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Fading Attraction:
Turkey's Shifting Relationship with the European Union[1]

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Abstract

In this paper, we examine Turkey's changing economic relations with the European Union (EU) and the rest of the world during the past few decades. We argue that a combination of the EU's reluctance to accept Turkey as a member, internal economic and political developments, and the rise of economic and political opportunities elsewhere have shifted the country to diversify its economic relations around the world and reduced its reliance on the ties with Europe. This shift, which had started long before the 2008 global financial crisis and accelerated in its aftermath, seems to have helped Turkey weather relatively well the recent economic storms in Europe.

Key words: Turkey, European Union, Trade, Customs Union, Political Economy.

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1. Introduction

In this paper, we examine Turkey's changing economic relations with the European Union (EU) and the rest of the world during the past few decades. We argue that a combination of the EU's reluctance to accept Turkey as a member, internal economic and political developments, and the rise of economic and political opportunities elsewhere have shifted the country to diversify its economic relations around the world and reduced its reliance on the ties with Europe. This shift, which had started long before the 2008 global financial crisis and accelerated in its aftermath, seems to have helped Turkey weather relatively well the recent economic storms in Europe.

For a long time Turkish leaders had tried hard to establish closer economic and political relations with the Western European countries. Especially, with the increasing integration and fast growth after World War II, Europe was becoming an ever more attractive economic partner for Turkey. Following a major export-oriented economic policy reform in the early 1980, Turkish policymakers intensified their efforts to meet Europe's conditions for closer economic ties, sometimes even adopting policies that were incongruent with the country's political and economic structures at the time (Esfahani, 2003). Indeed, these and other badly-designed policies, resulting from Turkey's fragmented political and institutional structure, led to major macroeconomic instability in the 1990s. However, the efforts to strengthen the country's ties with the EU met with some success in the second half of the 1990s, especially with the signing of a customs union (CU) decision in 1995 and with the grant of full candidacy for EU membership in 1999. But, the prospects of long drawn out negotiations over EU membership as well as political and economic developments in Turkey, in the Middle East, and elsewhere around the world prompted the new party that had gained a majority in the parliament and had come to run the government in 2002 to rethink the country's global strategy. This shift was timely and fortuitous for Turkey because the process of accession with the EU came practically to a standstill after 2005 when the EU introduced an "open-ended" framework for the negotiations and, in January 2006, ruled out the possibility of full accession as long as Turkey maintained restrictions on the free movement of goods carried by vessels and airplanes registered in Cyprus (2006/35/EC Council Decision).[2] EU's plunge into an economic crisis later in the decade added major impetus to redirection of Turkey's international economic relations away from Europe.

[2] See http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32006D0035:EN:HTML.

This paper is organized as follows. Section 2 starts by presenting some key background issues and the macroeconomic developments in Turkey in the past few decades. Section 3 discusses the ways in which Turkey's interest in joining the EU motivated institutional and policy change in the country. Section 4 analyzes the forces that led to the shift in Turkey's global strategy and delineates the implications of this shift given the recent developments in the EU and the MENA regions. Section 5 concludes.

2. Overview of Institutional and Macroeconomic Developments in Turkey

Turkey had pursued inward-looking development strategies from early 1930 until 1980, reaching descent rates of growth in most decades, especially between the early 1960s and mid-1970s (Figure 1). However, after the sharp rise in crude oil prices in 1973, the country's import bill rose sharply and contributed to inflationary pressures. The government's decision to prevent the Turkish lira to depreciate in line with inflation led to major overvaluation of the currency and substantial decline in exports (see Figures 2 and 3). Before long, the economy stagnated and between 1976 and 1978 the ratio of its foreign debt to GDP doubled (Figure 4). By 1978, Turkey faced a major balance of payments crisis, along with serious political turmoil and social instability. These crises subsided after a military coup in 1980, which was followed by a sharp switch to outward-oriented economic policies.

Re-orientation of the economy in 1980s proved successful. The policy reform started with a significant devaluation of the Turkish lira and substantial incentives for exports (Figures 2 and 3). This attracted support from multilateral institutions, allowing Turkey to borrow again and import the intermediate and capital goods needed for economic expansion (Figures 3 and 4). Import tariffs on consumer goods were kept high for a while, which gave a chance for domestic industries to adjust. It also allowed the government to maintain its stream of revenues while bringing expenditure under control (Figures 5 and 6). However, after 1983, the government began to reduce tariffs and liberalize imports. Direct taxes and some other sources of revenue were also cut (Figure 6), causing the deficit to rise. To avoid runaway deficit, the government reduced its expenditures in almost all categories, except subsidies to promote exports and interest payments to service the rising public debt (Figure 5).

Turkey's connections with the European Economic Community (EEC) proved helpful in this turn-around. In 1963, EEC and Turkey had signed an agreement forming an association (the "Ankara Agreement"), complemented by an Additional Protocol signed in 1970 and put into effect in 1973. The association agreement had helped raise the share of Europe in Turkey's trade between 1963 and 1973.

However, after the oil price shock of 1973, the share of the Middle East and North Africa (MENA) countries rose at the cost of Europe's share (Figures 7 and 8). But, the Iranian revolution of 1979 and the start of Iran-Iraq war in 1980 disrupted Turkey's trade with its main trade partners in the MENA region for a while. So, when the reform policies started to take effect, access to European markets played an important role. However, this situation did not last long. In the 1980s, Europe was in a period of slow recovery. At the same time, the imposition of US sanctions on Iran in the early 1980s and the continuation of the war between Iran and Iraq made both countries highly dependent on Turkey for their foreign trade. As a result, once again the MENA region gained prominence in Turkey's foreign trade, driving down Europe's share for several years (Figures 7 and 8).

In the decade following the 1980 economic policy reforms, unemployment rate gradually declined (Figure 9) and GDP per capita steadily rose, especially relative to the income levels in Europe (Figure 10). The increased income in Turkey must have come largely from productivity gain because the share of investment in GDP declined somewhat between 1980 and 1985 (Figure 11). Meanwhile, the rate of inflation dropped from its heights in 1980 to about 30 percent in 1982, though soon it began to edge up again, hovering around 40 percent until 1987 (Figure 1).

Politically, the return to democracy was rather slow. The military remained in power until 1983 and then, when it allowed elections, it kept a ban on the large parties that dominated the political scene before 1980. Furthermore, the military drafted and ratified a new constitution in which it had a significant role in guiding policymaking by elected officials. The constitution also eliminated the role of small parties in the legislature by requiring a minimum 10 percent share in the national vote for the a party to be able to send candidates to the parliament. These restrictions allowed a new party established after the coup to rule with a majority and have a relatively free hand in setting economic policies. But, in 1987, when the ban on old parties was lifted and the electoral competition gained intensity, the underlying polity fragmentation translated into divided legislature and coalition government; a situation that lasted until 2002.

Party competition in the late-1980s and early 1990s, economic policies took a more populist character and led to large budget deficits, high inflation, and significant economic and financial instability (Figure 1). Government expenditure began to shift back from export subsidies towards wages and other categories favored by the political constituencies of the main parties, while revenues were relatively flat (Figures 5 and 6). State-owned enterprises (SOEs) continued to play important roles in the economy and, along a revitalized private sector, helped translate a massive credit expansion into a jump in investment (Figure 9). As a result, employment expanded and helped reduce the rate of unemployment from close to 11 percent in 1988 down to about 7 percent in 1991. Since the credit markets' confidence in Turkey's economic and financial stability was low, the interest rates and the government's financial obligations kept rising, to which the government responded by expanding the money supply. Meanwhile, the government allowed the real exchange rate to appreciate (Figure 2), causing exports that were already under pressure from the slowdown in the rest of the world to decline.

The pattern of expansion, inflation, and economic crisis was repeated in 1994 and in 1998-1999, hurting the country's long-term economic growth. The government was constrained in its ability to borrow, but it could not curb its expenditures in some key areas such as social programs and transfers that were expanding under political pressure from various interest groups (Figure 5). The government did take significant strides in raising revenue, especially in the form of value added tax (VAT) and privatization (see Figures 6 and 12). However, its primary balance was not sufficiently convincing for the credit markets. So, the interest payments on existing public debt kept rising and, in the second half of the 1990s, turned into the main driver of government deficits (Figure 5).

In the foreign trade area, after 1990 Turkey began to reorient itself toward Europe again. This was partly due to the stagnant demand in many MENA countries following the decline in oil prices in the mid-1980s. At the same time, Western Europe had resumed its growth and, with the collapse of the Soviet Union, Eastern Europe and Central Asia was opening up for trade. Turkey's trade duly shifted towards those regions and away from MENA (Figures 7 and 8). However, two other factors added to Europe's attractiveness for Turkey in the 1990s. First, the formation of the EU in the early 1990s presented Turkey with a more unified partner for economic cooperation. Second, given Turkey's institutional weaknesses, deepening the ties with the EU and striving to meet its membership requirements could help strengthen Turkish institutions and bring more credibility to government policies. Indeed, these factors led to the formation of a watershed customs union (CU) between Turkey and the EU in 1996.

Although Turkey had been an associate member of the EEC since 1963, it was far behind in meeting the political and economic criteria for full membership. However, Turkish authorities viewed access to the EU markets as a key ingredient for the success of the export-oriented policies launched in 1980. The 1996 CU decision allowed Turkey to enjoy low trade barriers with the EU even though becoming a member of the Union needed more time. In 1999, Turkey was granted an official full candidacy status at a meeting in Helsinki. This raised the prospects of Turkey joining the EU before long.

Later in 2002, the Copenhagen European Council announced that the EU would open negotiations with Turkey “without delay.”

As expected, the CU helped expand Turkey’s trade with Europe, at least until the early 2000s (Figure 7 and 8). The opportunity to trade more may have also motivated the government to keep the real exchange rate low, which allowed exports and imports to expand, except for 1998 and 1999, when macroeconomic crises, a major earthquake, and possibly contagion from other emerging economies hit Turkey. The government managed to get the banking sector to borrow externally and keep investment and exports relatively high and unemployment relatively low (Figures 3, 9, and 11). However, this proved unsustainable and eventually gave rise to a major banking crisis and a deep recession in 2001. In 2002, the government had to absorb a large chunk of the debt from insolvent banks, amounting to more than 30 percent of GDP (Figure 4).

The change in the trade orientation of the economy after 1980 had long-term and broad social and political consequences. In particular, it led to spatial restructuring of economic activity with new enterprises and industrial centers gradually emerging across Turkey. As the trade costs declined, more medium and small enterprises managed to engage in trade, become more profitable, and invest and grow. As a result, many individuals from traditional and religious social backgrounds (nowadays nicknamed as “Anatolian Tigers”) took leadership positions in industrial activity[3], which until the 1980s had been mostly the territory of the country’s secular and modern elites. These burgeoning business elites, combining conservative social perspectives with modern and liberal economic outlook, soon formed new business associations and grew politically strong. These associations, most notably the MUSIAD, supported the formation of political parties with Islamic orientation, but supporting increased engagement with the EU and the global economy (Yankaya, 2009). This process ultimately led to the establishment of the Justice and Development Party (henceforth AKP) as an alternative to the prevalent secular parties.

Economic and political instability, shifts in external relations, and changes in social forces in the 1990s left notable marks on Turkey’s political landscape and prepared the ground for major change. However, the 2001 crisis was particularly instrumental for change because it took the economy to the edge of collapse. Most importantly, it precipitated a significant overhaul of the party structure and enabled a new party, AKP, to win a majority in the parliament in 2002 and form a unified government

[3] For a study on today’s Turkish business community see Bugra and Savaskan (2010)

for the first time since 1987. Also, together with the improving prospects for joining the EU after 1999, the crisis motivated Turkey's politicians to work harder and to take robust steps in institutional development to achieve a healthier economic and political environment. They accepted to work under an IMF-guided program and, furthermore, meet the conditions required by the Copenhagen declaration. The latter entailed adopting the EU legal and the institutional framework, the so-called *Acquis*. This involved an extensive set of economic and political criteria ranging from reforms in the judicial system, in the National Security Council, in the tax system, and in the financial and budgetary procedures.

The new government formed in 2002 followed through with a number of institutional reforms that helped establish confidence and lowered the cost of borrowing, thus addressing a key fiscal problem that the policymakers had faced for a long time. As interest rates declined and the economy started to grow fast, the budget deficit and public debt also diminished relative to the GDP (Figures 1, 4, and 5). With help from increased VAT and the speedup of the privatization process (Figure 12), budgetary revenues continued to grow faster than the GDP (Figure 6). Together with the lowered cost of borrowing, this allowed the government to increase some components of its expenditure, especially those focusing on social programs and transfers (Figure 5).

The increased confidence in the Turkish economy made it very attractive to international investors and led to large capital inflows, both of portfolio and foreign direct investment (FDI) types, especially from Europe (Figures 11 and 13). Consequently, the Turkish lira appreciated considerably, slowing down exports and raising imports (Figures 2 and 3). The prior success of Turkey's manufactured exports and a rise in import prices, especially oil, turned the terms of trade against the country, thus further contributing to the emergence of a large trade deficit (Figure 14). However, the positive perceptions about the country's trajectory enabled it to ride on this wave and even recover from the large external shock of 2008-2009 with speed. In recent years, Turkey's growth has slowed down due to the prolonged recession in the EU and sluggish growth among its other trading partners, especially the Arab countries undergoing political change. In addition, accumulation of large net external liabilities since 2003may have started to exert negative influence on economic growth in Turkey. Low domestic savings and real appreciation of the lira have led most liabilities to be denominated in the euro or the US dollar. As a result, Turkey's Net International Investment Position (NIIP), which is the difference between its external financial assets and liabilities, has deteriorated steadily during the last decade, with the exception of the global crisis years of 2008 and 2011 (Figure 14). The NIIP was minus $420 billion in 2012 and climbed to minus $445 billion by May 2013, reaching 53 percent of GDP. The rising NIIP deficit has cast an ominous shadow on the economy and has made it vulnerable, particularly because it has been associated with the accumulation of large foreign liabilities in corporate balance sheets that are now curbing the the ability and the willingness of firms to invest.

An important change in the pattern of trade after 2001 was the significant geographic diversification and re-orientation of trade away from the EU and North America and towards developing countries and the Eastern Europe/Former Soviet Union region (Figures 7 and 8). For exports, MENA, especially Iraq and UAE, became the most important region after Europe, and for imports, emerging markets such as China and Korea gained significance. The geographic concentration of both exports and imports measured by the Herfindahl index declined perceptibly (Figures 15 and 16). Also, the share of new destinations of Turkish exports added after the early-1980s, which had largely stagnated for almost two decades, began to rise steadily (Figure 17). However, in terms of commodity diversification of trade, Turkey had achieved quite a bit by the 1980s, as measured by the Herfindahl index for 4-digit product lines (Figure 15). As a result, the share of new 4-digit level products in Turkey's exports remained low after the early 1980s (Figure 17). Finally, the unit value of Turkish exports does not seem to have any trend relative to the unit value of world trade during the 1980s and 1990s.

While Turkey's economic growth helped its per capita income rapidly rise towards the EU standards since 2002 (Figure 10), the country's unemployment rate increased from 7.5 percent in 2001 to about 10 percent before the 2008 crisis, peaking at over 14 percent in 2009 before dropping to lower levels (Figure 9). The rise in the rate of unemployment and its relatively high levels in recent years (hovering over 9 percent in 2012) has been a key weakness in the economy's performance. This seems to be due to a number of structural factors, particularly a youth bulge in the labor force and the rapidly changing structure of the labor market in terms of education, skills, and location.

3. Turkey's EU-Attraction Motivated Institutional Development and Economic Performance

The IMF-EU-initiated reform process had started before AKP won the 2002 elections and formed the single party government. The criteria for EU accession laid out in Copenhagen in 1993 involved 29 negotiating chapters (later increased to 33). A number of the chapters focus on political and institutional criteria. However, most of them concern economic criteria, ranging from free movement of goods, persons, and capital to company law, taxation, financial controls, and fiscal and monetary policies.[4] The basic rule was that the candidate country must have a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union. Accordingly, Turkey had structured its institutional and policy reforms around these criteria. However, as observed by the European Commission's 2001 *Regular Report on Turkey's Progress towards Accession*, there was little headway until 2000.

The reform process suddenly gained momentum in late 2000 and early 2001. This followed a series of major events. By the end of 1990s, the deadlocks of the coalition government, the prime minister's poor health conditions and his row with the president over corruption scandals paralyzed the government, while inflation and instability were raging.[5] There was also a severe earthquake in 1999 that caused significant casualties and damage and led to severe criticisms of the government for failing to plan and respond. As a result, the pressure was mounting for the government to get its act together and move on with institutional and policy reforms. In this situation, the advent the deep economic and financial crisis in February 2001 precipitated change.

In response to the crisis, the Turkish Parliament acted rapidly to adopt a series of new laws, which were largely along the lines drawn by the *Acquis* requirements. In all, 117 new laws were adopted between October 2000 and June 2001. In particular, on March 19, 2001, the coalition government adopted the National Program for the Adoption of the *Acquis* (NPAA) that provided a wide-ranging agenda of political and economic reform. Moreover, Turkey's EU Secretariat was entrusted with the implementation, coordination and monitoring of the NPAA. All public agencies and units were required to make administrative arrangements to carry out their responsibilities under the NPAA and to incorporate the EU dimension in their decision making process. Some ministries were restructured to carry out tasks related to the EU pre-accession process. Nine inter-ministerial subcommittees were established to co-ordinate the transposition and implementation of EU legislation.

Fiscal adjustment was a central part of the reforms initiated in 2001. Budget procedures were streamlined to ensure more effective control over the fiscal process. At the same time, the government

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[4] Economic and Monetary Policy Acquis—as defined by Title VII of the EC Treaty and the other relevant texts—includes the prohibition of direct public sector financing by the central bank, the prohibition of privileged access of the public sector to financial institutions, and the independence of the national central bank.

[5] See *The Economist*, February 22, 2001, "Turkey's Future: On the brink again."

applied a combination of growth, expenditure reduction, and tax increase to bring balance to the budget. In particular, given the size of finance charges, the government in effect set a target of 6.5 percent of GDP for its primary surplus until 2008. As we have seen, these measures were effective and helped reduce interest payments, which in turn lowered the gross deficit and debt.

Another major institutional change was the reform of the banking system. The Central Bank of the Republic of Turkey (CBRT) had lacked de facto independence and the objectives that it had adopted before 2001, such as ensuring stability in the financial markets and exchange-rate-based stabilization, had badly failed. On April 25, 2001, the CBRT Law was amended to give the Bank the primary objective of price stability along with financial stability, a form of "inflation targeting". It was also granted "instrument independence" and the discretion to use the monetary policy to achieve that goal. The Bank was expected to support the growth and employment policies of the government to the extent that it did not conflict with the price stability objective. However, the Law prohibited CBRT extending credit directly to the Treasury and to public establishments and institutions (Law 4651). This ended the financing of government deficits via base money expansion. The credibility and accountability of CBRT was established by channeling of the appointment of the Governor and the Board of Directors through the Bank's General Assembly of Shareholders. The Directors were given staggered, three-year terms. For the Governor, the terms was set at five years, with the possibility of renewal. Removal of the Governor or any Board member had to be for cause and was made subject to judicial review.

The implementation of *Acquis*-related reforms also began to diminish the role of the military in Turkey's political life and lower the entry barriers for non-secular political parties. An important component of this shift in 2001 was the restructuring of the National Security Council (NSC) and its role in policymaking.[6] In particular, Article 118 of the Constitution was amended to increase the number of civilian politicians on the NSC, thus shifting the balance of power in their favor. In addition, the

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[6] National Security Council (NSC) was established with the 1961 Constitution. Although the council was to advise the government in internal and external security, the military was given a constitutional role and embedded into the executive branch. NSC consisted of the prime minister, the chief of general staff, selected ministries, and the representatives from land, air and naval forces. The 1982 Constitution increased the number and weight of senior commander members of the NSC at the expense of civilian members. Furthermore, its Article 118 stated that the council of ministers shall give priority consideration to the NSC's recommendations, thus amplifying the NSC's power and authority. Under the 1982 constitution, the military could also monitor the civilian authorities through holding seats in a number of other government bodies such as the Higher Education Council and the Radio and Television Supreme Council.

frequency of the meetings of the NSC was reduced from once a month to once every two months. This made it more difficult for the military to use the NSC as a mechanism to exert political power and influence the government's decisions (EC Progress Reports, 2000-2010). Moreover, the new rules abolished the requirement that the Council of Ministers give "priority consideration" to the recommendations of the NSC. Instead, the government was only required to "evaluate" the NSC recommendations (European Commission, 2001, *Regular Report on Turkey's Progress*). Another change was the elimination of a rule that required that the secretary general of the NSC to be a serving member of the military. Finally, the secretary general could no longer have unlimited access to civilian agencies and exercise the authority to monitor the implementation of NSC recommendations.

The failures of the coalition government and the lowering of the political entry barriers under the influence of the EU criteria led to the emergence of a majority party, AKP, in the 2002 elections. This was in a way ironic because AKP members had long been opposed to EU membership and had seen the EU as a Christian club. However, once it has a chance to form the government, the AKP decided to rigorously follow the reform process initiated by the coalition government. The new approach was mostly due to the prevalent view inside the Party that those reforms were the best way to establish a more democratic institutional structure in Turkey, given that all preceding Islam-oriented political parties had been closed by the constitutional court under pressure from the military high command. Accordingly, the AKP government chose to follow many institutional reforms that were in line with the politics-related criteria for EU membership. In particular, it pursued the changes that dramatically reduced the military's institutional influence, an issue that was unsurprisingly at the top of AKP's agenda.[7]

The AKP Government and the Economic Policy Reform Agenda

In the economic sphere, AKP leaders knew that their success and reelection prospects were contingent upon the stabilization of the economy and resumption of growth, which in turn depended on the restoration of fiscal balance, increased government effectiveness, and support for the functioning of

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[7] Restructuring the role of the NSC was a political criterion to be met. In its 1998 Regular Report on Turkey's progress towards accession, the European Commission concluded that "The lack of civilian control of the army gives cause for concern. This is reflected by the major role played by the army in political life through the National Security Council. The existence of this body shows that, despite a basic democratic structure, the Turkish constitution allows the Army to play a civil role and to intervene in every area of political life…." (EC General Report, 1998: 14)

markets. Being a majority party with a new and emerging constituency, AKP found it much easier than the old parties to pursue this agenda. The leaders of AKP had built their credentials based on effective delivery of public services at the local level and could apply those skills at the national level. In addition, AKP wanted to open up opportunities for broader segments of the population to help and expand its constituency. So, the Party leaders found it consistent with their objectives to enhance markets, expand social protection programs, and reshape government expenditures and revenues. These reforms also accorded well with most aspects of the EU membership criteria and IMF program conditions, prompting AKP to embrace those aspects. However, the enthusiasm for the EU and IMF agendas did not extend to all of their components, as we will note below.

AKP politicians had strong incentives to move forward with an extensive privatization program. This originated partly from the nature of its constituency, which was largely outside the public sector, a topic that we will discuss in detail below. Another motivation for the privatization drive was the need to reduce government debt and to remove some potential sources of future public liability. In line with this objective, though rather reluctantly, the government also proceeded with the formation of Independent Regulatory Agencies (IRAs), which was another IMF-EU nexus requirement. Since 2002, the government has delegated regulatory discretion to IRAs in order to reduce political transaction costs and to ensure the credibility of its commitments to the private sector. Consequently, significant privatization—particularly in the energy, telecommunications and finance sectors—materialized, leading to reductions in public debt.

The privatization process proved quite successful during 2004-2008 partly due to the favorable conditions in the global economy. By 2004, the tide of global FDI flows was quickly rising, particularly in the service sector. In order to benefit from this environment, the Turkish government took steps in easing the procedures of doing business, consistent with the EU requirements. Specifically, in 2003, the government introduced a new Foreign Direct Investment Law with new implementing regulations to eliminate bureaucratic red tape, to protect foreign investors' rights in accordance with international standards, and to set their treatment on a par with the domestic investors. In tandem, an amendment to the Turkish Commercial Code entered into force that aimed at simplifying the procedures for setting up a company. As a result, according to the Doing Business Database, the number of procedures and days required to start a business in Turkey were reduced from 13 and 38 in 2004 to 6 and 6 in 2005 respectively. Moreover, the cost of all official fees and legal or professional services needed for starting a business declined from 36.8 percent of GDP per capita in 2004 to 26 percent in 2005. Similarly, the paid-in minimum capital required for registering an enterprise, measured as percent of per capita income, dropped from 31.6 percent in 2004 to 25 percent in 2005.

The combination of institutional and policy changes after 2001—reduction in investment costs, modifications in the laws and the legal system, development in the financial system, lower rates of inflation, political stability and reduced uncertainty—made Turkey very attractive for foreign investment. This situation, together with the favorable global environment, increased FDI flows to Turkey to unprecedented levels: over $10 billion in 2005, $20 billion in 2006, and $22 billion in 2007, compared with the total FDI inflows of only $19 billion for the entire 1980-2004 period (World Bank, *WDI*). As share of gross capital formation in Turkey, FDI rose from near nil to over 15 percent in the mid-2000s (Figure 11).

The post-2001 reforms helped revive the share of investment in GDP after its sharp decline during 1998-2001 (Figure 11). The new levels reached before the 2008 global crisis were not as high as the investment shares in the 1987-1998 period. But, the composition of capital formation was different: The share of the private sector, especially foreign investors, in total investment increased in the mid-2000s, with half of all investment going to manufacturing, compared to only a quarter in the late 1990s (Rodrik, 2012). Capital formation also seems to have been more productive since despite being a lower share of GDP, it helped the economy achieve higher growth rates (Rodrik, 2012). However, the government's recent heavy emphasis on construction as a driver of growth has become a major subject of criticism. According to TURKSTAT construction permits database, the index for construction permits jumped from 100 in 2009 to 151 in 2010 and has remained high ever since. Although many sub-sectors of construction (cement, steel, bricks, ceramics, glass, plastics, etc.) and household durable goods industries have highly benefited from the process, there is a concern that the process does not entail productivity gains and that the induced growth may not be sustainable. Nevertheless, to boost the demand for construction, in May 2012 the government passed an amendment to the Law on Land Registry and Cadaster Act to allow foreigners to buy immovable property up to 300,000 square meters. (The limit on property size can be increased by two-folds by the Council of Ministers in specific circumstances.) This measure seems to have been very effective. According to the Ministry of Economy's Foreign Direct Investment Dataset, FDI in the construction sector has increased eightfold amounting to $1.3 billion in the first half of 2012, with $1.1 billion of that coming just in the month of May.

Despite the recent emphasis on construction, it should not be overlooked that one of the foremost initiatives of the government has been trade policy reform. A new roadmap has been drawn for Turkey's new export strategy with Exports Strategic Plan. Accordingly, in order to increase diversity in export destinations, a more dynamic role has been assigned to chambers of commerce, trade associations, and the official trade liaison offices in Turkish embassies.

In the area of social services policy, The European Commission considered public expenditure on health services in the late 1990s (less than 3% of GDP) as insufficient and argued for an urgent need for reform of the public health care system. The European Council's negotiation criteria also required a reform of the Turkish social security system, including expansions in the social protection and unemployment insurance schemes. AKP proceeded along these lines quite effectively, in part because the expansion of various forms of social insurance could extend AKP's political support across the population. Although the part of the burden would fall on the emerging industrialists, who were an important constituency of AKP, the government reduced the effect on them by covering part of the costs. The legislative centerpiece of the government's response was the Social Security and General Health Insurance and the Social Security Institution Laws of 2006. These laws obliged the state to contribute to the health insurance and social security system along with the employers and employees, as suggested by the EU. The result was that public expenditure on healthcare rose to about 5 percent of GDP by 2009 (World Bank, 2013) and the share of population covered by social security services increased from 72 percent in 2003 to 86 percent in 2011. (Social Security Institution of Turkey, www.sgk.gov.tr).

The AKP government, however, was not as forthcoming with regard to some other aspects of the EU-IMF-advocated reforms. In particular, the government stopped short of ensuring full independence for the Central Bank and the privileged access of public authorities to financial institutions was not prohibited. Also, the government continued to play a key role in setting the inflation target (see European Commission's *Turkey Progress Reports*, 2004, 2006, and 2008). Nevertheless, the implemented fiscal and monetary reforms quickly brought down inflation from high rates in 1990s to single digit rates after 2002. As a confirmation of the enhanced confidence in the new system, in 2005 the government introduced a new currency unit that eliminated six zeros from the face of the old notes.

Another example is the reform of public procurement system, which was to be made more transparent and accountable based on Chapters 1 and 3 of the European Council's negotiation criteria, "Free movement of goods" and "Right of establishment and freedom to provide services." Under these chapters, Turkey was required to establish an authority in charge of verifying the regularity of public tender procedures. A round of negotiations for the extension of the EU-Turkey Customs Union for the mutual opening of procurements markets took place in October 2001 and, in 2002, the government launched the Public Procurement Authority. Turkish public procurement law, formed with the EU initiative, entered into effect in 2003. However, the AKP government immediately made numerous attempts to change the law in response to the demands of domestic interest groups. Indeed, favoring the domestic firms has become a major topic of criticism in the post-2006 European Commission Reports on Turkey. We will come back to this issue in the following section.

To conclude, the economic and financial crisis of 2001 in the context of hopes to join the EU precipitated wide-ranging reforms in Turkey, including increased democratization and reduced role for the military, fiscal adjustment and improved budget procedures, improved market conditions with increased support for competition, and expanded social services. The IMF structural adjustment program also helped shape and sustain the economic reforms initiated in 2001. Most of these reforms were closely aligned with the objectives of the new party that won a parliamentary majority in 2002 and formed the first single-party government after a decade and a half of unstable rule by coalition governments. This positive reinforcement helped Turkey to continue and to deepen many institutional and policy reforms during the 2000s.[8] The single party government brought about political stability and helped establish confidence and increased government effectiveness.[9] However, as we argue below, these developments also prepared the ground for a shift in Turkey's strategy towards the EU.

4. Fading Attraction: Shifts in Turkey-EU Relations

The EU-focused policy agenda in Turkey hit a barrier after the EU's introduction of "open-ended" framework to accession negotiations in 2005.[10] In particular, in December 2006 the European Council took issue with restrictions on economic relations between Turkey and the Republic of Cyprus and declared that negotiations on eight relevant chapters would not be opened and no chapter would be

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[8] See Onis and Senses (2007: 21). "…[t]he EU conditions have helped to generate a major wave of democratization reforms in Turkey. These are also important in terms of their economic repercussions in the direction of improving institutional quality and the rule of law, which probably would not have been possible if the IMF alone was involved in the restricting process."

[9] This can also be seen from the government effectiveness indicator of the World Bank's governance dataset (see Worldwide Governance Indicators, www.govindicators.org). The indicator, which has a mean of zero and ranges approximately from -2.5 to 2.5, used to be negative for Turkey. It turned positive in 2002 for the first time.

[10] For comprehensive arguments on the effects of open-ended framework, see Aktar (2010); Ugur (2010); Devrim (2010) and Levack (2010).

provisionally closed until the Commission confirms that Turkey has fully implemented its commitments to remove those restrictions. In addition France and the Republic of Cyprus unofficially blocked, respectively, four and six additional chapters out the 35 under negotiation. The open-ended framework and the Council's decision on the Cyprus issue had important implications for Turkey's foreign policy and global strategy. The government came to see that trading away its sovereignty might not be a price worth paying for an uncertain promise of membership.

Given the doubts about the possibility of full membership in the short and medium terms, the government of Turkey had to reassess its global strategy and its focus on Europe under the assumption that the economic relations between Turkey and the EU would be governed by their CU for some years. In this context, the EU's attraction was diminishing for Turkey for at least three reasons:

First, there has been a realization on the part of the Turkish authorities that the trade gain under the CU would not go much beyond what Turkey had already achieved. Indeed, this has been brought into attention by a number of studies[11]. For example, Adam and Moutos (2008) showed that after Turkey had been given preferential access to the EU markets and free trade in case of certain goods, further goods market integration had not generated significant additional gains for the country.

Second, the EU has taken a peculiar position regarding the nature of its CU agreement with Turkey. As Hoekman and Togan (2005) point out, the EU reserved the right to apply technical (regulatory) barriers and to impose anti-dumping duties on Turkish exports to the EU. These practices on the part of the EU have diminished Turkey's marginal gains from focusing on trade with the EU.

Third, the CU agreement between Turkey and the EU suffers from another important asymmetry concerning relations with third parties. Akman (2010) and McNamara, Cohen and Phillips (2010) highlight the issues involved as follows:

(i) Arrangements between the EU and third countries automatically extend to Turkey and Turkish markets are automatically opened to those EU partners under the customs union agreement, even though Ankara is excluded from the decision-making process.
(ii) Turkey is not automatically granted mutual benefit by the third country. "Reciprocity depends on Brussels' goodwill and willingness to include a 'Turkish clause' in their final agreement" (McNamara et al., 2010: 13).

[11] See for instance Yilmaz (2011); Demirci and Aydin (2011); Antonucci and Mazocchi (2006); and Bilici et.al. (2008)

(iii) Even if the “Turkish clause” is included by the EU, two effects put Turkish exporters into disadvantageous position vis-à-vis their EU competitors:

a. Latecomer effects: Turkey can conclude an FTA with third countries only after the EU has concluded an FTA with them.

b. Asymmetry effects: Turkey cannot negotiate FTAs with third counties on similar terms as those that the EU does.

(iv) Turkey cannot enter into FTAs with third countries with which the EU has not accorded a deal.

These asymmetries cause difficulty for Turkey because the EU has its own priorities reflected in its FTAs, which do not necessarily take into account Turkey’s special interests. For example, in 2006 the EU adopted the “Growth and Jobs Strategy” that shifted its trade policy from sole reliance on multilateral trade negotiations towards initiatives for bilateral and preferential agreements. The EU changed its trade strategy in favor of new FTAs to expand its market share in other regions of the world, particularly, Asia and Latin America. Many of the countries involved are potential competitors for Turkey and some EU members are Turkey’s competitors in those markets. As a result, these moves by the EU could potentially be quite problematic for Turkey if it cannot sign FTAs with those countries at the same time that the EU concludes negotiations with them[12]. In effect, Turkey may have to live with the consequences of those FTAs without being a party to the negotiations.

These reasons have contributed to a shift in Turkey’s foreign policy “from a commitment to deep Europeanization to loose Europeanization and a parallel shift to what may be classified as soft Euro-Asianism” (Onis and Yilmaz, 2009: 1). That is to say, the reform process was still in progress, but it was no longer strictly EU-conditioned. Indeed, in several notable cases, the government did not hesitate to pursue policies that went against harmonization with EU norms. For example the government abolished visa requirements for some Middle Eastern countries that are on the EU’s Schengen “black list” thus violating the requirements of one of the European Council’s negotiation Chapter 31, “Foreign Security and Defense Policy.”

The problems of prolonged EU candidacy and complexities in the CU arrangements have also led the current status of the EU-Turkey trade increasingly been questioned by the Turkish authorities, However, three other interrelated sets of factors have also contributed to Turkey’s drive to expand its

[12] For detailed information on this issue, see Akman (2010) and Togan (2011).

non-EU relations. The first set is economic and political change in other regions of the world, especially MENA and Asia. The second is the transformations in domestic power balances and political structure in Turkey. The third is Turkey's rising overall economic development and market potential.

One of the most important changes in global economic activity is the shift in the economic center of gravity towards East Asia, especially China. Accordingly, China has become an important buyer of Turkish exports and the biggest supplier for its imports among developing countries. China's share in Turkey's imports has risen from about 2.5 percent in the early 2000s to about 10 percent in early 2010s. Another major change from Turkey's point of view has been the fall of Soviet Union and the opening of Former Soviet Bloc to trade. That has made the countries of that Bloc, especially Russia, into major trading partners of Turkey. A third significant change was the rise of oil prices and the economic recovery in the MENA region after the late 1990s. The invasion of Iraq can also be added to this set of changes that expanded important markets for Turkish exports. Finally, most of the EU's economy went into a slump after the global financial crisis of 2008 and its prospects for recovery have remained weak.

These developments prompted the Turkish government and business community—particularly the Anatolia-based producers who were part of AKP's constituency—to see the EU markets as less important for their purposes than used to be the case until the early-2000s. Given the uncertainties regarding the future track of Turkey's EU membership, there was a growing perception among the Turkish elite that the country had to develop a new development strategy based on its new domestic and international potentials and opportunities. AKP's new thinking on the subject has found its most clear formulation in the work of Ahmet Davutoglu, who became Turkey's Minister of Foreign Affairs in 2009.[13] He has argued that Turkey must strengthen its ties around the Middle East, Asia, and elsewhere around the world so that it would become not just a regional power, but also an influential country in world politics. Such notations began to reshape Turkey global strategy after the mid-2000s and reflected themselves in the country's economic and political relations with the rest of the world.

There are several indicators that depict the new face of Turkey's foreign trade policy clearly. Turkey has established a widespread network of bilateral trade relations via governmental and private initiatives. More than a dozen FTAs were established with partners in MENA, Asia, Latin America, and the Balkans with the aim of diversifying and enhancing Turkey's economic links with a wide range of countries. Moreover, the visa-free travel boosted trade within the MENA region as Turkish citizens were

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[13] Ahmet Davutoglu's foreign policy approach and its theoretical foundations are presented in his book, *Stratejik Derinlik* (*Strategic Depth*), Kure Publications, 2011.

able to travel to countries such as Iran, Iraq, Syria, Lebanon, Qatar and Libya without visas. The distribution of the newly opened routes of national flagship carrier Turkish Airlines between 2002 and 2011 also reflects these changes: Out of the total 58 new routes introduced, only 14 are to European cities, while 18 routes are to Asian countries, 14 are to MENA destinations, eight are to African cities.[14]

Interestingly, as Turkey has diversified its trade away from the EU since the mid-2000s, its attractiveness to the European investors has substantially increased. Since the enterprises from other regions do not yet have either the capabilities or the interests to engage in FDI in Turkey, European firms have come to dominate in this respect and take advantage of the country's new position in world markets (see Figure 13). Remarkably, many old and new industrialists in Turkey have a common interest to partner with capable foreign firms and produce for the domestic or export markets. As a result, the government has been quite welcoming to foreign investors, especially Europeans.

The rise of export markets in the Middle East and Former Soviet Union has given some geographic advantage to the producers in Turkey's regions beyond Western Anatolia, which used to be the main location of industrial activity, due to their proximity to Europe as well as historical factors. In particular, eastern, southeastern, Black Sea, and Mediterranean regions of Turkey are gaining comparative advantage. The number of Anatolian firms among Turkey's Top 500 industrial enterprises listed by Istanbul Chamber of Industry rose from 42 in 2000 to 51 in 2010. During the same period, the corresponding number in the Second Top 500 list jumped from 36 to 73. As a result, MUSIAD's characterization as an association of Anatolian small and medium enterprises no longer applies. The average size of the firms that MUSIAD represents has grown rapidly, and so has its political influence. Indeed, the new and emerging Anatolian firms are now represented by two other business associations, Turkish Confederation of Businessmen and Industrialists (TUSKON) and Anatolian Tigers Businessmen Association (ASKON). The industrialists represented by these associations exert influence through their connections with the AKP and have different interests than the older group concentrated in western Turkey, especially around Istanbul. For example, MUSIAD seeks increased cooperation with the Persian Gulf countries, while TUSKON has become actively engaged in African and East Asian markets. This is in contrast with Turkey's oldest business association, the Istanbul-based TUSIAD, that has long been focused on pushing for EU membership.[15] TUSIAD used to be very powerful and was even sometimes

[14] See , http://www.turkishairlines.com/en-INT/corporate/about_us/history.aspx.

[15] The absolute majority of TUSIAD members are based in old industrial districts such as Istanbul, Ankara, and Adana, while more than fifty percent of 2998 MUSIAD member firms are in the new industrial districts of Anatolia

referred to as the "association that toppled the government" in 1980 (Arat, 1991). But, it lost its influence over policymaking after 2002 when AKP started to speak to the interests of the non-Istanbul based business associations. While the new business groups value connections with the EU, they have interests elsewhere around the world and culturally are more comfortable connecting with other countries in Turkey's broader neighborhood and in Asia. This has become a major political economy force shaping the country's global strategy in the past several years.

The third factor that led a change in Turkey's foreign trade pattern is the country's rising overall economic development level and its market potential. Although a more competitive and better quality export sector has made Turkey a better partner for Europe, it has also provided the country with even more trade opportunities elsewhere and has given it a bigger room for maneuver. This has increased Turkey's bargaining power. Interestingly, these improved capabilities were initially built, to a large extent, through the country's strong ties with the EU. But, they are now allowing the country to re-position itself in accordance with the shifts in global conditions and in the domestic power balances.

An important consequence of these developments inside Turkey is that the government appears to have grown reluctant to follow through with the legal and institutional reforms required to meet the EU membership criteria. A number of observations corroborate this view:

First, in recent years the government has procrastinated in implementing the EU conditions for the free movements of goods and in some cases has backpedalled. For example, according to the European Commission's *Turkey Progress Report 2009*, in that year the government adopted new legislation on standardization in foreign trade that raised barriers for third country goods circulating freely in the EU if they were to be imported into Turkey. Moreover, this was done without any prior notification to the EU. Later in 2010, the government introduced a new requirement calling for "good manufacturing practice" certificates for the registration of pharmaceutical products. In view of the European Commission (*Turkey Progress Report 2010*), this was a de facto restriction on imports from Europe through long delays in the registration process. In addition, Turkey introduced further legislation in June 2011 imposing duties on imports of textiles and clothing that originated in third countries, but were in free circulation in the EU. In *Turkey Progress Report 2012*, the Commission pointed out that several trade issues with Turkey had remained unresolved and criticized the country for "not

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such as Konya, Mardin, and Kayseri. TUSKON has much fewer members from old industrial districts and more from eastern and southeastern Anatolia as well as the Black Sea Region.

implementing the Customs Union fully" and for maintaining "legislation that violates its commitments under the Customs Union."

Second, the government slowed the rate of foreign investment related reforms in its second term. Despite the implementation of the FDI law in June 2003 that was designed to simplify procedures, AKP government took only small steps concerning issues such as work permits for foreign nationals. A comprehensive reform of the Law on work permits for foreigners was vetoed and has been pending in parliament since 2007. The only step taken was an amendment in the law on work permits for foreigners in 2010, introducing the possibility of preliminary permits for up to one year for foreigners providing "professional services." Likewise, some of the reforms concerning ease of doing business have been reversed. The European Commission particularly underlines relatively lengthy licensing procedures and the high cost of closing a business (*Turkey Progress Reports 2010- 2012*). Dismantling for the restrictions on the free movement of capital have also slowed down since the second term of AKP government. Although restrictions on the acquisition of real estate by foreigners have gradually been removed between 2008 and 2012, restrictions on foreign ownership remains intact in a number of sectors such as radio and TV broadcasting, education, transport, and electricity.

Third, public procurement processes in Turkey have come under criticism as non-transparent and discriminatory. The European Commission has argued that the amendments to Public Procurement Law (PPL) have led to deviation of Turkey's public procurement system from the *Acquis*, rather than getting more aligned with them. Indeed, after 2005 the European Council opened a separate chapter of negotiation on public procurement. The main areas of criticism have appeared as follows:

(i) PPL reserves tenders for locally-established bidders and preferences in favor of Turkish bidders.
(ii) A large number of procuring entities are exempted from the scope of the Law.
(iii) Amendments to the PPL have entailed restrictions in competition and full transparency.
(iv) Public procurement grant qualification procedures are complicated and thus hinder competitiveness.
(v) There is no coherent legal framework for concessions awards and public private partnerships.

It is notable that the modifications of the PPL have implemented through various detailed sectoral laws and through thresholds and financial limits favoring Turkish bidders. For example, an amendment to the Public Financial Management and Control Law exempted certain contract award procedures by the Turkish Petroleum Corporation. Also, the government has kept in the legislation a 15% price advantage for domestic bidders. It even strengthened this feature in 2008 and 2011 through

Prime Ministry circulars encouraging the implementation of the PPL in favor of domestic bidders. What is more, some exceptional provisions about certain procurements have been inserted into the Law; e.g. allowing an increasing number of procurements to be made via “bargaining” or “direct buying” rather than “open tender.” In addition, the Public Procurement Authority has been dividing some high value procurements into parts so that many firms that did not have the power/capacity to undertake large projects could be included in the process. As a result of all these steps, according to a report published by the Public Procurement Authority, procurement under such exclusions increased by 31.8 percent in 2008. The value of procurements covered by exclusions more than doubled in the first quarter of 2009. Also, the number of contracts covered by exclusions and via direct purchases significantly increased in 2010. In all, 28 percent of contracts and 12 percent of the overall contract value were not subject to the tender procedures stipulated in the Public Procurement Law. By 2011 the value of contracts covered by exclusions and via direct purchase increased by 17 and 22 percent respectively. 22 percent of the overall contract value was not subject to the tender procedures stipulated in the PPL (European Commission, *Turkey Progress Reports 2010* and *2011*).

Fourth, the Turkish government has appeared as hesitant to pursue transparency and competition policy. The European Commission reports have repeatedly mentioned the negative effect of the absence of transparent monitoring of government support for companies (“state aid”) on competitiveness. Yet, Turkey was slow to approve the law on state aid monitoring, and after it finally passed through the Parliament in 2010 (Law on the Turkish Court of Accounts), it did not take effect until 2012 due to absence of implementing legislation. But then in 2012, the Parliament passed Law 6353 to restrict the powers of the Court of Accounts in auditing the budget and spending of various state agencies. The changes allowed the Court of Accounts inspectors to audit the financial activities of state institutions only to the extent that the internal regulations of those institutions allowed. Moreover, according to Law 6353, the inspectors were not entitled to question the relevant regulations of the state institutions. The new law was heavily criticized in European Commission’s *Turkey Progress Report 2012*:

> “An amendment to the [Turkish Court of Accounts] Law adopted in July severely limits the competences of the Court and invalidates some of the above developments, taking the level of alignment back to below the standards of the International Organisation of Supreme Audit Institutions … and EU best practices.” (*Turkey Progress Report 2012*: 90)

The main opposition party took the Law 6353 to the Constitutional Court for annulment and the Law was annulled by the Court in December 2012. However, in March 2013 the government submitted a proposal to revamp the structure of the Court of Accounts—a change that seems likely to curb the body's auditing powers.

Finally, Turkey decided to freeze its relations with the Presidency of the Council of the EU during the second half of 2012 and not to attend meetings chaired by the Cyprus EU Presidency. This was followed by Prime Minister Erdogan's statement that "Turkey is seriously considering seeking membership in the Shanghai Cooperation Organization (SCO) as an alternative at a time when the EU's future looks increasingly dim" (Uslu, 2013).

5. Conclusion

Turkey had long struggled to join the EU and along the way adopted a host of policies and formed institutions that eventually helped it turn into an emerging economy with rising confidence in its economic and political conditions. At the same time, the fall of Soviet Union, the rise of new economic powerhouses such as China, and the changing economic and political situation in the MENA region, presented Turkey with new partnership opportunities. These domestic and international developments also gave rise to new social and political forces that changed the character and composition of the Turkish elite. Meanwhile, the EU was showing reluctance to accept Turkey as a member. The combination of these factors along with relatively poor performance of the EU economy diminished the enthusiasm of Turkish politicians for joining the EU. Instead, they began to pursue a new global strategy that helped the country to broaden its connections around the world and to gain more weight in international economic and political arenas. This has led to a reduction in the share of the EU in Turkey's merchandise trade. However, it has increased the flow of European services, FDI, and portfolio capital to Turkey.

It is notable that in recent years, the reduced effort to join the EU has been associated with stagnation and, in some cases, reversal of the past institutional and policy improvements. At the same time, the rates of growth among Turkey's new partners have slowed down and economic and political situation in the MENA region has become very uncertain. These developments do not bode very well for the Turkish economy in the coming years, particularly because they could put an end to the capital inflows and the construction boom that have been the main sources of growth since 2009.

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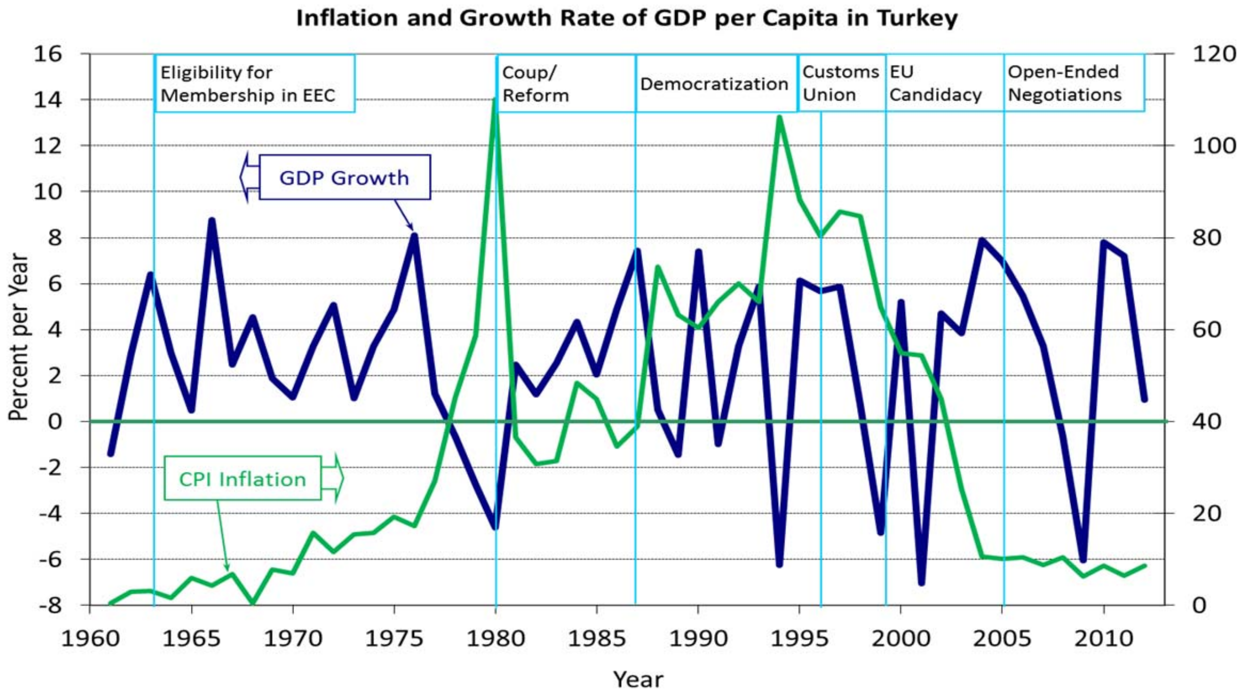
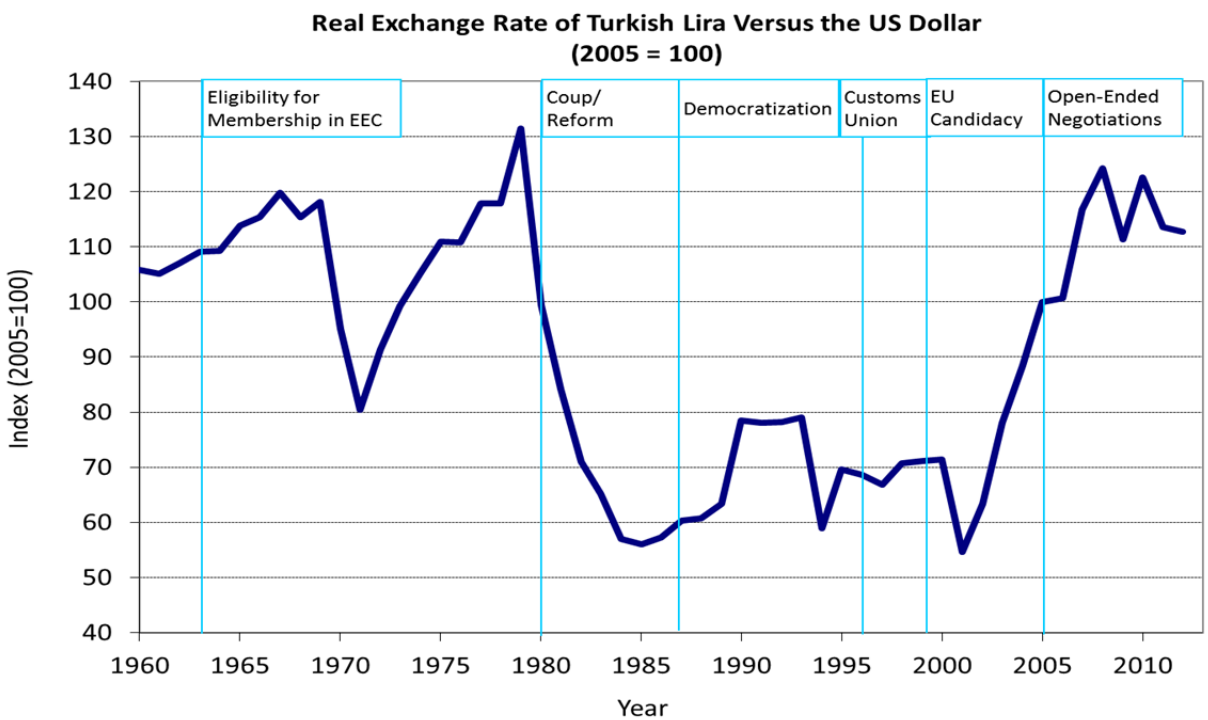
FIGURE 1



Source: *World Development Indicators.*

FIGURE 2

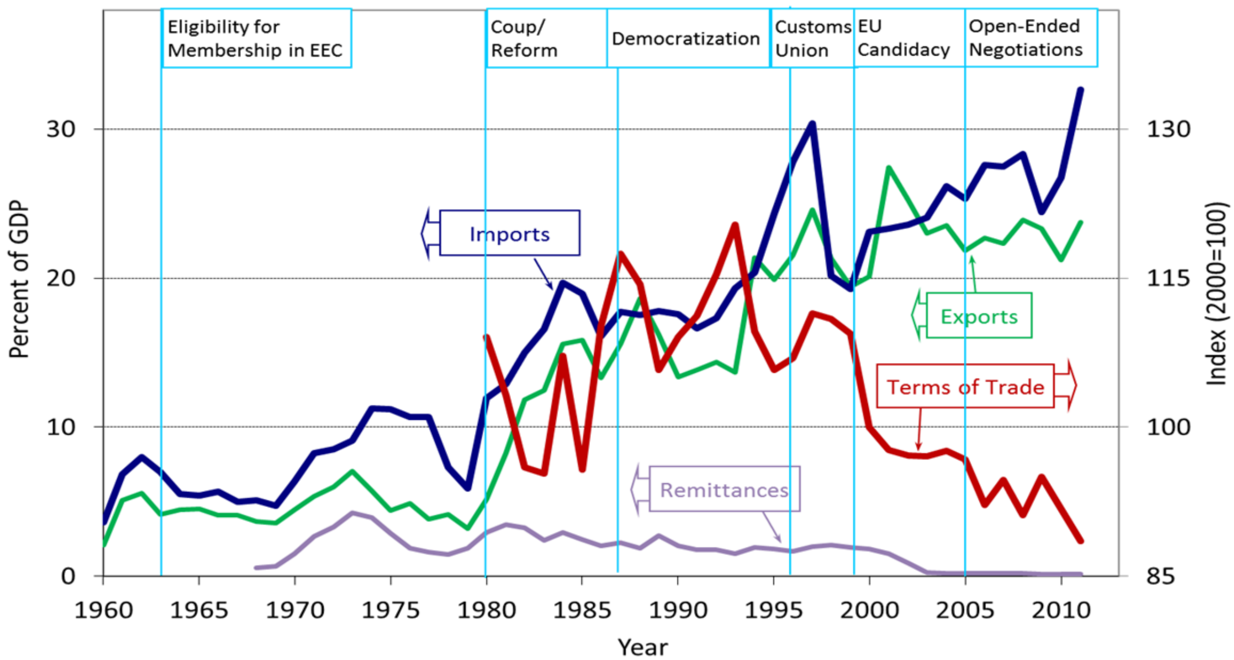


* Average official nominal exchange rate in each year in terms of dollars per lira multiplied by the Turkish CPI and divided by US CPI. Normalized to equal 100 in 2005. An increase in RER refers to appreciation of the lira, and a decrease in RER to its depreciation.

Source: *World Development Indicators*.

FIGURE 3

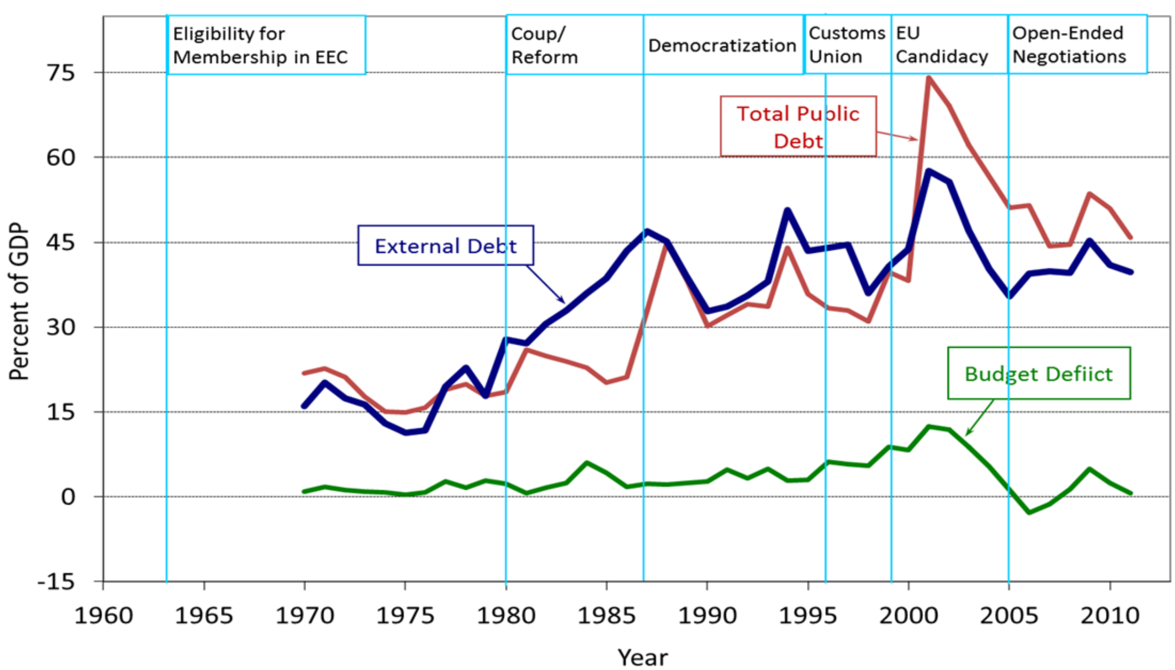
Exports, Imports, Workers' Remittances, and the Terms of Trade of the Turkish Economy



Source: *World Development Indicators*.

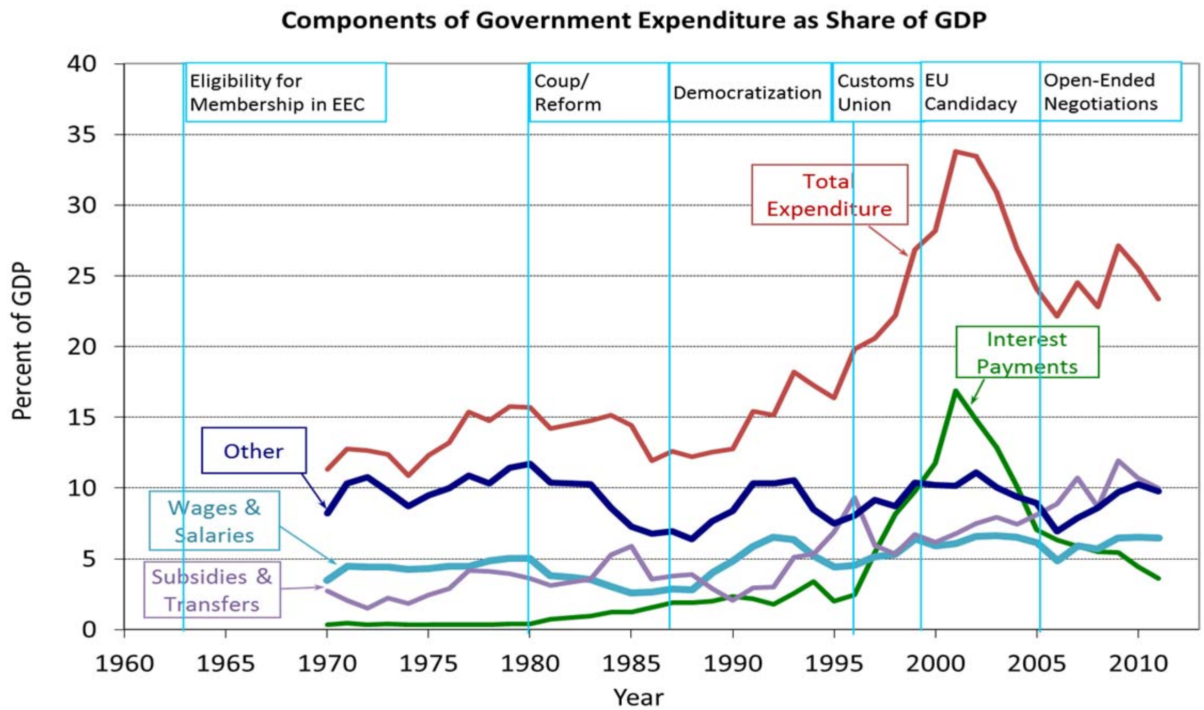
FIGURE 4

Government Deficit and Public and External Debt as Shares of GDP



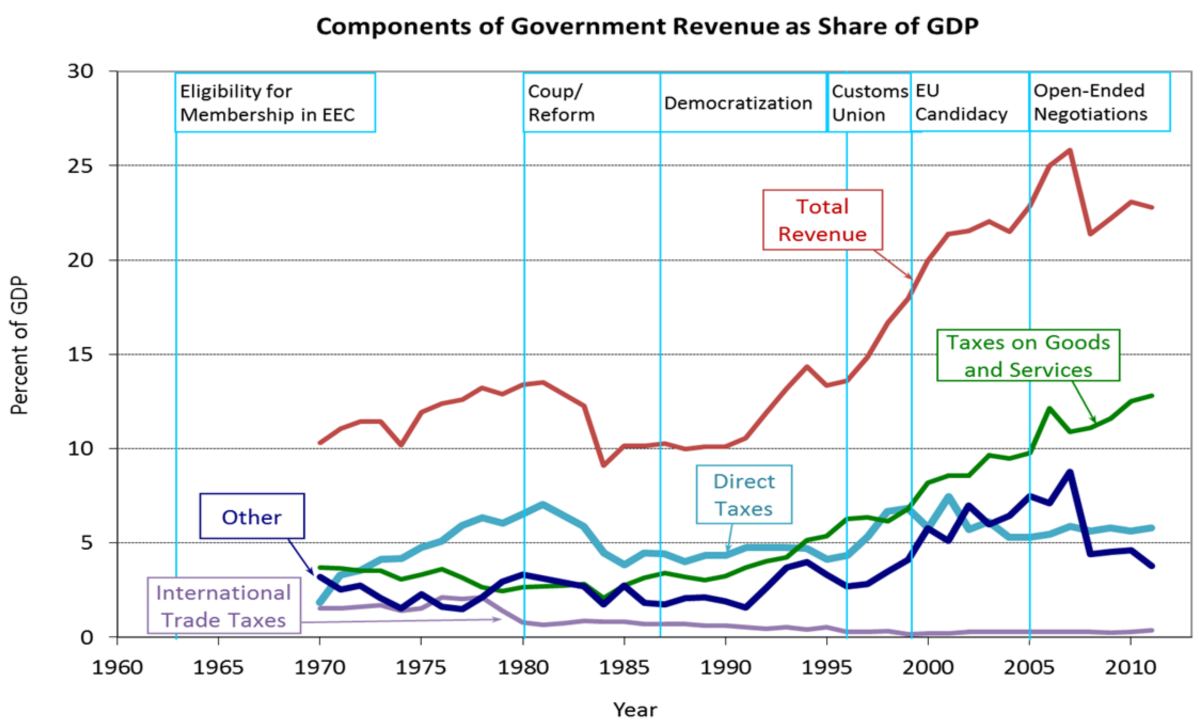
Source: *World Development Indicators*.

FIGURE 5



Source: *World Development Indicators*.

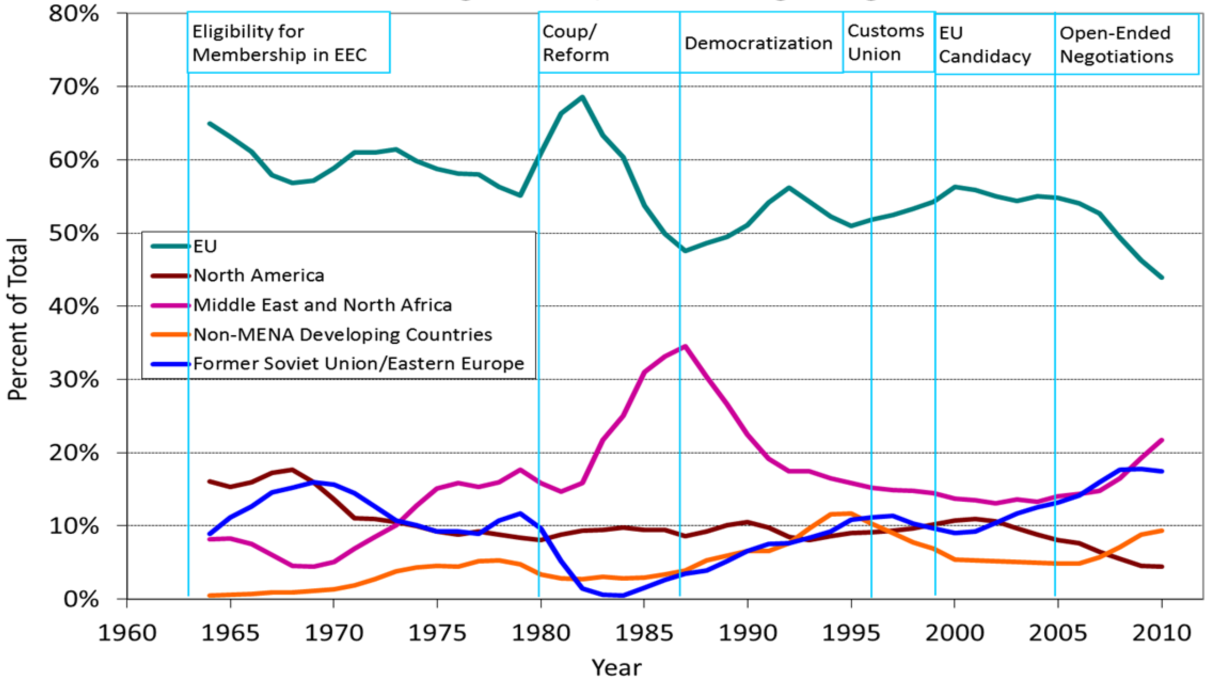
FIGURE 6



Source: *World Development Indicators*.

FIGURE 7

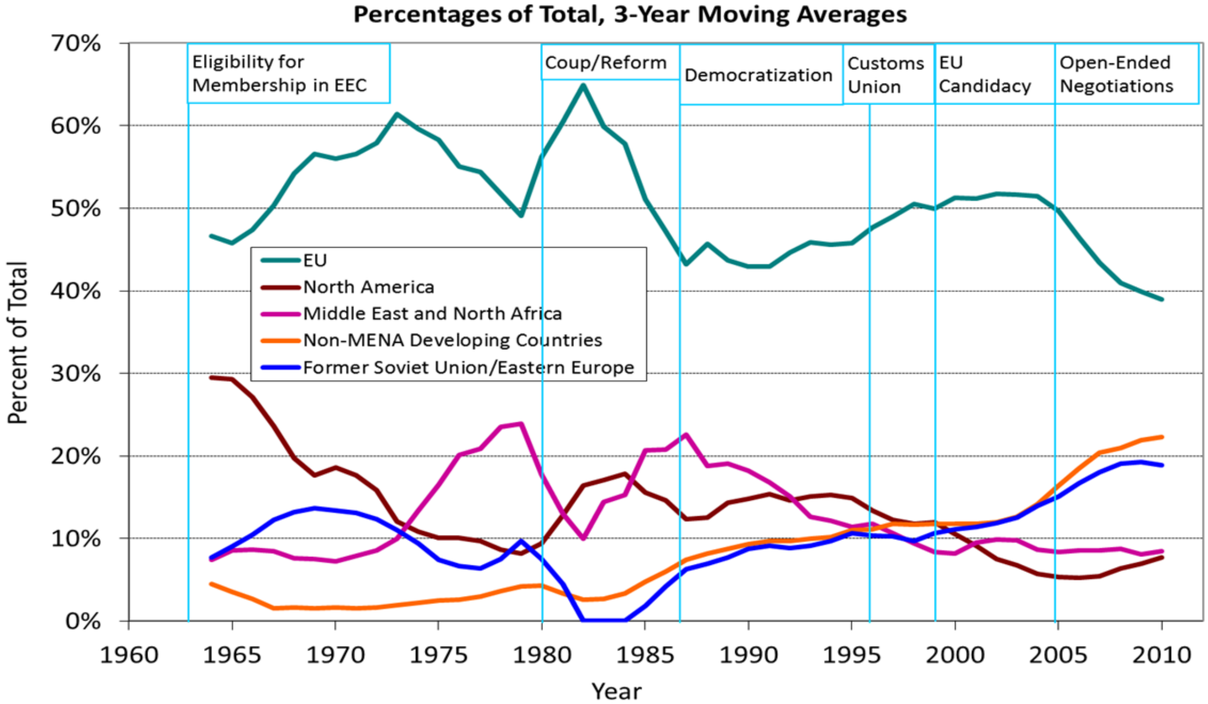
Destination of Turkey's Exports
Percentages of Total, 3-Year Moving Averages



Source: *World Integrated Trade Solution (WITS)*; Authors' calculations.

FIGURE 8

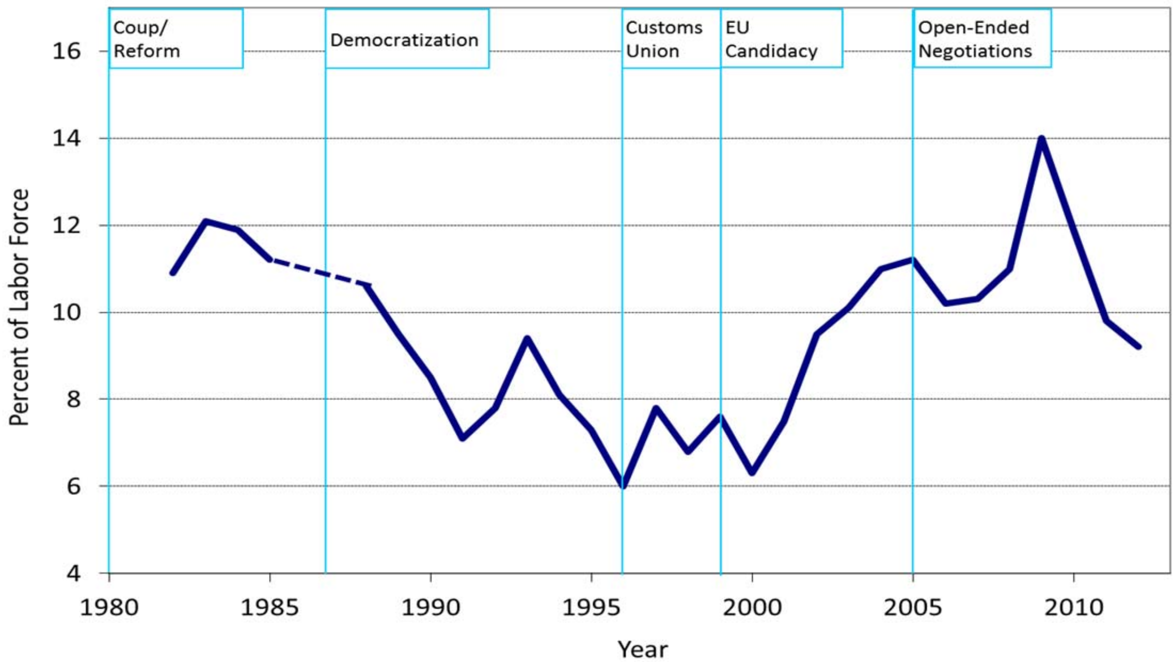
Geographic Origins of Turkey's Imports
Percentages of Total, 3-Year Moving Averages



Source: *World Integrated Trade Solution (WITS)*; Authors' calculations.

FIGURE 9

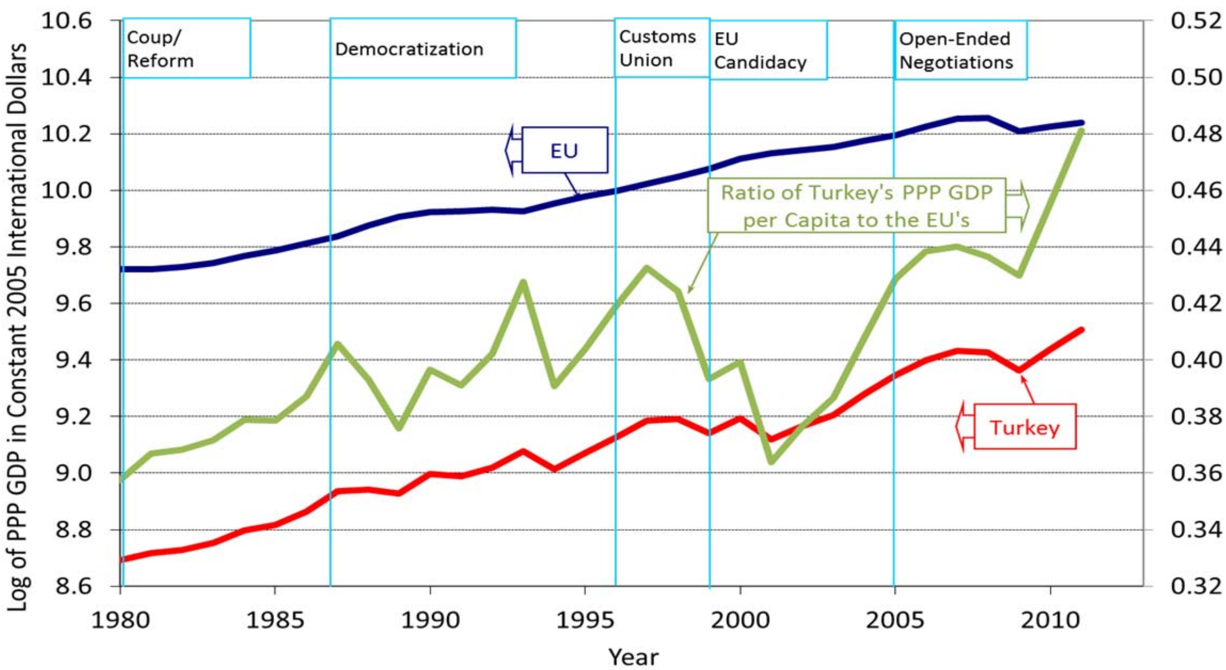
Unemployment Rate in Turkey



Source: *World Development Indicators*.

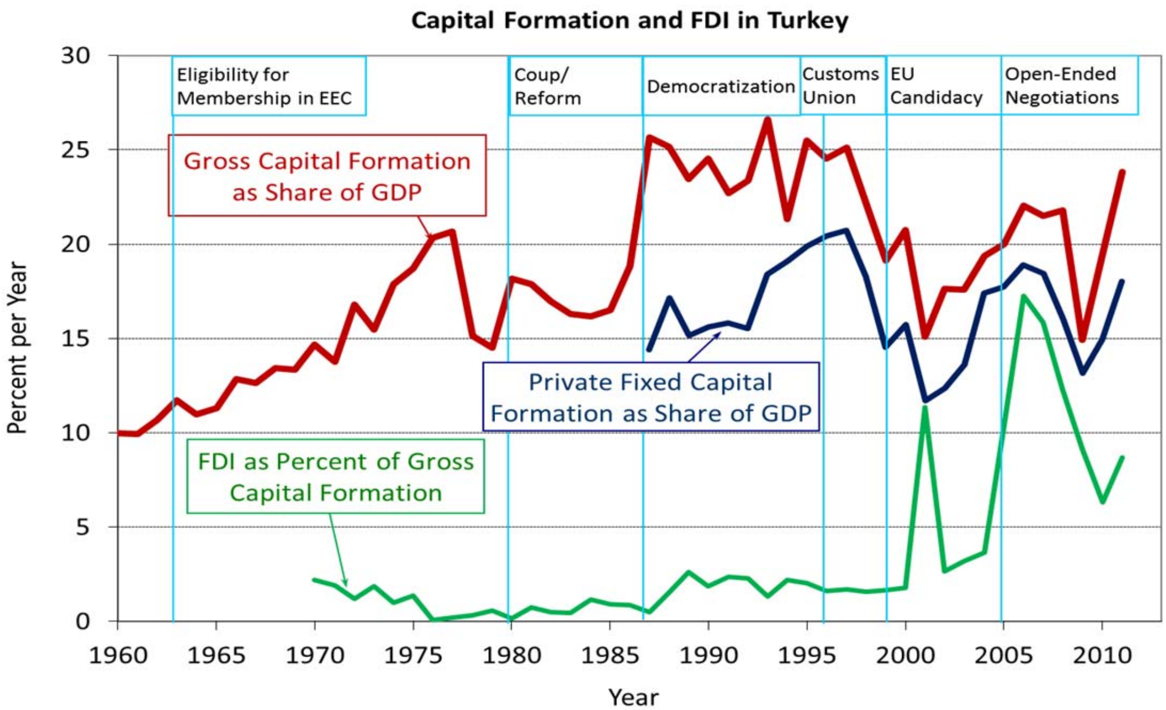
FIGURE 10

Turkey's Convergence Towards the EU



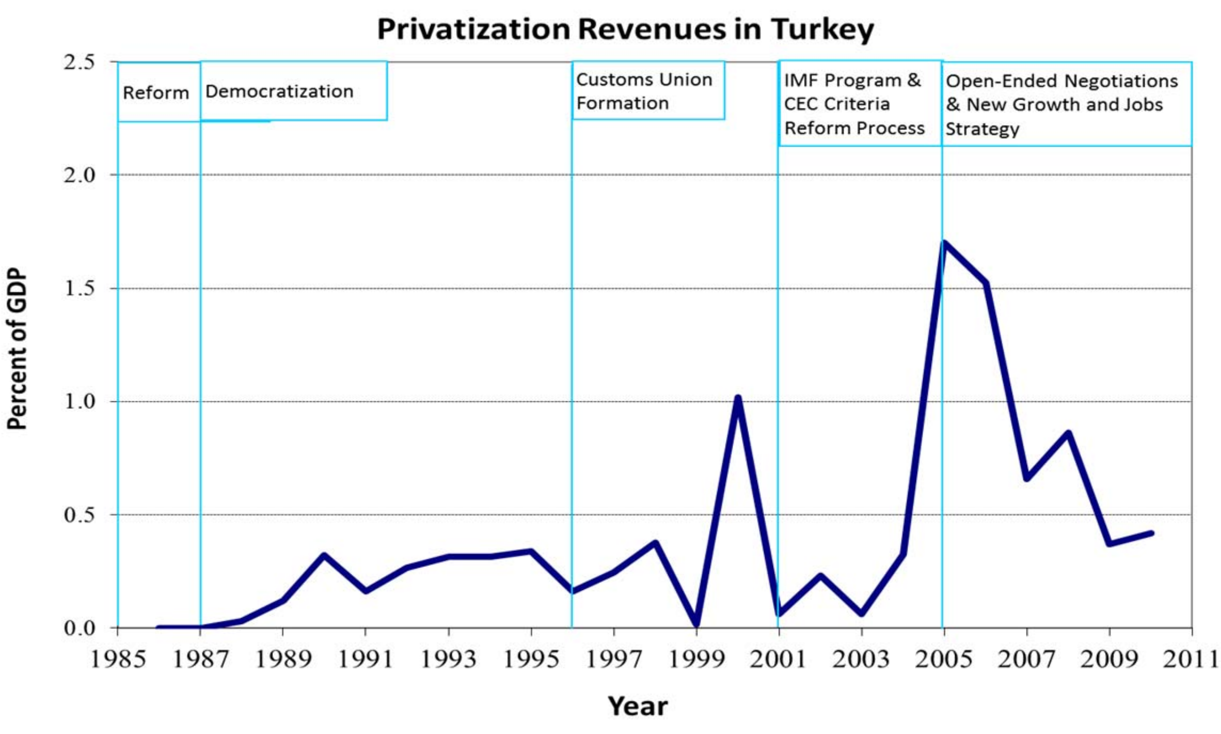
Source: *World Development Indicators*.

FIGURE 11



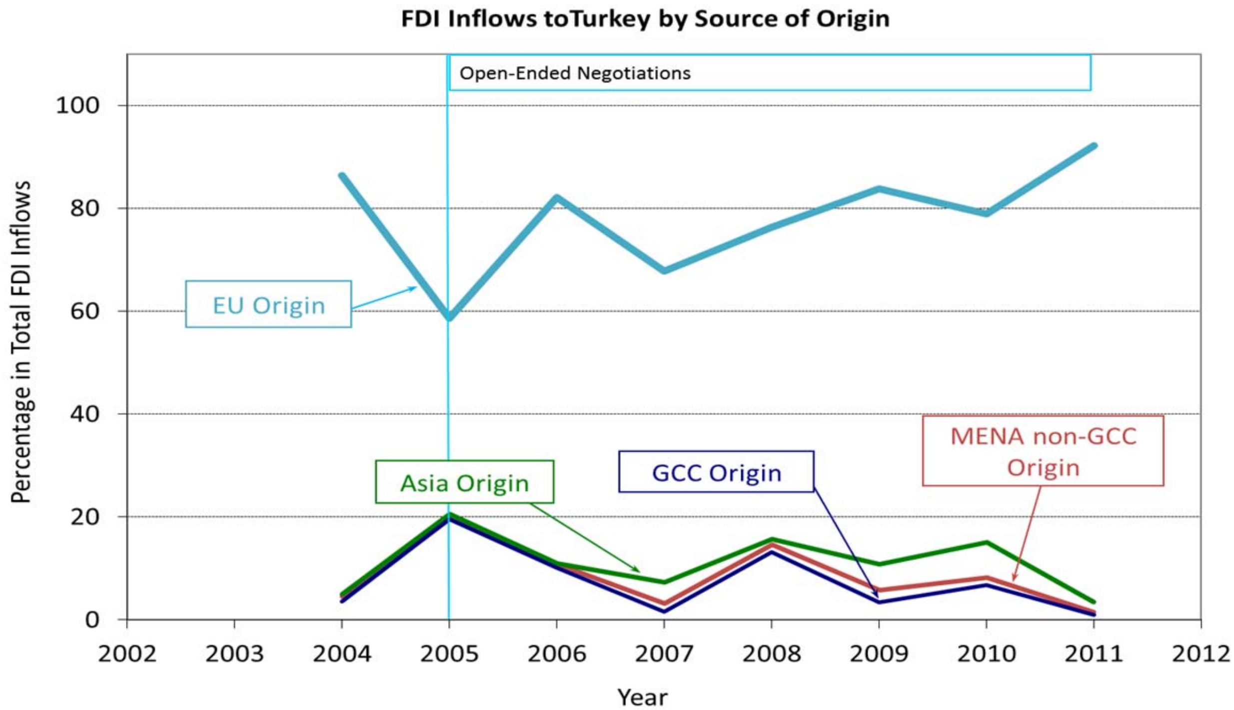
Source: *World Development Indicators*.

FIGURE 12



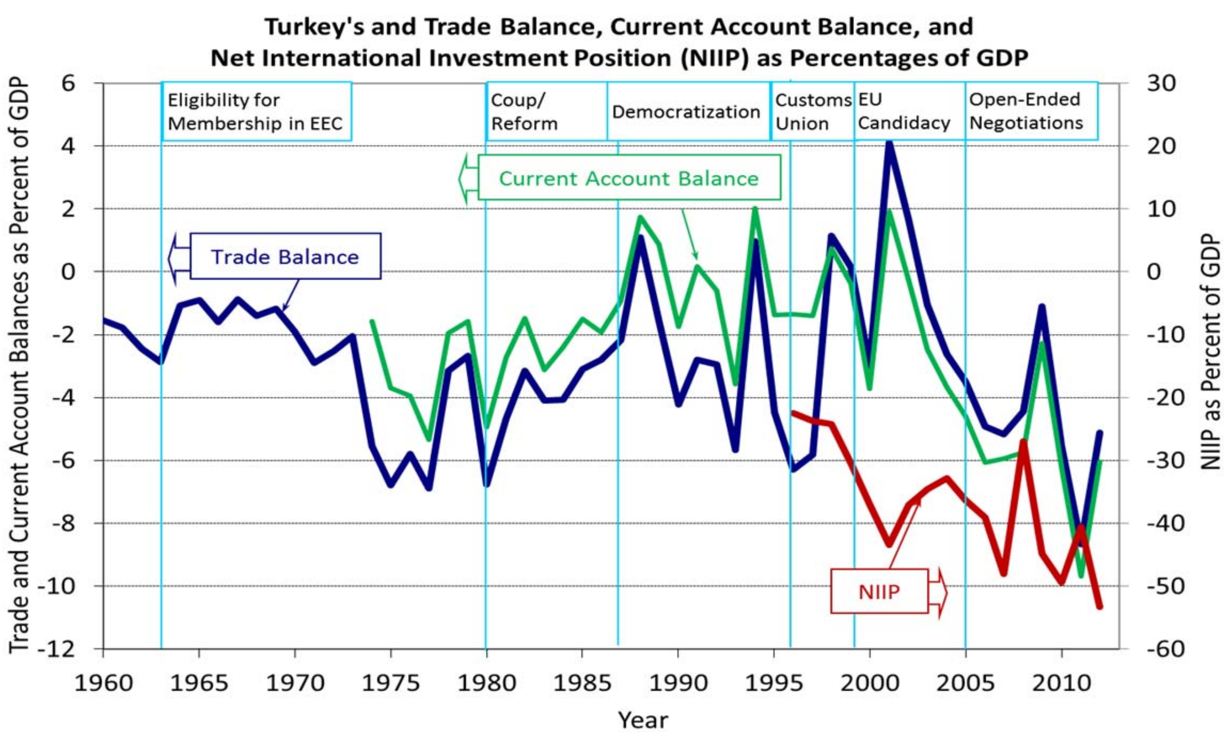
Source: Central Bank of Republic of Turkey

FIGURE 13



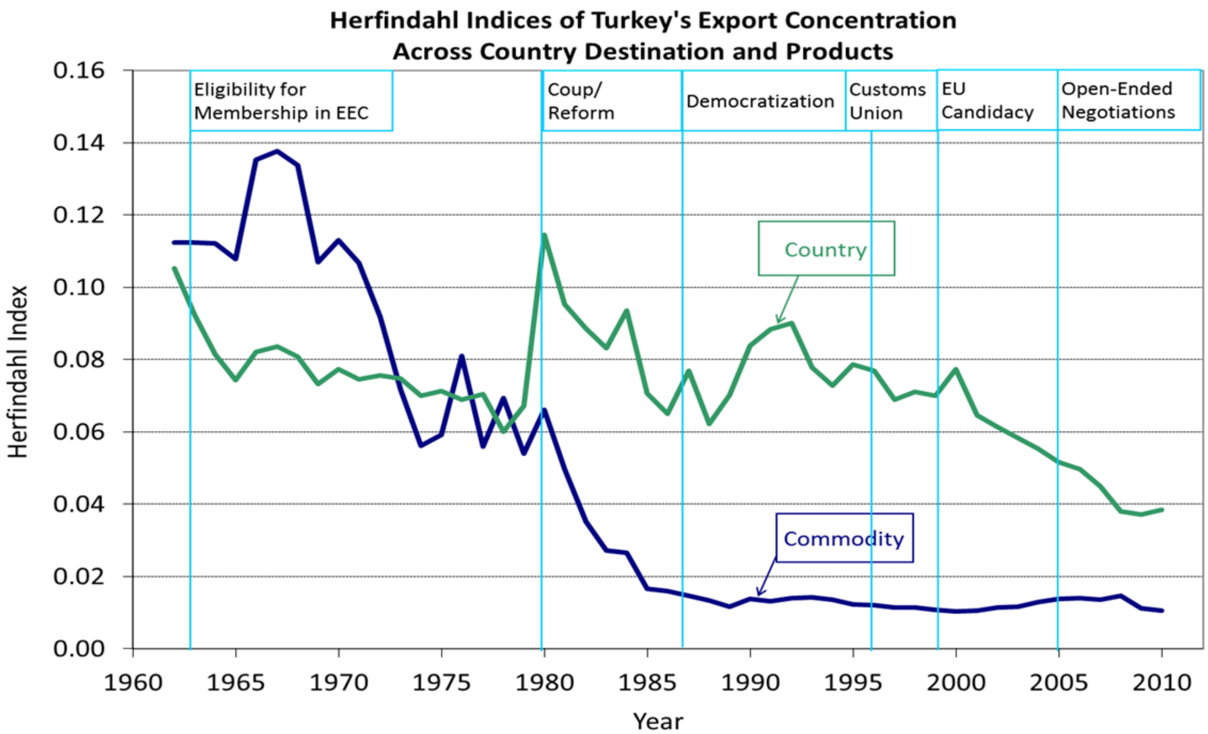
Source: Under-Secretariat of Treasury and Central Bank of Republic of Turkey

FIGURE 14



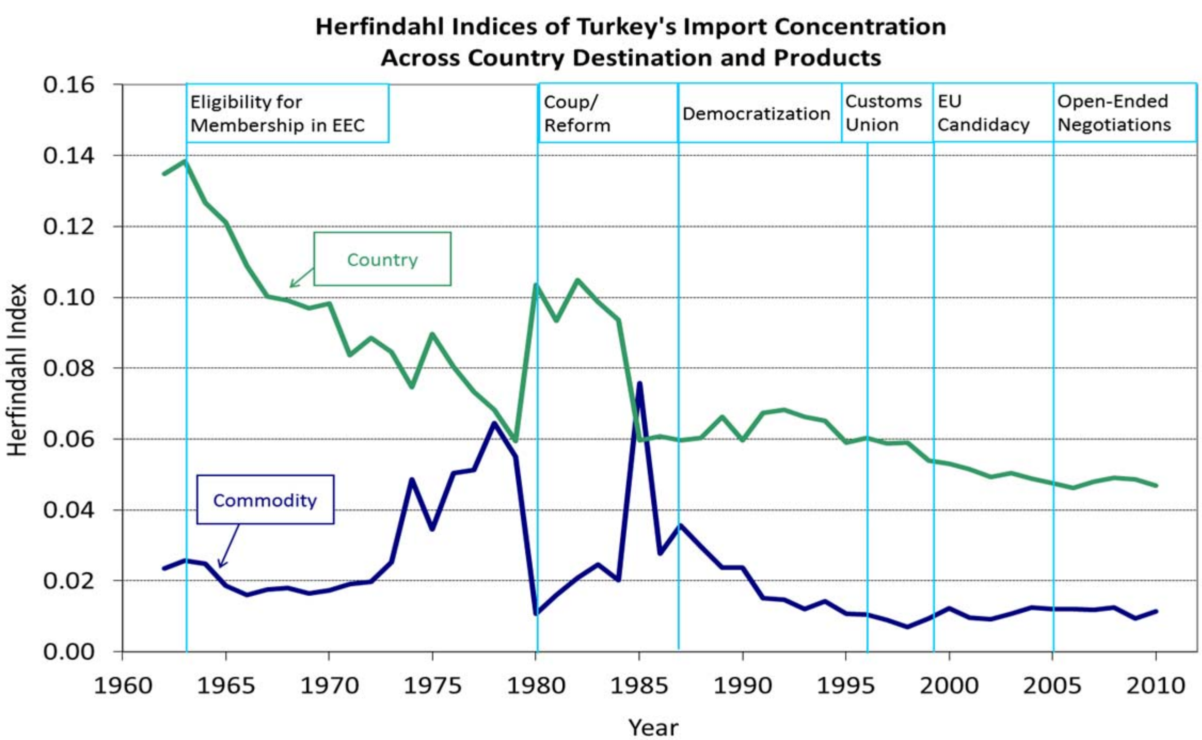
Source: *World Development Indicators*.

FIGURE 15



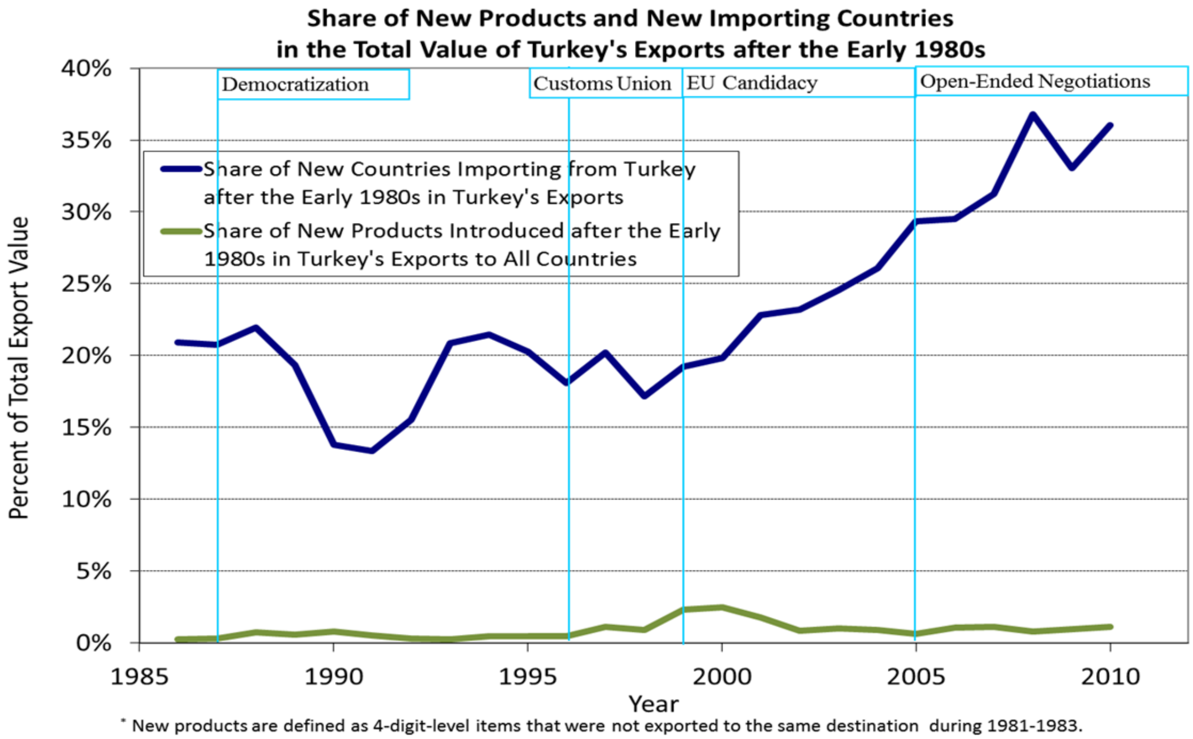
Source: *World Integrated Trade Solution (WITS)*; Authors' calculations.

FIGURE 16



Source: *World Integrated Trade Solution (WITS)*; Authors' calculations.

FIGURE 17



Source: *World Integrated Trade Solution (WITS)*; Authors' calculations.