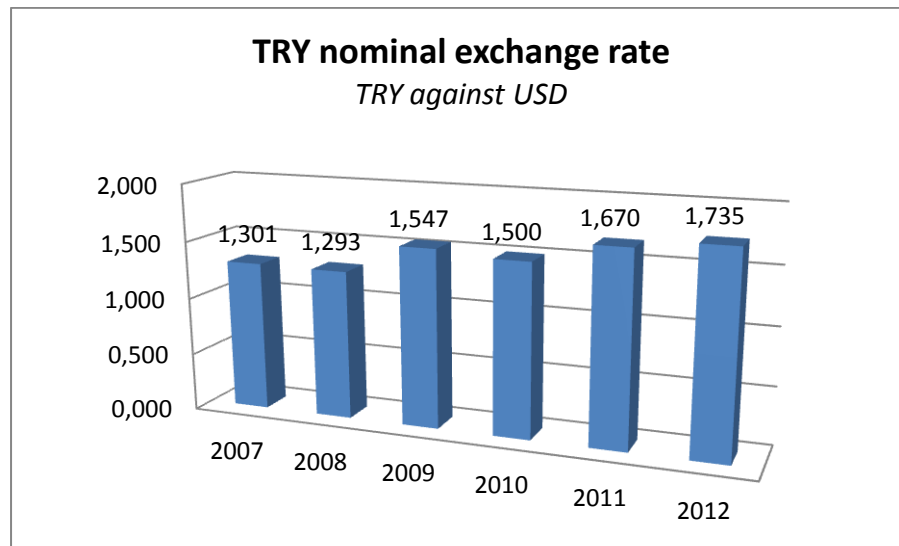
<sup>72</sup>EUROPEAN ECONOMIC NEWS. Turkish Central Bank Retains Interest Rate At Record Low [online]. 16.08.2012 [cit.2012-10-23].

<sup>73</sup>CENTRAL BANK RATES. Worldwide central Bank Rates [online]. 10.2012 [cit.2012-10-24].

<sup>74</sup>PWC Turkey. Doing Business in Turkey 2011 [cit.2012-10-24].

However, the weak lira is an opportunity for the foreign investors, as their investments become less expensive and more affordable, making Turkey's market even more attractive. Also it is favourable for the Turkish producers, which can take advantage of the cheaper exports.

**Figure 5: TRY average exchange rate (%)**



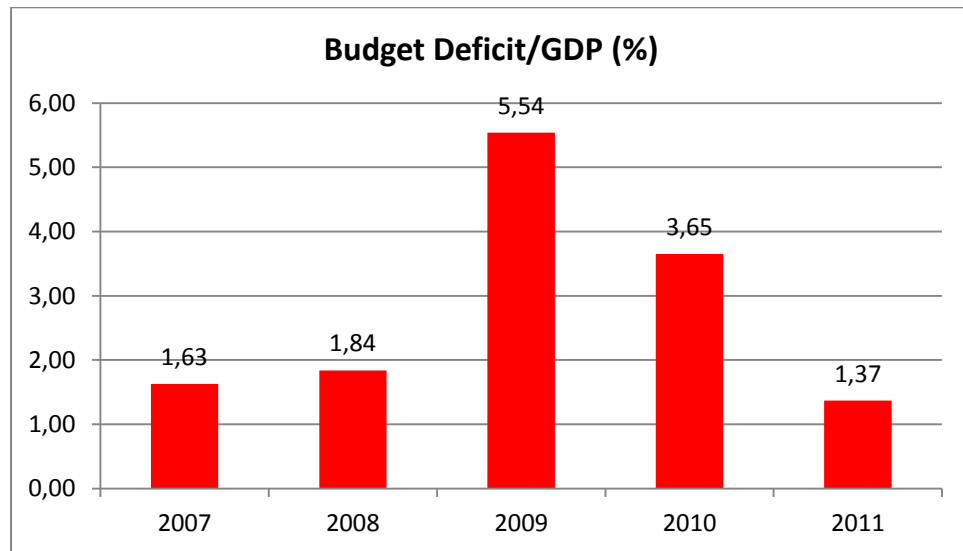
Source: data-Ministry of Finance, Turkey, 2012; own elaboration

#### 4.1.3.2.1 Budget deficit

The next important variable is a budget deficit and its share in GDP of the country. During the years 2007-2008 the deficit was quite low, reaching 1-2% of the Turkish GDP, which is a sign of the stable and effective fiscal program. In 2009 the budget deficit reached its heights of 5.54% as a consequence of the world financial crisis and substantial decrease in the tax revenues. Today the fiscal policies of the Turkish government have improved significantly as compared to the preceding years. In 2011 budget deficit reached 1.37% of GDP, which is twice lower than in the year 2010, when it equalled 3.65%. The government managed to reach this improvement thanks to the lowered unemployment rates, which contributed to the overall increase in tax payments received by the government treasury and cuts in social security spending.<sup>75</sup>

<sup>75</sup> BLOOMBERG. Turkish Spending Pushes 2011 Budget Deficit to 1.4% of GDP [online]. 16.01.2012 [cit.2012-10-23].

**Figure 6: Budget Deficit/GDP ratio (%)**



Source: data-Ministry of Finance, Turkey, 2012; own elaboration

#### **4.1.3.2.2 External Debt**

The country's external debt still remains a problem for the Turkish government today. Turkey's debt equalled 39.9% of GDP, as for the year 2011 (See Figure 7 below). Since 2009 the government managed to reduce the debt by 13.8% from \$306.3 billion to \$271.9 billion in 2012.<sup>76</sup> Currently, Turkey takes the 28th place according to the world external debt comparison, as provided by Index Mundi.<sup>77</sup>

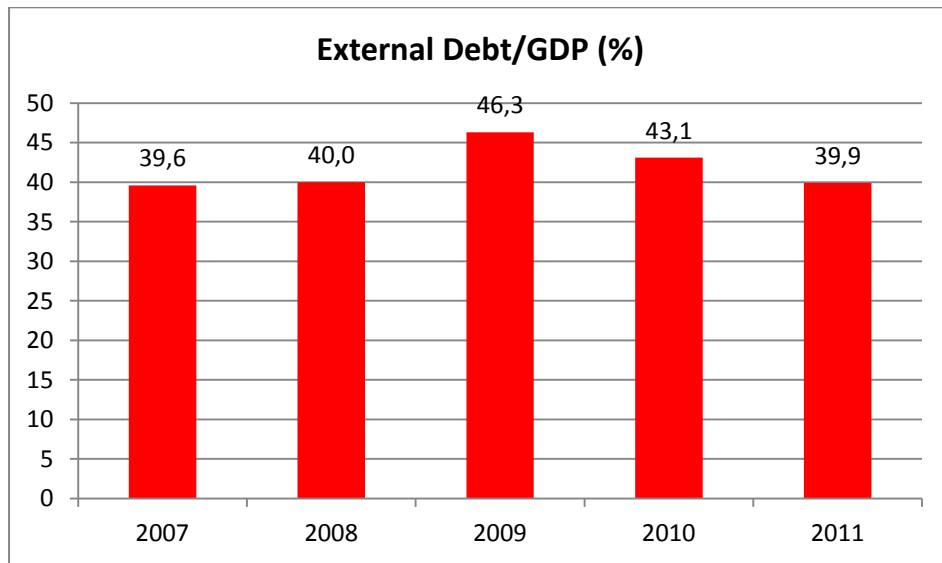
High external debt generally leads to an increase in the interest rates, which slows down the country's economic growth, as the private sector is discouraged from further borrowings and spending. Also the government limits its spending and overall investments, which results in decrease of country's competitiveness.<sup>78</sup> The main solution how to deal with the current public debt is to increase the level of country's exports encouraging companies to produce more by giving them more favourable conditions for the business.

<sup>76</sup> REPUBLIC OF TURKEY MINISTRY OF FINANCE: GENERAL DIRECTORATE OF BUDGET AND FISCAL CONTROL. Statistics: Economic indicators [online]. 2012 [cit.2012-10-26].

<sup>77</sup> INDEX MUNDI. Country comparison: External debt [online]. 01.01.2012 [cit.2012-10-26].

<sup>78</sup> SCHWAB, Klaus. The Global Competitiveness Report 2011-2012, WORLD ECONOMIC FORUM, Geneva [online]. 2012 [cit.2012-10-26]. ISBN 978-92-95044-74-6.

**Figure 7: External Debt/GDP ratio (%)**



Source: data-Ministry of Finance, Turkey, 2012; own elaboration

#### 4.1.4 Turkey's Trade Statistics

According to the Foreign Trade Statistics, Turkey's trade with the EU for the year 2011 made 46.2% of its total foreign trade, which makes a 4% increase as compared to the year 2010, when the amount of total trade with EU accounted 42%.

The Tables 3 and 4 below show the main important trading partners for Turkey as for the year 2010:

**Table 3: Turkey's main import partners, 2010**

<i>Region</i>	<i>%</i>
<i>EU</i>	<i>39.3</i>
<i>BRIC</i>	<i>23.7</i>
<i>CIS</i>	<i>16.8</i>
<i>NAFTA</i>	<i>7.5</i>
<i>MEDA (excluding EU and Turkey)</i>	<i>3.4</i>
<i>The rest</i>	<i>9.3</i>

Source: data- European Commission, 2012; own elaboration

**Table 4: Turkey's main export partners, 2010**

<i>Region</i>	<i>%</i>
<i>EU</i>	<i>46.3</i>
<i>CIS</i>	<i>9.7</i>
<i>MEDA(excluding EU and Turkey)</i>	<i>9.0</i>

<i>BRIC</i>	<i>7.1</i>
<i>NAFTA</i>	<i>3.9</i>
<i>The rest</i>	<i>24</i>

Source: data-European Commission, 2012; own elaboration

As it was already mentioned above the half of the Turkish trade was realized with the EU countries in imports. The other crucial import market for Turkey was the BRIC countries' market, which made 23.7% of the overall Turkish import trade in the year 2010. The other important markets for the Turkish import were CIS, NAFTA and MEDA, as shows the table 3 above. The CIS countries, which are located on the eastern part from Turkey, proved to be the important partners in exports as well with 9.7% of the total Turkey's exports. However, EU remains the main export market for Turkey with 46.3% of the total export trade since the Customs Union establishment.

The main trading partners for Turkey in exports is Germany with 10.3%, Iraq with 6.2%, UK with 6%, Italy with 5.8% and France with 5% of the total Turkish exports, as for the year 2011. This indicates that EU countries represent an important market for the Turkish exports, which considerably favors the Turkish producers, especially after the establishment of the Customs Union. For the imports, Turkey mainly trade with Russia, which includes 9.9% of the total imports to the country. Also Turkey imports the goods from Germany (9.5%), China (9%), US (6.7%) and Italy (5.6%).<sup>79</sup>

The Turkish prior exports support policy was replaced by the imports tendencies in the recent years. Table 5 below shows that the Turkish imports rose by 23% in the year 2011 increasing the negative result of trade balance to \$105,869 million.<sup>80</sup>

**Table 5: Foreign Trade Statistics of Turkey, million USD**

	<i>USD million</i>						
	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
<i>Exports (FOB)</i>	73,476	85,535	107,272	132,002	102,143	113,883	134,969
<i>Imports (CIF)</i>	116,774	139,576	170,063	201,961	140,929	185,544	240,838
<i>Trade Volume</i>	190,251	225,111	277,334	333,963	243,072	299,428	375,807

<sup>79</sup> THE WORLD FACTBOOK. CIA. Middle East: Turkey [online]. 10.2012 [cit.2012-18-02].

<sup>80</sup> Foreign Trade. *Invest in Turkey* [online]. [cit.2012-09-01].

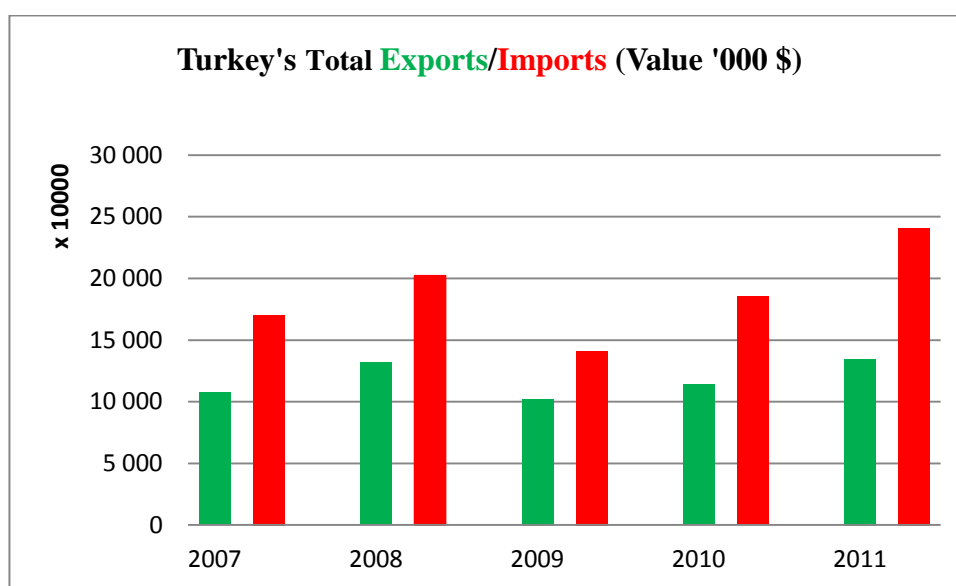


<b>Trade Balance</b>	-43,298	-54,041	-62,791	-69,959	-38,786	-71,661	-105,869
----------------------	---------	---------	---------	---------	---------	---------	----------

Source: Foreign Trade, 2011

The Figure 8 below represents the results of the Turkish total exports and imports graphically within the 5-year period. The amount of the total foreign trade in Turkey is gradually increasing, with the exception of the years of 2009-2010, when the financial world crisis took place. However, the amounts of imports substantially exceed the exported amounts, as it is visible from the graph. The main reason for these trade imbalances in the Turkish economic system is the increasing wealth of population and increasing standard of living in Turkey in the recent years, which contributes to the consumption of the imported goods, as the Turkish economy is not sufficiently productive to meet the requirements of the local population.

**Figure 8: Turkey's Total Exports/Imports (value '000 USD)**



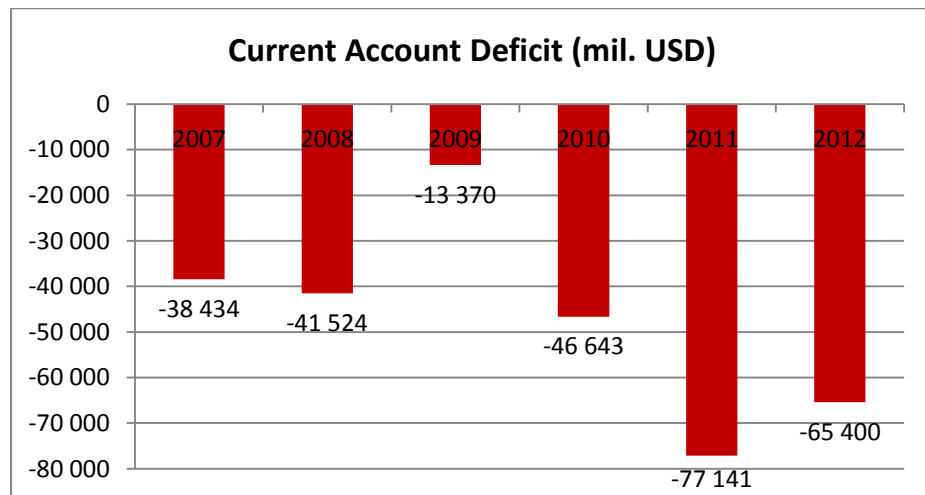
Source: TurkStat, 2012; own elaboration

#### **4.1.4.1 Current Account Balance**

During the years 2007-2008 the current account balance was reaching negative results around \$40 billion. In 2009 in result of the crisis the current account balance improved due to significant decrease in country's imports caused by lowered domestic demand. Nevertheless, in 2010 the CA deficit tripled with rising economic growth and overall wealth in the country, which increased domestic demand again. The current

account balance creates the overall sum of - \$77.14 billion as for the year 2011 making - 10% of country's GDP. In the year 2012 the insignificant improvement was made, narrowing the CA deficit to - \$65 billion.

**Figure 9: Current Account Deficit (mil. USD)**



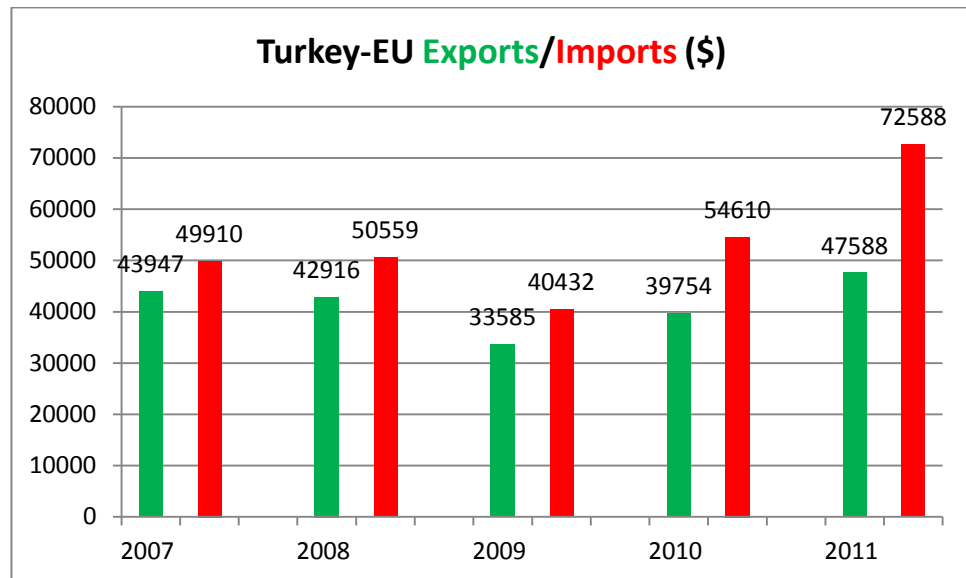
Source: data-Ministry of Finance, Turkey, 2012; own elaboration

#### **4.1.4.2 EU Trade Statistics**

The Figure 10 below depicts the overall trade statistics between Turkey and EU for the period from the year 2007 till the year 2011. The trading between Turkey and the European Union increased as well since 2007, also with the exception for the period of crisis in 2009-2010. Today, the high trade imbalances dominate the current trade statistics. Only 56% of the Turkish imports are covered by the total Turkish exports. The Customs Union enabled EU and Turkey to trade without any trade barriers, which proved to be favourable for both. EU gained free access to the Turkish market with the 80 million consumers. The Turkish population from its side also gained the access to the cheaper foreign goods, which led to the growth in imports. However, the Turkish economy also gains thanks to the foreign investment, which increased with the establishment of the Customs Union, as it improved the conditions of setting up the business in Turkey by harmonizing the legislation and increasing the transparency and stability of the Turkish economic system. The FDI should lead to the country's economic growth accompanied by the innovation improvements. This is supposed to be reflected on the Turkish economy,

which should develop with FDI by becoming more productive and competitive, which in the final result should increase the level of the Turkish exports.

**Figure 10: Turkey-EU Exports/Imports (\$)**



Source: European Commission, 2012; own elaboration

The Tables 6 and 7 below show the EU total imports and exports with Turkey for the specific product groupings in percentage, as for the year 2011. The most of trading was realized in manufactured goods, especially machinery & transport equipment. The amount of agriculture made only 8 % of the EU imports from Turkey and 5.2% of the EU exports. The main reason for the limited trading in agriculture are the trade tariffs and quotas set for the agriculture, as it has not been a subject to the Customs Union agreement. The textiles and clothing remain the important items for the Turkish exports to the European Union, as Turkey has been long-term specialized in the production of these goods.

**Table 6: EU Total Imports from Turkey, 2011 (%)**

EU Total Exports to Turkey (%)	
<i>Total</i>	100
<b>1. Primary products</b>	<b>14,1</b>
1.1. Agricultural	8
1.2. Fuel and mining products	6,1

<b>2. Manufacturers</b>	<b>85,2</b>
2.1. Iron & steel	4,3
2.2. Chemicals	4,3
2.3. Other semi-manufactures	8,6
2.4. Machinery & Transport equipment	37
2.5. Textiles	7,9
2.6. Clothing	17,6
2.7. Other manufactures	5,4
<b>3. Other products</b>	<b>0,7</b>

Source: European Commission, 2011

**Table 7: EU Total Exports to Turkey, 2011 (%)**

<b>EU Total Exports to Turkey (%)</b>	
<i>Total</i>	<i>100</i>
<b>1. Primary products</b>	<b>17</b>
1.1. Agricultural	5,2
1.2. Fuel and mining products	11,8
<b>2. Manufacturers</b>	<b>81</b>
2.1. Iron & steel	4,7
2.2. Chemicals	16,3
2.3. Other semi-manufactures	6,2
2.4. Machinery & Transport equipment	44,7
2.5. Textiles	1,8
2.6. Clothing	1,1
2.7. Other manufactures	6,1
<b>3. Other products</b>	<b>2</b>

Source: European Commission, 2011

#### **4.1.5 Economic predictions**

The world significant organizations have published their predictions for Turkey's GDP growth for the next years of 2012 and 2013. The results seem to be promising for the Turkish economy. The OECD predicts the highest growth for Turkey in 2012 reaching 3.3%, which is much higher as compared to Euro Area's results of -0.1% of economic decline for the next year. The World Bank forecasts the economic growth of 4% for Turkey in the year 2013, which almost equals the level of Russia and Brazil. While the GDP growth predicted for the Euro Area for the same period equals only 0.7%, according

to the World Bank publication. UN predicts even higher growth for Turkey for the year 2013, reaching 5.4%.

**Table 8: Turkey's growth forecasts for the years 2012-2014 (%)**

Growth Forecasts for Selected Countries/Country Groups (%)								
		Turkey	Euro Area	US	Brazil	Russia	India	China
IMF	2012	2.3	-0.3	2.0	2.5	4.0	6.1	8.0
	2013	3.2	0.7	2.3	4.6	3.9	6.5	8.5
OECD	2012	3.3	-0.1	2.4	3.2	4.5	7.1	8.2
	2013	4.6	0.9	2.6	4.2	4.1	7.7	9.3
WB	2012	2.9	-0.3	2.1	2.9	3.8	6.6	8.2
	2013	4.0	0.7	2.4	4.2	4.2	6.9	8.6
	2014	5.0	1.4	2.8	3.9	4.0	7.1	8.4
UN	2012	3.2	-0.3	2.1	3.3	4.4	6.7	8.3
	2013	5.4	0.9	2.3	4.5	4.4	7.2	8.5

Source: Ministry of Economy, Turkey, 2012

The Table 9 below shows the macroeconomic targets set by the Central Bank of Turkey for the next years in the period of 2012-2014. The GDP Per Capita is expected to reach \$11,716 in 2013. The real GDP growth set for the next two years is only 1% higher than the current year rate making 5%. The targeted unemployment rate is around 10%, which is slightly above the current unemployment rate of 9.8%. The ratio of current account balance to GDP should narrow to – 7.5% for the year 2013 according to the medium-term plan.

**Table 9: Turkey's macroeconomic targets of 2012-2014; Medium-term plan**

	2012*	2013*	2014*
GDP (Billion \$, Current Prices)	822	888	952
GDP Per Capita (\$)	10,973	11,716	12,412
Real GDP Growth	4.0	5.0	5.0
Unemployment Rate (%)	10.4	10.2	9.9
Tourism Income (Billion \$)	26	29	31
Current Account Balance (Billion \$)	-65.4	-67	-67.1
Current Account Balance / GDP (%)	-8.0	-7.5	-7.0

Source: Ministry of Economy, Turkey, 2012

#### 4.1.6 Fulfilment of the Copenhagen economic criteria

Every year the annual assessment of the economic criteria fulfilment is conducted from the side of the European Commission. The recently achieved progress of the

candidate country is compared with the accession economic criteria in the Progress Reports. The following section aims to analyze the progress achieved by the Turkish economy so far, its strengths and weaknesses and its comparability with the EU standards.

The Copenhagen economic accession criteria have certain sub-criteria defined by the EU legislative system:

### 1. **Functioning market economy**

Turkey has already been granted the status of functioning market economy by the European Commission in its Progress Report of 2006. Even after the crisis Turkey managed to hold this status thanks to its rapid recovering process in the country.

#### *a) Essentials of the economic policy*

The essentials of the economic policy are mainly related to the country's macroeconomic situation. The main points of this issue were discussed in the previous section proving that Turkey has not managed to avoid the volatile cycles in its economy yet. The high economic growth and increase in productivity is mainly accompanied by high inflation and increase in the external debt. With the aim to establish more stable economic system several reforms have been implemented, which are currently in progress. The Pre-Accession Economic Programme from 2011 suggests further reforms to achieve the EU economic standards.<sup>81</sup>

#### *b) Macroeconomic stability*

When considering the macroeconomic stability of the country four main indicators were taken into account: real GDP growth rate, unemployment rate, inflation rate and CB interest rate. The economic growth rate of Turkey has currently slowed down after the rapid increase at the end of the economic crisis in 2009. Nevertheless, the unemployment declined, moving around 10%. Rate of inflation remains high and it is currently moving upward due to the currency depreciation. Interest rates were kept low at 5.75%, which leads to increase in domestic demand and capital inflow. Nevertheless, rise in domestic demand leads to the higher inflation and widened CA deficit. For this reason, CB currently narrowed the IR corridor to fight the inflation and to support the currency at the same time

---

<sup>81</sup> EUROPEAN COMMISSION. Turkey 2011 Progress Report [online]. 12.10.2011 [cit.2012-10-27].

keeping the Repo rate at the same level of 5.75% to stimulate the economic activities. The trade imbalances and inflation still remain the biggest problem for the Turkish macroeconomic stability.

*c) Free interplay of market forces* mainly regards the price and trade liberalization activities.

The trade liberalization is realized via the Customs Union establishment, which came into force in 1996. The Turkish market became more open to the European markets and thanks to numerous reforms undertaken by the government, the Turkish prices approached more to the European price levels. The new legislation improved the attention to the innovation, R&D and environment-friendly business activities.

The privatization process started in Turkey in 1985 and since then the total amount of \$43.1 billion has been privatized. Around 270 companies, ports, bridges, real estates and motorways have been placed into the privatization portfolio. The money from privatization is used by the government to cover the current budget deficit. According to the Progress Report of 2011, electricity and gas sector has already reached significant progress in the liberalization process. The most important event in Turkish privatization was the Turk Telecom process of going public. The Oger Telecoms Joint Venture Group bought 55% of shares in Turk Telecom, when giving a bid of \$6,550 billion in 2005.<sup>82</sup>

*d) Adequate legal system and sufficiently developed financial sector*

The legal system still needs improvement, especially of the judicial system. The administrative procedures, speciality and transparency of the trials remain insufficient, as stated in the Progress Report of 2011.<sup>83</sup> Nevertheless, the changes are expected to come.

The new commercial code has been introduced to the Turkish commercial system since July, 2012. It is supposed to change the country's auditing practices and increase the overall level of investments in Turkey. The preceding code dated back to 1950s and now was harmonized according to the EU standards. Also the new code sets up the International Financial Principles for joint stock companies and limited liability companies. Now, when

---

<sup>82</sup>REPUBLIC OF TURKEY PRIME MINISTRY: Privatization administration. Privatization in Turkey [online].2010 [cit.2012-10-28]. <http://www.oib.gov.tr/yayinlar/publications.htm>

<sup>83</sup> EUROPEAN COMMISSION. Turkey 2011 Progress Report [online]. 12.10.2011 [cit.2012-10-28].

the code is harmonized the analysts predict substantial investment inflow due to increased level of country's transparency and credibility. And whether or not the country will be capable to cope with this newly established competition, this remains the question.<sup>84</sup>

Regarding the financial sector, the banks still have a significant share in this sector with 80.4% of shares. Nevertheless, the share of the privately owned banks and foreign banks is increasing.

*e) Free market entry and exit*<sup>85</sup>

The process of entry into the Turkish market has been currently simplified; nevertheless it still remains problematic to exit the market. As stated in the Progress Report of 2011, opening and closing the business in Turkey requires enough financial resources. The fees paid for registration remain high. The process of exiting the market requires enough time and money, especially due to the bankruptcy practices. However in total, significant changes have occurred enabling the investors to open up the business in Turkey in 7-day registration process.

**2. Being able to cope with the EU competitiveness**

Within the Customs Union due to the tariff reduction domestic companies have to face the international competition, not only from the side of the EU, but also from the countries of the Preferential Trade Agreements. Currently, the Turkish companies are not fully able to deal with the foreign competition, which is visible from the current account deficit of the country. The imported goods substantially exceed the amount of goods exported from Turkey. According to the Global Competitiveness Index 2011-2012, the score of the Turkish competitiveness makes 4.28 points, which places Turkey at the 59<sup>th</sup> position within the global competition rankings of 139 world countries. Turkey's position has improved for 2 places since the previous year evaluation, when it took the 61<sup>st</sup> place in the ranking table. This index takes into consideration several indicators. The Turkey's main advantage is comparably well developed infrastructure, especially road and air transport quality. Nevertheless, the level of education, labour market efficiency and

---

<sup>84</sup>LAUER K.FINANCIAL TIMES. Turkey's new commercial code to have broad impact on M&A [online]. 05.03.2012 [cit.2012-10-28].

<sup>85</sup> FAUCOMPRET E., KONINGS J. Turkish Accession to the EU: Satisfying the Copenhagen criteria, p.



innovation still remains the problem for the domestic competition.<sup>86</sup> Also the key fact is that mainly small and medium-sized companies are presented at the Turkish market. The small companies cannot compete with the internationally developed enterprises in terms of production costs, terms of payment or brand significance.

The next issue is the significance of the private sector. As the process of privatization has not been fully finished, the efficiency and productivity of the most state enterprises remains low with the reduced innovation practices due to the insufficient financial amounts devoted to R&D sector. The overall modernization of equipment is needed and the renewed training programs are also required to increase the level of competitiveness of the Turkish production.

## **4.2 Economic comparison of Turkey with the new EU Member States – Bulgaria, Romania**

The following section provides an analysis of Turkey's economy as compared to the latest EU' members: Bulgaria and Romania, which joined the European Union in the year 2007.

### **4.2.1 Macroeconomic indicators' comparison**

#### **4.2.1.1 GDP**

The GDP per capita (PPP) is an important indicator, which identifies the country's overall economic performance as adjusted to the number of its population.<sup>87</sup> The GDP per capita (PPP) in Bulgaria reached \$13,800/year per person, in Romania it made \$12,600/year per person for the same period of 2011. In Turkey the indicator amounted \$14,700/year per person, which was slightly above the new EU member countries performance. This indicates that the Turkish economy was more productive in the given period of time. According to Eurostat statistics, the GDP per capita in Turkey was below the EU 27 average, reaching half of its average value of €25,200, as per year 2011 (See Figure 11).<sup>88</sup>

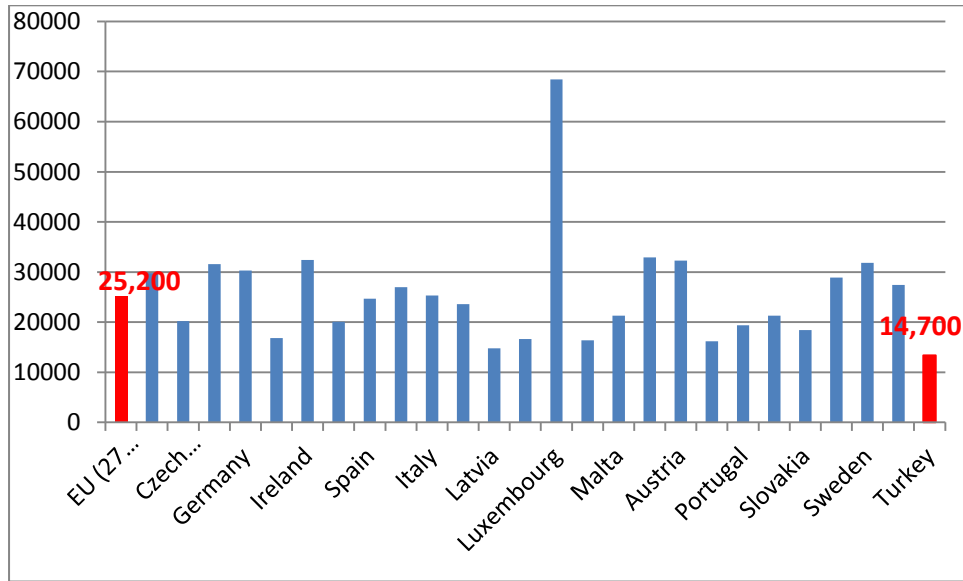
---

<sup>86</sup> SCHWAB, Klaus. The Global Competitiveness Report 2011-2012, WORLD ECONOMIC FORUM, Geneva [online]. 2012 [cit.2012-10-28]. ISBN 978-92-95044-74-6.

<sup>87</sup> INVESTOPEDIA. Per Capita GDP [online]. 2012 [cit.2012-10-29].

<sup>88</sup> EUROPEAN COMMISSION. EUROSTAT. GDP per capita in PPS [online]. 01.06.2012 [cit.2012-10-29].

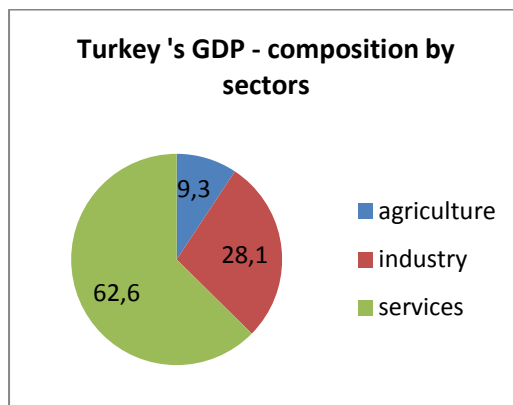
**Figure 11: GDP (PPP) per capita – EU and Turkey, 2011(€)**



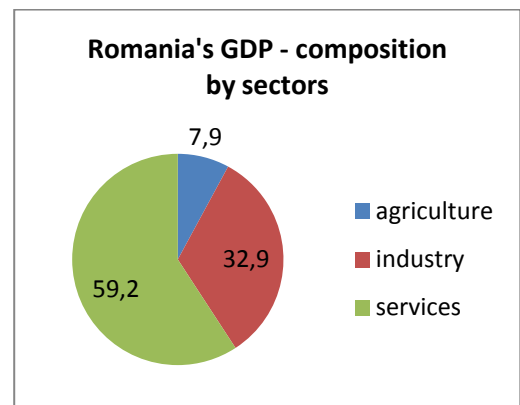
Source: Eurostat, 2012

As for the economic sectors significance in relation to the GDP contribution, the agricultural sector plays a less important role in Bulgaria's and Romania's GDP creation with 5.2% and 7.9% respectively. In Turkey the agricultural sector makes 9.3% contribution to the country's GDP. The industrial sector in Romania makes 32.9% GDP contribution and the further 59.2% are contributed by the services. In Bulgaria the significance of the sectors is almost the same with the 30.6% industrial sector GDP contribution and the 64.2%, as for the contribution of services. In Turkey the service sector has much higher importance with 62.6%, while the industry is less significant with 28.1% GDP contribution (See Figures 12; 13, 14 below).

**Figure 12: Turkey's GDP by sectors (%)**



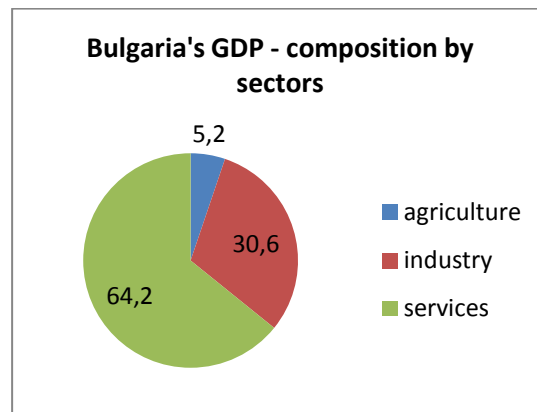
**Figure 13: Romania's GDP by sectors (%)**



Source: CIA, Factbook, 2011; own elaboration

Source: CIA, Factbook, 2011; own elaboration

**Figure 14: Bulgaria's GDP by sectors (%)**



Source: CIA, Factbook, 2011; own elaboration

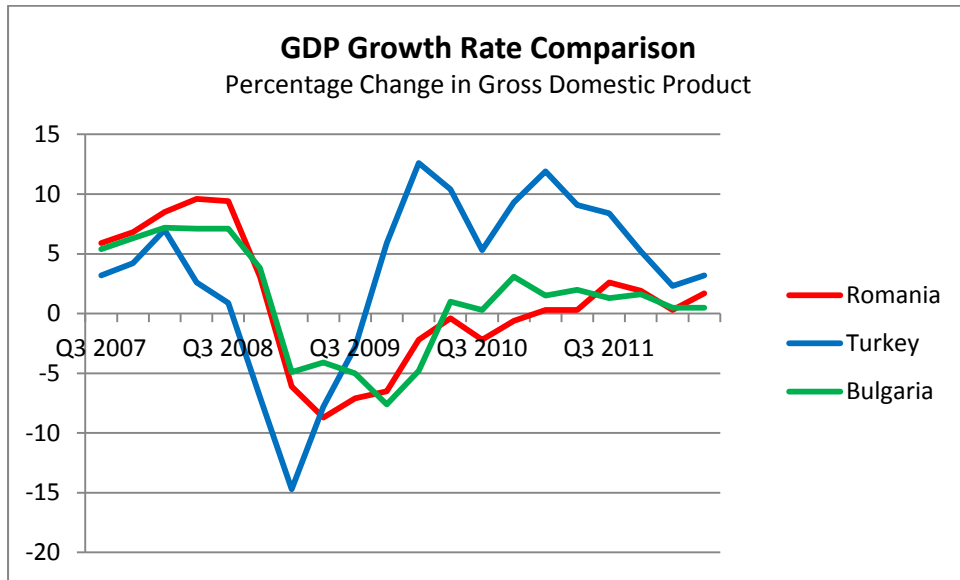
#### **4.2.1.2 GDP Growth Rate Comparison**

The further important indicator is the GDP growth rate curve, which shows the country's performance over a certain period of time. The following chart compares the GDP growth rate development of Turkey and two other countries, lately accepted into the European Union - Bulgaria and Romania. All of the countries have experienced a significant economic decline during the crisis in 2009, when the economies entered a period of deep recession. However, their economies managed to recover. The economy of Turkey reached 12% growth, when recovering after the crisis in 2010. The economic activities of the other countries grew at slower pace reaching about 2% growth.

The curve indicating the growth rate of Bulgaria was moving almost the same direction as the curve of Romania, reaching 0.5% growth in the second quarter of the year 2012. The curve of Romania has reached partially better results with 1.7% growth rate for Q2, 2012.

Nevertheless, the curve of Turkey indicates the high volatility of the Turkish economy. Numerous fluctuations of the curve prove the before mentioned strong instability of the country's economy. On the other hand, the country is currently going through the period of high economic growth. Even despite the decline of the curve Turkey has reached 3.2% GDP growth rate for the same period for Q2, 2012.

**Figure 15: GDP Growth Rate Comparison between Turkey, Romania and Bulgaria (%)**

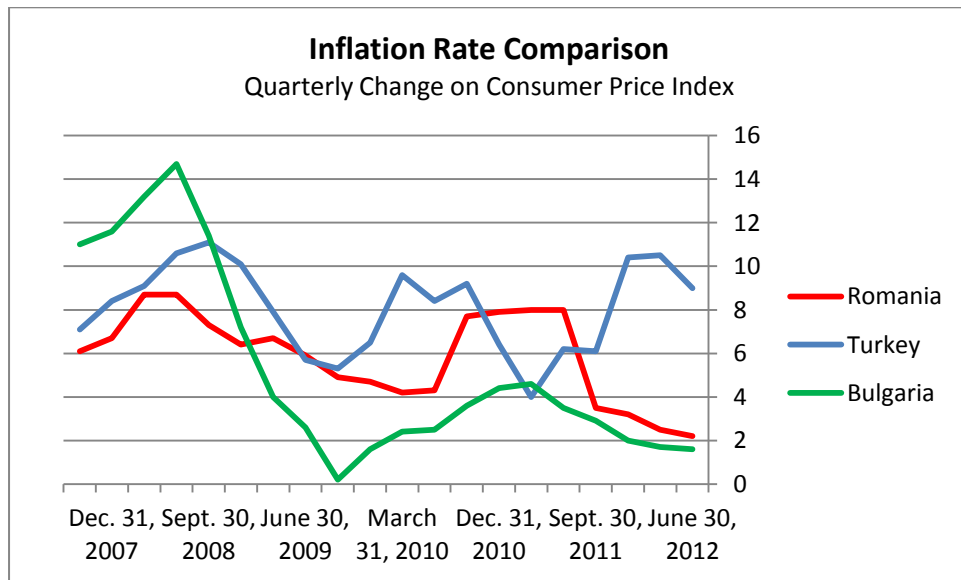


Source: data-Ycharts; 2012; own elaboration

#### **4.2.1.3 Inflation Rate Comparison**

In 2009 the inflation rates dropped all over the world as the result of negative economic growth rates. However, after the crisis Turkey's economy entered into the period of high inflation rates again. In 2011 Turkey's rate of inflation reached its maximum of over 10%. The high inflation is connected with the high GDP growth rates in Turkey. Annual inflation rate of Turkey is highly above the rates of Romania and Bulgaria, as indicated in the chart below. The current inflation rate for Turkey as for Q2, 2012 is at 9%, the inflation rate for Bulgaria for the same period is at 1.6% and for Romania is at 2.2%, which is 4 times lower.

**Figure 16: Inflation Rate Comparison between Turkey, Romania and Bulgaria (%)**

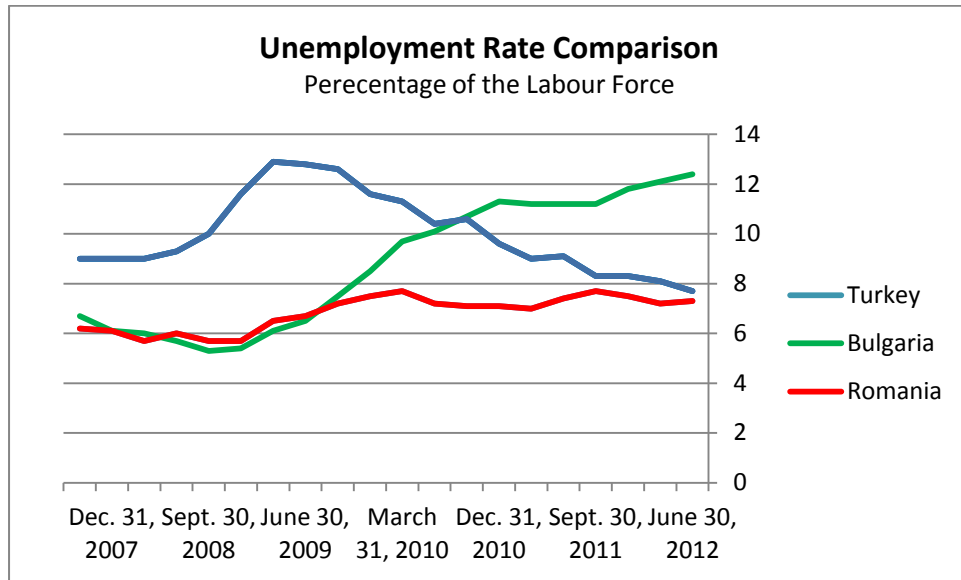


Source: data – Ycharts; 2012; own elaboration

#### **4.2.1.4 Unemployment Rate Comparison**

In 2007, when Bulgaria and Romania became the official members of the European Union, their unemployment rates were quite low approaching 6%, however the situation has changed significantly for Bulgaria, as today the country’s rate of unemployment is reaching 12.4%, which is 1.6 times higher than the Turkish unemployment rate (7.7%). Romania performed much better with 7.3% of unemployment in the second quarter of 2012. As the chart below shows, the Turkish unemployment rate increased substantially during the crisis, however the government managed to create new job positions just after the crisis, when the economy started to recover.

**Figure 17: Unemployment Rate Comparison between Turkey, Romania, Bulgaria (%)**



Source: data – Ycharts; 2012; own elaboration

The minimum wage is a further crucial factor, which discloses the overall level of the economic situation of the country. Minimum wage of Turkey, as it was already mentioned before, amounts €412, according to Eurostat publications. The minimum wage of Romania reaches only half of this number with €157 and minimum wage of Bulgaria achieves even lower values with €148 (See Appendix 1).<sup>89</sup>

#### **4.2.1.5 Budget Deficit Comparison**

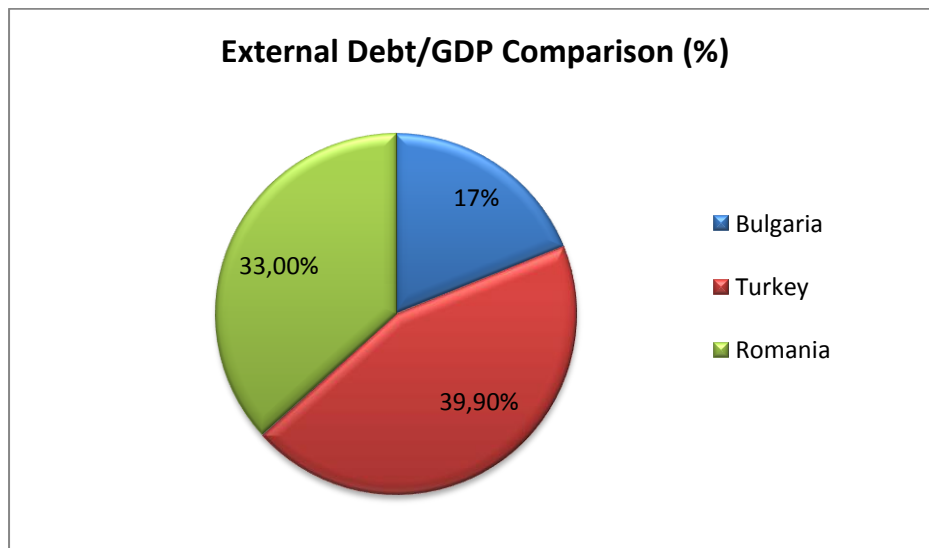
The fiscal policy seemed to be more favourable for the Turkish government according to the Global Finance report of 2011. The public deficit in Bulgaria amounted -2.1% of GDP and in Romania it reached the level of -4.1%. While, in Turkey this sum equalled to -1.4% of the country's GDP. This indicates that the governmental policies of Turkey proved to be more successful for the year 2011.

#### **4.2.1.6 External Debt Comparison**

In Bulgaria, the public debt reached the amount of 17% of GDP in 2011. In Turkey, the external debt was 5 times higher for the same period of time reaching 39.9%. However, the Bulgarian external debt is constantly increasing and it is expected to reach 21.3% in the year 2012. In Romania, the situation is unfavourable as well. The external debt climbed up to 33% of the country's GDP.

<sup>89</sup> EUROPEAN COMMISSION. EUROSTAT. MW EUR July 2012 [online]. 08.2012 [cit.2012-11-01].

**Figure 18: External Debt/GDP Comparison between Turkey, Romania, Bulgaria (%)**



Source: Global Finance, Country Economic Reports & GDP Data, 2011; own elaboration

#### **4.2.2 FDI Attractiveness Comparison**

The previous section compared the countries in terms of its economic stability and growth, while this section aims to provide the short analysis on investing opportunities within the chosen countries. Foreign investments significantly contribute to the countries' overall level of economic development. Before investing there are certain factors, which should be taken into consideration to succeed in the chosen market.

##### **4.2.2.1 Global competitiveness index comparison**

Global competitiveness index (GCI) is ranked among the important indicators of economic activity of the country and it serves as a crucial source for the potential foreign investors. The index measures the overall level of countries' economic prosperity and potential. According to the Global Competitiveness Report 2011-2012, Bulgaria takes the 74<sup>th</sup> place and Romania ranks 77<sup>th</sup> with 4.16 and 4.08 points respectively out of total number of 142 countries (See Appendices 2; 3; 4). The Bulgaria's and Romanian positions have worsened from the previous year evaluation unlike Turkey, which situation has improved in the recent years, as currently Turkey takes the 59<sup>th</sup> place in the evaluation table.

The Global competitiveness index assesses various indicators, when evaluating. The main subjects to assessment are:

1. *basic requirements (infrastructure, macroeconomic environment etc.),*
2. *efficiency enhancers (education, financial market development, market size etc.),*
3. *factors of innovation*<sup>90</sup>

According to the Report, Bulgaria and Romania are currently facing the problems with the insufficiently developed infrastructure system, which decreases their investment attractiveness. While Turkey's main asset is its high level of the infrastructure development with the score of 4.4 out of total number of 7 (See appendices 2; 3; 4). Corruption and bureaucracy are also indicated as the main problematic factors for the business development in Bulgaria. The main problems of Romania resist in high tax rate system and political instability. The budget deficit in Romania also remains high as compared to Turkey or other EU countries, indicating the mishandling of public funds by the government. The further issue is the level of innovation in the countries, which is much higher in Turkey, where the situation has significantly improved after the reformation process in terms of preparation for the EU membership. Bulgaria's and Romania's companies still have to deal with substantial R&D improvements. The level of education remains low in all the above mentioned countries in comparison to the EU level of education, so this should be also the next subject for further GCI improvement.

#### **4.2.2.2 Credit ratings comparison**

Credit rating agencies provide the values for credit-worthiness of the countries on the basis of economic evaluations and predictions concerning risk, economic stability and future economic outlook. The Table 10 below provides the current evaluation of the biggest credit rating agencies for the countries analyzed.

Bulgaria currently obtained Baa2 government bond rating from the Moody's rating agency. Moody's rates country's economic situation as moderate with relatively developed and stable economic system and comparably moderate level of risk. The financial stability is a crucial advantage for the country's rating. The Bulgarian external debt remains low

---

<sup>90</sup> SCHWAB, Klaus. The Global Competitiveness Report 2011-2012, WORLD ECONOMIC FORUM, Geneva [online]. 2012 [cit.2012-11-01]. ISBN 978-92-95044-74-6.



and its public deficit is very close to zero value. However, the sovereign rating also mentions the inadequate legal system and the already mentioned high level of corruption.<sup>91</sup>

S&P's sovereign rating on Bulgaria is at the level of 'BBB/A-3' with a stable predicted outlook. The agency also praised the country's financial stability, however it expressed its concerns about the economic slowdown in the near future.<sup>92</sup>

Romania's Baa3 credit rating was downgraded by Moody's from stable to negative outlook due to the current EU financial situation, as Romania is in tight co-operation with EU through trade and FDI. The second reason for the downgrade is the increase in the country's external debt.<sup>93</sup>

S&P affirmed its previous sovereign credit rating for Romania of 'BB+/B' with a stable economic outlook for the future. According to the agency's current publication the country is experiencing the period of slow down growth and high public debt. However, the predictions seem to be more promising for Romania with more stabilized economic situation.<sup>94</sup>

The table below proves that Turkey's economic situation in terms of investing seems to be rather positive and stable with a low level of risk in comparison to the EU member states: Bulgaria and Romania. Turkey managed to obtain very good and promising results from the rating agencies, even in the current period of crisis, which affects the entire EU.

**Table 10: Credit rating agencies' evaluation of Turkey, Romania and Bulgaria**

<i>Country</i>	<i>Credit rating</i>	
	<i>Moody's</i>	<i>S&amp;P</i>
Turkey	Ba1/Positive	BB/Stable/B

<sup>91</sup> Moody's Investors Service. Moody's issues annual credit report on Bulgaria [online]. 28.05.2012 [cit.2012-11-01].

<sup>92</sup> KONSTANTINOVA, E. BLOOMBERG. S&P Affirms Bulgaria Ratings, Outlook Stable. Bulgaria [online]. 21.12.2012 [cit.2012-11-03].

<http://www.bloomberg.com/news/2011-12-21/s-p-affirms-bulgaria-ratings-outlook-stable.html>

<sup>93</sup> REUTERS. Moody's revises Romania's Baa3 rating outlook [online]. 29.06.2012 [cit.2012-11-03].

<sup>94</sup> REUTERS. S&P affirms Romania's ratings at 'BB+/B'[online]. 25.05.2012 [cit.2012-11-03].

A	Bulgaria	Baa2/Positive	BBB/Stable/A-3
	Romania	Baa3/Negative	BB+/Stable/B

Source: Global Finance, 2012; own elaboration

### 4.3 Final economic analysis

The economy of Turkey was analyzed from the different perspectives, while the main emphasis was put on the macroeconomic analysis. The achieved level of the economic development in Turkey exceeds the level of the newly entered countries Romania and Bulgaria, as based on various indicators. The high real GDP growth rate of 12% after the period of crisis in 2007 moved the GDP curve upward, which was a sign of country's strong economic growth and overall increase in domestic demand. The current period of steady economic growth of 3% identifies the higher economic certainty and less expected fluctuations. However, the Turkish market still bears a significant amount of risk for the foreign investors, but with a high possibility of promising revenues. The potential of the Turkish market seems to be high thanks to the substantial economic growth of 3-5% predicted by the important financial organizations for the years 2012-2014. Turkey was ranked among the countries with the rapid economic development and promising future by the economic analysts.

The inflation seems to be a persistent problem in the Turkish economic system. The increase to double digits levels at the end of 2011 was the reason for the further macroeconomic instabilities in the Turkish markets. The CB of Turkey is currently trying to apply the restrictive policies to decrease the money supply and to prevent the Turkish lira from depreciation. However, the today's level of inflation still remains high at the level of 9%. For comparison, the level of inflation in Eurozone countries reached 2.7% in the year 2011 and the European Union average annual inflation amounted 3.1%.<sup>95</sup>

The level of unemployment is improving reaching 7.7% as based on the latest results, however the youth unemployment is still a subject for the discussions from the side of the EU. The high unemployment rate among the young population is the result of the high population growth and insufficient level of education. At the same time, the average

<sup>95</sup> EUROPEAN COMMISSION.EUROSTAT. HICP - inflation rate. [online]. 2012 [cit.2012-11-04].

salaries in Turkey make half of the OECD average and minimum wages are above the newly accepted EU countries, which indicate the acceptable standards of living in Turkey.

The CB policy currently restricted the interest rates policy by narrowing the interest rates corridor to fight the inflation and currency depreciation. Nevertheless, the CB still offers favourable borrowing rates to banks at the level of 5.75% to keep the economic activity high.

The fiscal policy of Turkey for the year 2011 has improved as a result of lowered unemployment rate. The budget deficit reached 1.37% of GDP, which is a significant improvement from the year 2010. While the external debt problem is still under the resolution today. In 2011 the Turkey's external debt amounted 39.9% of country's GDP, which is mostly financed by the foreign currency. The country's short-term debt seems to be a crucial problem today due to the widening current account deficit, which already makes 10% of the Turkey's GDP. However, since the year 2009 the public debt was reduced by 6% as for the year 2011. The credit rating agencies upgraded the Turkish government bonds, thanks to the improvements in the country's external financing.

As for the trade statistics, half of the Turkish trade is realized with the European Union, in terms of exports and imports. The trade volume is increasing since the Customs Union establishment, which came into force in December 31<sup>st</sup>, 2005. According to the Foreign Trade Statistics, the Turkish volume of trade has doubled since 2005 till 2011 going from \$190,251 million to \$375,807 million (See Table 5). The Turkish economy became more open not only to the EU market, but also to the FTA countries, as new standards and regulations were applied. The legislation has been improved within the preparation period for the Turkish accession.

Under the preparation for membership Turkey has published the new constitution with more harmonized legislation, which is more approached to the basic EU principles and standards. The crucial reforms have been made in the area of business development. Today, the government allows the potential investors to start up the business in 7-8 days. The new Commercial Code introduced in July, 2012 also increased the transparency and credibility of the Turkish system of legislation. Moreover, the level of privatization was raised with the numerous governmental reforms giving a possibility to the private sector to

develop the economic development and increase the country's GDP growth. All these aspects were mentioned in the Progress Report for Turkey of 2011 confirming the Turkish progress reached in the last few years.

The further section analyzed the Turkish economic situation in comparison with Bulgaria and Romania. Several indicators were used for the evaluation. The GDP per capita (PPP), which is an important indicator in terms of standard of living, proved that Turkey could compete with the other EU countries. As based on the results, Turkey's GDP per capita (\$14,700/ year) makes half of the EU average and it is above the outcome of Bulgaria (\$13,800/year) and Romania (\$12,600/year). The country's economic performance as based on the GDP real growth rate is significantly higher as well. Currently, Turkey's growth has slowed down, however the country still manages to grow with 3.2%, which is 2 times higher than the growth rate of Bulgaria (1.7%) and 6 times higher than the growth rate in Romania (0.5%). For comparison, the real GDP growth rate for EU 27 equalled 1.5% in 2011 and the predicted growth rate according to Eurostat statistics equals 0%.<sup>96</sup> A substantial disadvantage for Turkey is its dependence on the agricultural sector. The agricultural contribution to GDP equals 7.9%, as per year 2011 and 25.5% of total labour force is employed in the sector of agriculture. In more developed countries, the agriculture plays the less significant role in the country's development. For comparison, in EU the agricultural sector contribution to GDP is only 1.7%, which is 4 times lower than in Turkey. The total number of labour employed in agriculture equals only 4.7%, which is 5 times lower than in Turkey. However, in Romania the agriculture is still an important sector in terms of GDP contribution (7.9%) and total labour employment (30%), even despite its membership in the EU.

The level of inflation in Turkey is still significant, as it was already mentioned above. The reason for high inflation in Turkey is its high level of GDP growth, the expansive monetary policy and low borrowing rates. The level of inflation in EU countries, including Bulgaria and Romania is much lower, as low inflation is considered to be a sign

---

<sup>96</sup> EUROPEAN COMMISSION. EUROSTAT. Real GDP growth rate – volume [online]. 2012 [cit.2012-11-04].

of recession. The current inflation rate for Romania and Bulgaria are below the EU average rate of 3.1%.<sup>97</sup>

The unemployment rate is also in favour for Turkey. The Eurostat statistics discloses the results for all the EU countries as for the current month rate M06, 2012. The average EU 27 shows the result of 10.5%, while in Turkey the unemployment rate equalled 7.8% for the same period. In Bulgaria, as discussed above, the unemployment rate increased significantly reaching 12.4% and in Romania it equalled 7.3%.<sup>98</sup> The gross minimum wages, which are also closely connected with a standard of living in a country, are 2 times higher in Turkey as compared to Bulgaria and Romania.

The fiscal policy also proved to be better for Turkey in comparison with Bulgaria and Romania for the year 2011 mainly due to higher employment in the country. However, the amount of public debt in Turkey remains above the other countries indebtedness at the level of 39.9%. The high short-term debt rises from the significant current account deficit. The high level of imports indicates the crucial problem for Turkey's economy. This issue is connected with insufficient production capacities of the Turkish economy and increasing local demand. The competitiveness of the Turkish companies is currently on a rise, however the country is still lacking the more developed systems of education, training of working personnel, advanced technologies, R&D and innovation. The plus point for Turkey resides in its comparably high level of infrastructure systems. Bulgaria and Romania still have to deal with its insufficiently developed infrastructure, corruption, political instability and low level of innovation.

The credit rating agencies also give their preferences to Turkey. The outlook for Turkey seems to be rather positive with lower level of risk.

After all the economic evaluation, Turkey's results seem to be even more positive in comparison with Bulgaria and Romania, which already entered the European Union. Turkey's economy has much higher potential in terms of GDP growth and FDI investments. The level of development in Turkey has also reached higher values in terms of infrastructure and innovation. The standard of living in Turkey is higher as well thanks

---

<sup>97</sup> EUROPEAN COMMISSION.EUROSTAT. HICP - inflation rate. [online]. 2012 [cit.2012-11-04].

<sup>98</sup> EUROPEAN COMMISSION.EUROSTAT. Harmonised unemployment rate by sex [online]. 2012 [cit.2012-11-06].

to its high GDP per capita values and high level of minimum wages in the country. The main problem the country is facing today is the issue of stability. The volatile inflation and high external debt limit the country in its further growth and FDI inflow. However, the Turkish government and the Central Bank of Turkey are currently dealing with these issues. More reforms are needed to ensure the higher stability in the country and the higher level of productivity and competitiveness of the Turkish market.

#### **4.4 Benefits and drawbacks of Turkey's accession into the EU**

The issue of benefits and drawbacks of Turkey's accession can be perceived from the two different views, from the side of Turkey and from the side of the EU. In this part each particular aspect of the accession is being discussed and analyzed to evaluate which of the parties can benefit more from this accession.

When having a closer look on this accession from the side of the EU, it becomes obvious how much financial help is needed and how many concessions should be made. The Turkish contribution to the EU's output will be very limited and will make 2.3% of its total GDP.<sup>99</sup> On the other hand, the budget EU will have to spend on Turkey is the subject to the EU's worries, due to the Turkish economic situation, its size and strong agricultural sector. There were several financial programmes in terms of pre-accession help for Turkey since 2001. Turkey has received substantial financial support under the National Programme and Instrument for Pre-Accession Assistance. For the year 2012 Turkey has obtained the overall financial amount of €860.2 million.<sup>100</sup> The membership in the EU also gives Turkey a strong advantage in terms of trade development. Turkey has already gone through numerous stages of trade liberalisation and established relationships with potential investors and partners under the agreement concluded. It is also expected that Turkey is on its way to future economic growth thanks to the reforms made within the preparation for the entrance.

The migration issues are considered to be highly important in terms of numerous discussions and as the subject of worries from the side of the EU. According to the CIA Factbook, Turkey has the population of almost 80 million, specifically 79,749,461, and

---

<sup>99</sup>HOEKMAN B. M.; TOGAN S. Turkey: Economic Reform and Accession to the European Union, p.18

<sup>100</sup>EUROPEAN COMMISSION. Enlargement: Turkey financial assistance [online]. 13.08.2012 [cit.2012-09-05].

population growth rate of 1.197%, which is 5 times higher than that of the EU (0.212%).<sup>101</sup> The free movement of workers, which is an important policy chapter within the EU's legal framework, will enable the Turkish labour market to move towards the Western Europe in search of the potential and better-paid job opportunities. This will have a huge impact on the labour market of the EU, which is nowadays extremely suffering from the lack of positions for the European citizens. Cheap labour force coming from Turkey could be highly competitive on the EU's market as the companies will be eager to decrease their production costs in order to raise the sales. There are already about 3.5 million of the Turkish immigrants living abroad and the EU's public is becoming much more concerned about the new labour coming to EU in search of the job with opening the borders.<sup>102</sup>

However, when we have a look at this issue from the different point of view, the illegal migration heading to Western Europe from other Muslim countries, is likely to move different direction - towards the Turkish borders. With the entrance into the EU, Turkey is supposed to reach the higher level of economic and political stability in the country. In such way it will be able to provide more job opportunities and to ensure higher level of life. Turkey as a part of the EU will become more attractive for other Muslim countries. The Muslim origin of the country, culture, climate and the way of life make Turkey more desirable for the Muslim immigrants than the West European countries, which will possibly lead to the solution of the issue of increasing xenophobia among the EU's population.

Another important issue is the possibility of strong decision-making power of Turkey in Council, due to its large population size. Thus, the power of France and Germany could be partially limited, if Turkey finds further allies in EU to oppose the dominance of these powerful countries. However, the Treaty of Lisbon, which comes into force in November, 2014, will bring significant changes to the voting system in Council favouring the small member state countries. The double majority voting will replace the

---

<sup>101</sup>THE WORLD FACTBOOK. CIA. Middle East: Turkey [online]. 24.08.2012 [cit.2012-09-05].

<sup>102</sup>ARVANITOPOULOS C., TZIFAKIS N., Turkey's Accession to the European Union: an unusual candidacy, p.98

current system of “voting weights” and will restrict the strong decision-making power of the highly populated countries, including Turkey.<sup>103</sup>

The Turkish religion, which has a strong influence on the country’s values, political views, attitudes towards the catholic nations and the overall way of life, is considered to be the most important issue discussed in the EU’s public. The changes, which Turkey’s accession can bring to the EU in terms of religion are the subject to many European concerns. On the other hand, it is often mentioned that Turkey could become the connecting element in EU relations with the Muslim regions. Turkey’s membership in numerous organizations connecting Muslim countries could bring many advantages to the Union. As currently EU is perceived as an enemy due to its capitalist practices and collaboration with the USA.

Co-operation in terms of the Common Security and Defence Policy will bring advantages mainly for the European Union as Turkey is perceived as a significant military power with an important geopolitical location. The Turkish army is the second biggest in NATO after the USA and it is the sixth largest army in the world.<sup>104</sup> The Turkish close location to Black Sea, Caucasus region and the Middle East will provide EU with the convenient deployment possibilities. As nowadays Europe is lacking the strong military forces and it is fully dependent on NATO and the U.S. army. From this point of view Turkey will increase the security and defensive power of the EU’s region.

Turkey also serves as the transit route for Baku-Tbilisi Ceyhan (BTC) pipeline, which supplies energy resources to Europe through the Turkish territory. A lot of further projects with the participation of Turkey are still under the completion today. Turkey has already signed the agreement on the enhanced energy co-operation with the EU. The countries try to find alternatives to the Russian monopoly on the energy market.<sup>105</sup>

After naming of all the advantages and disadvantages Turkish accession brings for the both sides, it becomes obvious that this agreement could be favourable not only for Turkey, but also for the Union. Nevertheless, if the agreement is to be reached, Turkey

---

<sup>103</sup>EUROPA. Summaries of EU legislation. The Council of the European Union [online]. 24.12.2009 [cit.2012-09-08].

<sup>104</sup> KIBAROGLU M., KIBAROGLU A. Global Security Watch--Turkey: A Reference Handbook, p.9

<sup>105</sup>UNITED PRESS INTERNATIONAL. EU, Turkey sign energy agreements [online]. 15.06.2012 [cit.2012-09-08].



should first accept certain political concessions and undertake the necessary reforms to meet the Copenhagen requirements.

#### **4.5 SWOT analysis of Turkey's accession into the EU**

After analyzing the benefits and drawbacks of the Turkey's accession into the EU it becomes obvious that this issue is very controversial and can be perceived from the different perspectives. For this reason all areas have been analyzed in order to describe the issue comprehensively. The Turkish situation today is at the borders between uncertain foreign relations, frozen negotiation chapters of the EU entry and satisfactory economic results with high potential for the growth, which can help EU to escape the current economic crisis. In order to summarize all the important points the SWOT analysis has been created. It provides an overall overview of the country's strengths and weaknesses, opportunities and threats, which can be either taken as an advantage or been avoided in the right time.

Among the main strengths of Turkey is its strong economic growth accompanied by comparably high standard of living as based on the level of gross minimum wages in the country and its relatively low unemployment rate. Demographic structure of population indicates that Turkey's strong advantage is its labour force, which accounts 1/3 of its total population. This signifies that the government needs to provide less social spending and can benefit from the higher budget contribution. In terms of FDI attractiveness, which is crucial for the further economic development, it is necessary to mention all the advantages, which Turkey brings for the potential foreign investors: tax exemptions and R&D incentives, common IFRS, introduced by the new Commercial Code, the eased process of setting up the business in Turkey and cheaper production costs, including cheaper labour costs in Turkey.

The important political strength is the country's military power, which can contribute to the EU significance in the world. Also the progress achieved in certain areas of the Turkish law indicates the Turkish willingness to accept the EU requirements. Turkey has added 34 amendments to the Constitution regarding the Kurds' minority rights and abolition of the death penalty. Also, certain progress has been reached in the opening of negotiation chapters with the EU, 13 out of 35 chapters have been opened so far.

As for the country's weaknesses, the disagreements in the political system regarding the issue of secularism and strong influence of military on the political processes in Turkey are considered to be important in terms of Copenhagen criteria fulfilment. Turkey still shows the signs of political instability, insufficient transparency of the legislation, bureaucracy and corruption. Country's foreign relations were the reason for freezing of 8 negotiation chapters with the European Union in relation to the Cyprus issue. The internal problems of the country connected with the Kurds' minority suppressions and social differences related to unequal distribution of income in the country are the further shortcomings in the Turkey's SWOT analysis.

The further important weakness from the economic perspective is a country's economic volatility with the fluctuations in inflation curve and currency instability. The significant trade imbalances with a strong current account deficit are the consequence of the increasing imports into the country, as Turkey has opened up its economy to the EU on the basis of the Customs Union agreement.

The Customs Union on the other hand can be perceived as an opportunity for Turkey as it supports the foreign investment inflow into the country. However, government from its side needs to provide some necessary changes. The interest rates in Turkey are still rather high in comparison to the other EU countries, which lowers the level of economic activities in Turkey. Nevertheless, to decrease the level of IR, it is first necessary to ensure the economic stability in the country. The next important point is the level of corporation taxes in Turkey, which currently equals 20%. To increase the level of FDI the government should also aim at the decrease of corporate taxes. This should increase Turkey's FDI attractiveness, which can bring more innovation into the country and raise the country's productivity and the level of competitiveness.

For the opportunities it is also necessary to mention the country's location, which is between the European and Asian continents. The energy routes going through the Turkish territory gives Turkey an opportunity to control the energy market. Turkey as a NATO ally and a candidate for the EU entry has become a crucial partner for further energy projects. Also Turkey's position is important for the foreign relations. Turkey is also growing in its importance thanks to the incorporation in economically and politically significant organizations (NATO, OECD, Organization of Islamic Cooperation etc.). Also Turkey as a

Muslim country has improved its relationships with the Muslim world today thanks to its political support for Palestine.

However, on the other hand Turkey's geopolitical position is dangerous in terms of possible wars in this area. Turkey is bordering with the region of the Middle East, which is very unstable these days. In terms of other possible threats, it is necessary to mention the possible terrorist attacks organized by PKK, Kurdistan Workers' Party fighting for its independence. The unstable political system with the military significance can lead to the coup d'etat from the side of civilians in the country.

Economically, the country's instability can be deepened by the further world financial crisis or increase in oil and fuel prices, which can cause the wave of inflation. The further increase in domestic demand, which will not be satisfied with the local production, can lead to the further increase in the current account deficit.

**Scheme 2: SWOT analysis on Turkey's economic & political situation**

**STRENGTHS:**

**Economic:**

- comparably high standard of living (ex: gross minimum wages); - relatively low unemployment rate; - high GDP growth rate
- demographic structure (labour force)
- FDI attractiveness :  
tax exemptions and R&D incentives  
cheap production costs  
new legislation (Commercial Code)  
easiness of setting up the business

**Political:**

- strong military force
- progress reached in legislative harmonization (13 open negotiation chapters; 34 amendments to the Constitution)

**WEAKNESSES:**

**Economic:**

- economic instability (currency& inflation)
- unequal income distribution
- current account deficit
- high external debt
- relatively high IR as compared to EU countries

**Political:**

- insufficient transparency and corruption
- strong presence of military power in political system
- foreign relations disagreements
- internal security problems

**OPPORTUNITIES:**

**Economic:**

- Customs Union agreement with EU as a source of further FDI attractiveness
- location (economic opportunities; energy routes)

**Political:**

- location (political opportunities)
- international relations (membership in international organizations)

**THREATS:**

**Economic:**

- increase in oil & food prices- may lead to inflation world crisis
- high increase in domestic demand may lead to increase in CA deficit

**Political:**

- involvement in the war conflict
- terrorist attack (PKK)
- coup d'etat

Source: own elaboration

## 5 Conclusions

The critical points when considering Turkey's accession into the EU is the current political and economical characteristics of the country. For this reason the aim of my study was to reach a final decision whether Turkey is economically and politically prepared to enter the EU borders.

The year of 2011 was an important turning period for the Turkish economy after the world financial crisis. The economic growth of the country reached its maximum heights since the year 2007. Today, the country's growth indicators have slowed down, however in favour of the country's economic stability. The healthy minimum growth still moves the Turkish economy forward, while the EU average GDP growth remains zero. Also the growth rate predicted for the Turkey's near future attracts lots of foreign investors into the country. The comparably low unemployment rate, the high level of minimum wages and average salaries in the country and sufficiently developed infrastructure indicates a promising breakpoint for Turkey's further development. Credit ratings agencies give their preferences to Turkey as well by upgrading its investment attractiveness and predicting positive economic outlook. The main problem of the Turkish economy today is its high current account balance deficit, caused by the insufficient volumes of country's exports. Nevertheless, the overall level of country's productivity and competitiveness should increase with the further FDI inflow, which is strongly supported by the European Union. After the economic comparison with the newly entered EU countries and current EU average results, Turkey's economy seems to be strong enough to face the EU competition and to develop its potential for the high economic growth.

From the political perspective, Turkey still needs significant improvements in its legislative system. The rule of law is not fully applied so far. The country's government supports neo-Islamic principles, which mean being democratic and pro-EU oriented, however it is still in opposition to the Turkish secularists, supported by the military forces. Strong presence of military, which influences the political processes in Turkey, is also regarded as one of the crucial issues in terms of the Turkish EU accession. This indicates certain disagreements in the Turkish political system, which leads to the political instability in the country.

Turkey is also facing numerous security conflicts, especially in regard to the foreign relations issues. The current relations with Israel and Syria are sharpening today due to the restless situation in the Middle East. The long-lasting disagreements with Greece, Cyprus and Armenia slow down the process of opening the negotiation chapters with EU. Moreover, Turkey has to face its own internal security problems, which involve Kurdish repressions and Islamic radicalism, which were included in the National Security Policy Document as the highest threat for the Turkish society.<sup>106</sup>

On the one hand, Turkey can increase the political significance of the European Union, when being its official member, thanks to its role and position in the Muslim world. On the other hand, Turkey is bordering very unstable regions of the Middle East, Caucasus and Balkan, where the numerous nationalist movements are held. The strong co-operation in the Common Defence Policy with the EU is inevitable. Consequently, from the political point of view, the preparation for the EU entry still requires certain changes and concessions to be made from the side of the Turkish government.

All the above mentioned points are mentioned and analyzed in the final SWOT analysis, which provides an overview of the current political and economic strengths and weaknesses of the country. The SWOT analysis also proposes the possible opportunities, which can be taken as an advantage for the country's further development and possible threats, which can influence the well-being of Turkey. The SWOT analysis proves Turkey's economic significance and high potential, which can be further developed in terms of opportunities. Also it provides the reasons for the current political non-acceptance and possible threats, which can lead to the serious deterioration of the current political situation in Turkey.

Today, Turkey has to decide which direction to go. The Turkish government has either to make the concessions to comply with the EU requirements or to suspend the ongoing process for the next few years before obtaining the official status of the EU member country.

---

<sup>106</sup> TRNKOVÁ L.;ŠARADÍN P. The Politics of EU Accession: Turkish Challenges and Central European Experiences, p.58

## 6 Bibliography

1. ARIKAN H. Turkey and the Eu: An Awkward Candidate for Eu Membership? Ashgate Publishing, Ltd., 2006. 290 p. ISBN 0-7546-3433-7.
2. ARVANITOPOULOS C., TZIFAKIS N., Turkey's Accession to the European Union: an unusual candidacy. Berlin Heidelberg: Springer-Verlag, 2009, 225 p. ISBN: 978-3-540-88196-4.
3. BARLAS D. Etatism and Diplomacy in Turkey: Economic and Foreign Policy Strategies in an Uncertain World, 1929-1939. Leiden: Brill, 1998. 223 p. ISBN 90-04-10855-6.
4. FAUCOMPRET E., KONINGS J. Turkish Accession to the EU: Satisfying the Copenhagen criteria. London and New York, Routledge, 2008. 221p. ISBN 978-0-415-45713-2.
5. FEDERAL RESEARCH DIVISION, Turkey: A Country Study. Washington, Kessinger Publishing, 2004. 392p. ISBN 978-1419191268.
6. FLAM H. Turkey and the EU: Politics and economics of accession. CESifo Economic Studies 893; Institute for International Economic Studies, Stockholm, March 2003.
7. HOEKMAN B. M., TOGAN S. Turkey: Economic Reform and Accession to the European Union. Washington, DC: World Bank and Centre for Economic Policy Research. 2005.362 p. ISBN 0-8213-5932-0.
8. KIBAROGLU M., KIBAROGLU A. Global Security Watch-Turkey: A Reference Handbook. Praeger, 2009. 192p. ISBN 978-0313345609.
9. LACINER S., OZCAN M. European Union with Turkey: The Possible Impact of Turkey's Membership on The European Union, Ankara: USAK books, 2005. 280 p. ISBN 975-982-80-0-6.
10. NAS TEVFIK F., Tracing the Economic Transformation of Turkey from the 1920s to EU Accession. Martinus Nijhoff Publishers, 2008. 199p. ISBN 978-90-04-16792-6.
11. SAYARI S, ESMER Y. Politics, Parties, and Elections in Turkey. United States of America: Lynne Rienner Publishers, 2002. 240 p. ISBN 978-1-58826-022-2.
12. TERZI O. The Influence of the European Union on Turkish Foreign Policy. Ashgate Publishing, Ltd., 2010. 165p. ISBN 978-0-7546-7842-7.
13. TOGAN S. Economic Liberalization and Turkey. London and New York, Routledge, 2010. 336 p. ISBN: 978-0415495950.

14. TRNKOVÁ L., ŠARADÍN P. *The Politics of EU Accession: Turkish Challenges and Central European Experiences*, London and New York: Routledge, 2010. 183p. ISBN 978-0-415-55549-4.
15. UGUR M., CANEFE N., *Turkey and European Integration: Accession prospects and issues*. London and New York, Routledge, 2004. 289p. ISBN 0-415-32656-7.
16. GUERIN S.S.; STIVACHTIS I. *On the Road to EU Membership?: The economic transformation of Turkey*. Brussels, VUBPRESS, 2011. 375p. ISBN 978 90 5487 861 2.
17. ÇAKIR A. E. *Fifty years of EU-Turkey relations: A Sisyphean story*. Taylor & Francis, 2011. 186p. ISBN 978-0-415-57963-6.

### **Internet Resources**

1. ARSU, Sebnem – SAYARE, Scott. French Bill on Genocide Is Denounced by Turkey. *The New York Times* [online]. 24.01.2012 [cit.2012-08-27]. Available at: [http://www.nytimes.com/2012/01/25/world/europe/turkey-lashes-out-at-france-over-genocide-bill.html?\\_r=1](http://www.nytimes.com/2012/01/25/world/europe/turkey-lashes-out-at-france-over-genocide-bill.html?_r=1).
2. BLOOMBERG. Turkey Central Bank Keeps Rates Unchanged to Counter Inflation[online]. 19.07.2012 [cit.2012-10-20]. Available at: <http://www.bloomberg.com/news/2012-07-19/turkey-central-bank-keeps-rates-unchanged-to-counter-inflation.html>.
3. BLOOMBERG. Turkish Spending Pushes 2011 Budget Deficit to 1.4% of GDP [online]. 16.01.2012 [cit.2012-10-23]. Available at: <http://www.businessweek.com/news/2012-01-16/turkish-spending-pushes-2011-budget-deficit-to-1-4-of-gdp.html>.
4. CENTRAL BANK RATES. Worldwide central Bank Rates [online]. 10.2012 [cit.2012-10-24]. Available at: <http://www.cbrates.com/>.
5. DAILY NEWS. Visa exemption in 3-4 years, says EU minister [online]. 23.06.2012 [cit.2012-08-20]. Available at: <http://www.hurriyetdailynews.com/visa-exemption-in-3-4-years-says-eu-minister.aspx?pageID=238&nID=23866&NewsCatID=338>.
6. DELOITTE. Corporate Tax Rates 2012 [online] 2012 [cit.2012-11-14]. Available at: [http://www.deloitte.com/assets/Dcom-Global/Local%20Assets/Documents/Tax/Taxation%20and%20Investment%20Guides/matrices/dttl\\_corporate\\_tax\\_rates\\_2012.pdf](http://www.deloitte.com/assets/Dcom-Global/Local%20Assets/Documents/Tax/Taxation%20and%20Investment%20Guides/matrices/dttl_corporate_tax_rates_2012.pdf).



7. ECONOMIC DEVELOPMENT FOUNDATION. Customs Union [online]. [cit.2012-09-03]. Available at:  
[http://www.ikv.org.tr/icerik\\_en.asp?konu=gumrukbirligi&baslik=Customs%20Union](http://www.ikv.org.tr/icerik_en.asp?konu=gumrukbirligi&baslik=Customs%20Union).
8. ECONOMIC AND SOCIAL SURVEY OF ASIA AND THE PACIFIC 2012[online]. 10.05.2012 [cit.2012-10-20]. Available at:  
<http://www.unescap.org/pdd/publications/survey2012/notes/Turkey.asp>.
9. EURACTIV. Turkey accession and Cyprus [online]. 12.05.2011 [cit.2012-08-25]. Available at:  
<http://www.euractiv.com/enlargement/turkey-accession-cyprus-links dossier-188330>.
10. EUROPA. Summaries of EU legislation. Turkey – External relations, Common Foreign and Security Policy [online]. 03.01.2012 [cit.2012-08-27]. Available at:  
[http://europa.eu/legislation\\_summaries/enlargement/ongoing\\_enlargement/community\\_acquis\\_turkey/el0007\\_en.htm](http://europa.eu/legislation_summaries/enlargement/ongoing_enlargement/community_acquis_turkey/el0007_en.htm).
11. EUROPA. Summaries of EU legislation. Accession criteria (Copenhagen criteria) [online]. [cit.2012-08-30]. Available at:  
[http://europa.eu/legislation\\_summaries/glossary/accession\\_criteria\\_copenhagen\\_en.htm](http://europa.eu/legislation_summaries/glossary/accession_criteria_copenhagen_en.htm).
12. EUROPA. Summaries of EU legislation. The Council of the European Union [online]. 24.12.2009 [cit.2012-09-08]. Available at:  
[http://europa.eu/legislation\\_summaries/institutional\\_affairs/treaties/lisbon\\_treaty/ai0008\\_en.htm](http://europa.eu/legislation_summaries/institutional_affairs/treaties/lisbon_treaty/ai0008_en.htm).
13. EUROPEAN ECONOMIC NEWS. Turkish Central Bank Retains Interest Rate At Record Low [online]. 16.08.2012 [cit.2012-10-23]. Available at:  
<http://www.rttnews.com/1949259/turkish-central-bank-retains-interest-rate-at-record-low.aspx>.
14. EUROPEAN COMMISSION. Turkey 2011 Progress Report [online]. 12.10.2011 [cit.2012-08-20]. Available at:  
[http://ec.europa.eu/enlargement/pdf/key\\_documents/2011/package/tr\\_rapport\\_2011\\_en.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2011/package/tr_rapport_2011_en.pdf).
15. EUROPEAN COMMISSION. EUROSTAT. Gross domestic product at market prices [online]. 2012 [cit.2012-11-20]. Available at:  
<http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=1&init=1&pcode=tec00001&language=en>.

16. EUROPEAN COMMISSION. Enlargement: Turkey financial assistance [online]. 13.08.2012 [cit.2012-09-05]. Available at: [http://ec.europa.eu/enlargement/instruments/funding-by-country/turkey/index\\_en.htm](http://ec.europa.eu/enlargement/instruments/funding-by-country/turkey/index_en.htm).
17. EUROPEAN COMMISSION. Enlargement: Turkey [online]. 13.08.2012 [cit.2012-09-27]. Available at: [http://ec.europa.eu/enlargement/countries/detailed-country-information/turkey/index\\_en.htm](http://ec.europa.eu/enlargement/countries/detailed-country-information/turkey/index_en.htm).
18. EUROPEAN COMMISSION. Economic accession criteria [online]. 13.12.2011 [cit.2012-10-08]. Available at:  
[http://ec.europa.eu/economy\\_finance/international/enlargement/criteria/index\\_en.htm](http://ec.europa.eu/economy_finance/international/enlargement/criteria/index_en.htm).
19. EUROPEAN COMMISSION. Economic accession criteria [online]. 13.12.2011 [cit.2012-10-08]. Available at:  
[http://ec.europa.eu/economy\\_finance/international/enlargement/criteria/index\\_en.htm](http://ec.europa.eu/economy_finance/international/enlargement/criteria/index_en.htm).
20. EUROPEAN COMMISSION. EUROSTAT. MW EUR July 2012 [online]. 08.2012 [cit.2012-10-21]. Available at:  
[http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php?title=File:MW\\_EUR\\_July\\_2012.png&filetimestamp=20120802072957](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:MW_EUR_July_2012.png&filetimestamp=20120802072957).
21. EUROPEAN COMMISSION. EUROSTAT. GDP per capita in PPS [online]. 01.06.2012 [cit.2012-10-29]. Available at:  
<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec0011>.
22. EUROPEAN COMMISSION. EUROSTAT. HICP - inflation rate. [online]. 2012 [cit.2012-11-04]. Available at:  
<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&language=en&pcode=tec00118&tableSelection=1&footnotes=yes&labeling=labels&plugin=1>.
23. EUROPEAN COMMISSION. EUROSTAT. Real GDP growth rate – volume [online]. 2012 [cit.2012-11-04]. Available at:  
<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00115>
24. EUROPEAN COMMISSION. EUROSTAT. Harmonised unemployment rate by sex [online]. 2012 [cit.2012-11-06]. Available at:  
<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&language=en&pcode=teilm020&tableSelection=1&plugin=1>.

25. EUROPEAN COMMISSION. Trade statistics: Turkey [online]. 2012 [cit.2012-11-06]. Available at: [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113456.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113456.pdf).
26. EUROPEAN PARLIAMENT. LUXEMBOURG EUROPEAN COUNCIL. Presidency Conclusions [online]. 12.-13.12.1997 [cit.2012-08-29]. Available at: [http://www.europarl.europa.eu/summits/lux1\\_en.htm](http://www.europarl.europa.eu/summits/lux1_en.htm)
27. EUROPEAN PARLIAMENT. MADRID EUROPEAN COUNCIL. Presidency Conclusions [online]. 15.-16.12.1995 [cit.2012-08-30]. Available at: [http://www.europarl.europa.eu/summits/mad1\\_en.htm](http://www.europarl.europa.eu/summits/mad1_en.htm).
28. EUROPEAN PARLIAMENT. HELSINKI EUROPEAN COUNCIL. Presidency Conclusions [online]. 10.-11.12.1995 [cit.2012-08-30]. Available at: [http://www.europarl.europa.eu/summits/hel1\\_en.htm](http://www.europarl.europa.eu/summits/hel1_en.htm).
29. EUROSTAT. GDP per capita in PPS [online]. 01.06.2012 [cit.2012-10-18]. Available at: <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00114>.
30. FOREIGN TRADE. Invest in Turkey [online]. 2011[cit.2012-09-27]. Available at: <http://www.invest.gov.tr/en-US/investmentguide/investorsguide/Pages/InternationalTrade.aspx>.
31. FOREIGN TRADE. Invest in Turkey [online]. [cit.2012-09-01]. Available at: <http://www.invest.gov.tr/en-US/investmentguide/investorsguide/Pages/InternationalTrade.aspx>.
32. GOLDMAN SACHS. A view from Turkey [online]. 04.2012 [cit.2012-10-02]. Available at: <http://www.goldmansachs.com/our-thinking/view-from/a-view-from-turkey/index.html>.
33. GOLDMAN SACHS. A view from Turkey [online]. 04.2012 [cit.2012-10-20]. Available at: <http://www.goldmansachs.com/our-thinking/view-from/a-view-from-turkey/index.html>
34. Global Finance, Country Economic Reports & GDP Data [online]. 2012 [cit.2012-11-08]. <http://www.gfmag.com/gdp-data-country-reports#axzz2A4HTbhGk>.
35. INDEX MUNDI. Country comparison: External debt [online]. 01.01.2012 [cit.2012-10-26]. Available at: <http://www.indexmundi.com/g/r.aspx?t=100&v=94>
36. INVESTOPEDIA. Per Capita GDP [online]. 2012 [cit.2012-10-29]. Available at: <http://www.investopedia.com/terms/p/per-capita-gdp.asp>
37. INVEST IN TURKEY: 10 reasons to invest in Turkey [online]. 2012 [cit.2012-10-02]. Available at: <http://www.invest.gov.tr/en-US/investmentguide/Pages/10Reasons.aspx>.

38. KMIECIK J. Turkish-Syrian Relations Amid the Syrian Uprising. International Policy Digest [online]. 09.07.2012 [cit.2012-09-27]. Available at:  
<http://www.internationalpolicydigest.org/2012/07/09/turkish-syrian-relations-amid-the-syrian-uprising/>.
39. KONSTANTINOVA, E. BLOOMBERG. S&P Affirms Bulgaria Ratings, Outlook Stable. Bulgaria [online]. 21.12.2012 [cit.2012-11-03]. Available at:  
<http://www.bloomberg.com/news/2011-12-21/s-p-affirms-bulgaria-ratings-outlook-stable.html>.
40. LAUER K., FINANCIAL TIMES. Turkey's new commercial code to have broad impact on M&A [online]. 05.03.2012 [cit.2012-10-28]. Available at:<http://www.ft.com/intl/cms/s/2/c2c45400-6711-11e1-9e53-00144feabdc0.html#axzz28ofSDibr>.
41. Moody's Investors Service. Moody's issues annual credit report on Bulgaria [online]. 28.05.2012 [cit.2012-11-01]. Available at: [http://www.moodys.com/research/Moodys-issues-annual-credit-report-on-Bulgaria--PR\\_246986](http://www.moodys.com/research/Moodys-issues-annual-credit-report-on-Bulgaria--PR_246986).
42. NATIONAL PROGRAMME OF TURKEY FOR THE ADOPTION OF THE EU ACQUIS [online]. 2008 [cit.2012-08-29]. Available at: <http://www.abgs.gov.tr/index.php?p=42260&l=2>.
43. OECD. Better life index: Turkey [online]. 2012 [cit.2012-10-21]. Available at:  
<http://www.oecdbetterlifeindex.org/countries/turkey/>
44. OECD. Agricultural Policies in OECD Countries: At a Glance [online]. 2010 [cit.2012-09-03]. Available at: <http://www.oecd.org/dataoecd/17/0/45539870.pdf>. ISBN 978-92-64-08380-6 (PDF).
45. PWC Turkey. Doing Business in Turkey 2011 [cit.2012-10-24].  
[http://www.pwc.com/tr\\_TR/tr/publications/arastirmalar/pdf/Doing\\_Business\\_in\\_Turkey\\_-\\_Dusuk.pdf](http://www.pwc.com/tr_TR/tr/publications/arastirmalar/pdf/Doing_Business_in_Turkey_-_Dusuk.pdf).
46. REPUBLIC OF TURKEY MINISTRY OF FINANCE: GENERAL DIRECTORATE OF BUDGET AND FISCAL CONTROL. Statistics: Economic indicators [online]. 2012 [cit.2012-10-26].  
<http://www.bumko.gov.tr/EN,2678/economic-indicators.html>
47. REPUBLIC OF TURKEY. MINISTRY OF FOREIGN AFFAIRS. Relations between Turkey and Israel [online]. 2011 [cit.2012-08-27]. Available at: <http://www.mfa.gov.tr/relations-between-turkey-and-israel.en.mfa>.
48. REPUBLIC OF TURKEY PRIME MINISTRY: Privatization administration. Privatization in Turkey [online]. 2010 [cit.2012-10-28]. Available at:  
<http://www.oib.gov.tr/yayinlar/publications.htm>.

49. Republic of Turkey Ministry of Economy. Free Trade Agreements [online]. 2012 [cit.2012-11-06]. Available at:  
<http://www.economy.gov.tr/index.cfm?sayfa=tradeagreements&bolum=fta&region=0>.
50. REUTERS. Turkey says could annex north if Cyprus stays split [online]. 04.03.2012 [cit.2012-08-25]. Available at: <http://www.reuters.com/article/2012/03/04/us-turkey-cyprus-idUSTRE8230IR20120304>.
51. REUTERS. Moody's revises Romania's Baa3 rating outlook [online]. 29.06.2012 [cit.2012-11-03]. Available at: <http://www.reuters.com/article/2012/06/29/idUSL2E8HTF8020120629>.
52. REUTERS. S&P affirms Romania's ratings at 'BB+/B'[online]. 25.05.2012 [cit.2012-11-03]. Available at: <http://www.reuters.com/article/2012/05/25/idUSWNA816820120525>.
53. SCHWAB, Klaus. The Global Competitiveness Report 2011-2012, WORLD ECONOMIC FORUM, Geneva [online]. 2012 [cit.2012-10-26]. ISBN 978-92-95044-74-6 Available at:  
[http://www3.weforum.org/docs/WEF\\_GCR\\_Report\\_2011-12.pdf](http://www3.weforum.org/docs/WEF_GCR_Report_2011-12.pdf).
54. THE ECONOMIST: Turkey's economy: Istanbul and bears [online]. 07.04.2012 [cit.2012-10-15]. Available at: <http://www.economist.com/node/21552216>.
55. THE WALL STREET JOURNAL. Moody's Upgrades Turkey [online]. 20.06.2012 [cit.2012-10-15]. Available at:  
<http://online.wsj.com/article/SB10001424052702304898704577478030788960276.html>.
56. THE ECONOMIST. Is there life after Erdogan? [online]. 14.12.2011 [cit. 2012-07-22]. Available at: <http://www.economist.com/blogs/newsbook/2011/12/turkeys-prime-minister>.
57. THE WORLD FACTBOOK. CIA. Middle East: Turkey [online]. 24.08.2012 [cit.2012-08-25]. Available at: <https://www.cia.gov/library/publications/the-world-factbook/geos/tu.html>.
58. TODAY'S ZAMAN. Robust private sector gives Turkey fastest H1 growth [online]. [cit.2012-09-03]. Available at: [worldwidehttp://www.todayszaman.com/news-256556-robust-private-sector-gives-turkey-fastest-h1-growth-worldwide.html](http://www.todayszaman.com/news-256556-robust-private-sector-gives-turkey-fastest-h1-growth-worldwide.html).
59. TRADING ECONOMICS. Turkey Balance of Trade [online]. 2012 [cit.2012-09-27]. Available at: <http://www.tradingeconomics.com/turkey/balance-of-trade>.
60. UNITED PRESS INTERNATIONAL. EU, Turkey sign energy agreements [online]. 15.06.2012 [cit.2012-09-08]. Available at: [http://www.upi.com/Business\\_News/Energy-Resources/2012/06/15/EU-Turkey-sign-energy-agreements/UPI-86211339762286/](http://www.upi.com/Business_News/Energy-Resources/2012/06/15/EU-Turkey-sign-energy-agreements/UPI-86211339762286/).
61. UNITED PRESS INTERNATIONAL. Turkish gas drill in Cyprus hikes tensions [online]. 27.04.2012 [cit.2012-08-25]. Available at: [http://www.upi.com/Business\\_News/Energy-Resources/2012/04/27/Turkish-gas-drill-in-Cyprus-hikes-tensions/UPI-96951335551363/](http://www.upi.com/Business_News/Energy-Resources/2012/04/27/Turkish-gas-drill-in-Cyprus-hikes-tensions/UPI-96951335551363/).

62. WORLD BANK. Turkey Regular Economic Brief [online]. 01.2012 [cit.2012-10-21]. Available at:  
[http://siteresources.worldbank.org/TURKEYEXTN/Resources/361711-1339659387823/REB\\_2012\\_1.pdf](http://siteresources.worldbank.org/TURKEYEXTN/Resources/361711-1339659387823/REB_2012_1.pdf).
63. WORLD BANK. Main macroeconomic indicators-Turkey [online]. 06.2012 [cit.2012-10-21]. Available at: [http://siteresources.worldbank.org/TURKEYEXTN/Resources/361711-1227089539790/5593793-1331655032437/MacroEcon\\_Indicators\\_June12.pdf](http://siteresources.worldbank.org/TURKEYEXTN/Resources/361711-1227089539790/5593793-1331655032437/MacroEcon_Indicators_June12.pdf)

## 7 List of tables and figures

### List of tables

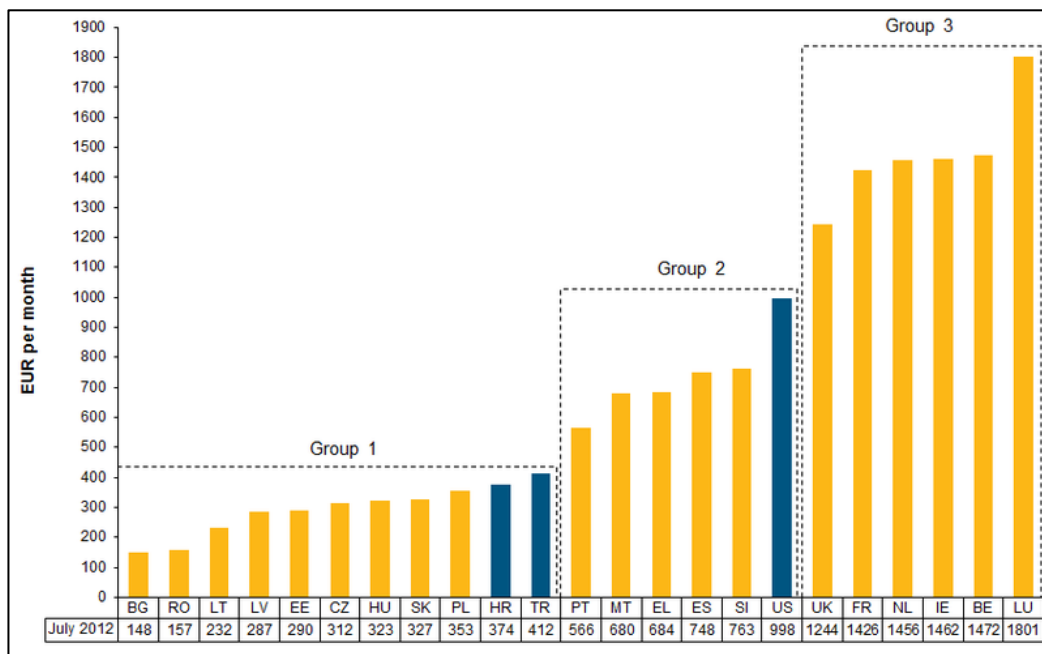
Table 1 : Negotiation chapters of the EU acquis between Turkey and EU .....	30
Table 2: Turkey's Free Trade Agreements .....	32
Table 3: Turkey's main import partners, 2010.....	44
Table 4: Turkey's main export partners, 2010 .....	44
Table 5: Foreign Trade Statistics of Turkey, million USD .....	45
Table 6: EU Total Imports from Turkey, 2011 (%) .....	48
Table 7: EU Total Exports to Turkey, 2011 (%).....	49
Table 8: Turkey's growth forecasts for the years 2012-2014 (%) .....	50
Table 9: Turkey's macroeconomic targets of 2012-2014; Medium-term plan .....	50
Table 10: Credit rating agencies' evaluation of Turkey, Romania and Bulgaria.....	62

### List of figures

Figure 1: Turkey's Real GDP Growth (%) .....	38
Figure 2: Turkey's Inflation Rate (%).....	39
Figure 3: Turkey's Unemployment Rate (%).....	40
Figure 4: Turkey's Interest Rate (%).....	41
Figure 5: TRY average exchange rate (%).....	42
Figure 6: Budget Deficit/GDP ratio (%) .....	43
Figure 7: External Debt/GDP ratio (%).....	44
Figure 8: Turkey's Total Exports/Imports (value '000 USD) .....	46
Figure 9: Current Account Deficit (mil. USD) .....	47
Figure 10: Turkey-EU Exports/Imports (\$) .....	48
Figure 11: GDP (PPP) per capita – EU and Turkey, 2011(€).....	55
Figure 12: Turkey's GDP by sectors (%)                      Figure 13: Romania's GDP by sectors (%) .....	55
Figure 14: Bulgaria's GDP by sectors (%).....	56
Figure 15: GDP Growth Rate Comparison between Turkey, Romania and Bulgaria (%)...57	
Figure 16: Inflation Rate Comparison between Turkey, Romania and Bulgaria (%).....58	
Figure 17: Unemployment Rate Comparison between Turkey, Romania, Bulgaria (%).....59	
Figure 18: External Debt/GDP Comparison between Turkey, Romania, Bulgaria (%) .....	60

## 8 Appendix

Appendix 1: Gross minimum wages comparison in EU member states and candidate countries (EUR per month)



Source: Eurostat, July 2012



Appendix 2: Global Competitiveness Index, Bulgaria 2011-2012

<b>Global Competitiveness Index</b>		
	Rank (out of 142)	Score (1–7)
<b>GCI 2011–2012</b> .....	<b>74</b>	<b>4.2</b>
GCI 2010–2011 (out of 139).....	71	4.1
GCI 2009–2010 (out of 133).....	76	4.0
<b>Basic requirements (40.0%)</b> .....	<b>74</b>	<b>4.5</b>
Institutions.....	110	3.3
Infrastructure.....	87	3.6
Macroeconomic environment.....	46	5.1
Health and primary education.....	57	5.8
<b>Efficiency enhancers (50.0%)</b> .....	<b>59</b>	<b>4.1</b>
Higher education and training.....	70	4.2
Goods market efficiency.....	86	4.1
Labor market efficiency.....	56	4.5
Financial market development.....	75	4.0
Technological readiness.....	50	4.1
Market size .....	64	3.8
<b>Innovation and sophistication factors (10.0%)</b> .....	<b>96</b>	<b>3.2</b>
Business sophistication .....	96	3.6
Innovation.....	93	2.9

Source: The Global Competitiveness Report 2011-2012, WORLD ECONOMIC FORUM, 2012

Appendix 3: Global Competitiveness Index, Romania 2011-2012

<b>Global Competitiveness Index</b>		Rank (out of 142)	Score (1–7)
<b>GCI 2011–2012</b> .....		<b>77</b>	<b>4.1</b>
GCI 2010–2011 (out of 139).....	67	4.2	
GCI 2009–2010 (out of 133).....	64	4.1	
<b>Basic requirements (40.0%)</b> .....	<b>89</b>	<b>4.3</b>	
Institutions.....	99	3.5	
Infrastructure.....	95	3.4	
Macroeconomic environment.....	87	4.5	
Health and primary education.....	66	5.7	
<b>Efficiency enhancers (50.0%)</b> .....	<b>62</b>	<b>4.1</b>	
Higher education and training.....	55	4.4	
Goods market efficiency.....	96	4.0	
Labor market efficiency.....	92	4.1	
Financial market development.....	84	3.9	
Technological readiness.....	60	3.8	
Market size .....	44	4.4	
<b>Innovation and sophistication factors (10.0%)</b> .....	<b>99</b>	<b>3.2</b>	
Business sophistication .....	102	3.5	
Innovation.....	95	2.9	

Source: The Global Competitiveness Report 2011-2012, WORLD ECONOMIC FORUM, 2012

<b>Global Competitiveness Index</b>		
	Rank (out of 142)	Score (1-7)
<b>GCI 2011–2012</b> .....	<b>59</b>	<b>4.3</b>
GCI 2010–2011 (out of 139).....	61	4.2
GCI 2009–2010 (out of 133).....	61	4.2
<b>Basic requirements (36.5%)</b> .....	<b>64</b>	<b>4.6</b>
Institutions.....	80	3.7
Infrastructure.....	51	4.4
Macroeconomic environment.....	69	4.8
Health and primary education.....	75	5.6
<b>Efficiency enhancers (50.0%)</b> .....	<b>52</b>	<b>4.2</b>
Higher education and training.....	74	4.0
Goods market efficiency.....	47	4.4
Labor market efficiency.....	133	3.5
Financial market development.....	55	4.3
Technological readiness.....	55	3.9
Market size .....	17	5.2
<b>Innovation and sophistication factors (13.5%)</b> .....	<b>58</b>	<b>3.6</b>
Business sophistication .....	58	4.1
Innovation.....	69	3.1

Source: The Global Competitiveness Report 2011-2012, WORLD ECONOMIC FORUM, 2012