TURKEY'S OBJECTIVE OF FULL MEMBERSHIP IN THE EU WITH REFERENCE TO MAASTRICHT CRITERIA

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Abstract: The study aims to analyze whether Turkey has internalized its goal of full membership in the European Union by taking into account Turkey's compliance with the Maastricht criteria. The study uses a cointegration approach and finds that a long-term relationship exists between the ratios of inflation rates, interest rates and budget deficit ratios with Gross Domestic Product. However, no long-term relationship was found regarding the ratio of public debt to Gross Domestic Product. The study suggests that Turkey has internalized its objective of full European Union membership from an economic perspective and that it has not deviated from this objective.

Keywords: Maastricht Criteria, European Integration, Turkey, European Union

Özet: Çalışmanın amacı, Türkiye'nin Maastricht kriterlerine uyumunu dikkate alarak, Avrupa Birliği tam üyelik hedefini içselleştirip içselleştirmediğini analiz etmektir. Çalışma eş bütünleşme yöntemini benimsemekte; enflasyon, faiz ve bütçe açığının gayri safi yurtiçi hâsılaya oranlarında uzun dönemli bir ilişki tespit etmektir. Ancak, kamu borcunun gayri safi yurtiçi hâsılaya oranında uzun dönemli bir ilişki bulunamamıştır. Sonuç olarak, çalışma Türkiye'nin ekonomik açıdan Avrupa Birliği tam üyelik hedefini içselleştirdiğini ve bu amacından sapmadığını ortaya koymaktadır.

Anahtar Kelime: Maastricht Kriterleri, Avrupa Bütünleşmesi, Türkiye, Avrupa Birliği

I. Introduction

Clearly, "the political and economic history of modern Turkey has been an attempt to catch up with, or adapt to, the developments in the rest of Europe" (Müftüler, 1995: 85). These attempts acquired a methodological form when Turkey signed an Association Agreement in 1963 with the European Economic Community (EEC). The agreement revised by the Additional Protocol in 1970 aimed for the realization of a Customs Union between Turkey and the EU by the 31st of December in 1995, and this was realized in 1996.

In addition to the Association Agreement, an alternative path for Turkey-EU relations arose in 1987 when the Turkish government applied for full membership in the European Community (EC). Although the EC rejected Turkey's application, Turkey-EU relations have taken a new form and been proceeding politically in terms of Article 237 of the Roma Treaty.

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In the last 15 years, two summit meetings have been the turning point in Turkey-EU relations, the first of which was the Helsinki Summit held on December 10 and 11, 1999 where Turkey was officially granted candidate country status. Following this decision, Turkey entered a period of intense reforms and adjustment to meet the Copenhagen political criteria.[1] The second was the Brussels summit held on December 17, 2004. At the summit it was decided that negotiations for Turkey's full EU membership should be launched on the grounds that Turkey had sufficiently met the Copenhagen political criteria as a precondition to start the EU accession negotiations (Council of the European Union, 2004).

The decision was expected to further accelerate Turkey's transformation along the lines of EU policy. Contrary to expectations, many would agree that negotiations between Turkey and the EU have become locked in a stalemate since negotiations commenced. There is disagreement, however, about what has obstructed progress in negotiations. Some observers have argued that the ongoing stalemate has been the result of new Turkish foreign policy, which has been referred to as neo-Ottomanist rather than the "traditional" pro-Western approach (Çağaptay, 2009a; Crooke, 2009). As a result, proponents of this stance have claimed that the government under the Justice and Development Party (JDP) does not "take a strategic view of closer ties with Europe. Thus, the [JDP] is reluctant to take on tough, potentially unpopular reforms mandated by the EU, making accession seem less and less a likely reality." (Çağaptay, 2009b). However, it has been argued that the JDP's approach to foreign policy does not constitute a break from the West but rather a proactive and multi-dimensional foreign policy practice that strengthens Turkey's hand in the EU full membership process (Oğuzlu, 2008; Kanat, 2010; Adam, 2012). In this context, it has been concluded that Turkey is on its way to becoming a regional power while also adhering to its commitment to the goal of full membership in the EU (Barysch, 2010).

Others have asserted that "growing difficulties with the EU seem to a large extent to be the consequence of Turkey's and the EU's respective self-absorptions" (Alessandri, 2010; Oğuzlu, 2012). In Turkey, the EU process has been gradually losing popular support as the issue of full membership still remains uncertain.[2] Hence it has been argued that the government has slowed down the reform and adjustment process as a result of this dramatic decrease in public support for full EU membership. Others have pointed out, however, that since the JDP is a political party that has its roots in political Islam, it has viewed the EU as an external source of legitimacy. The counter-argument is that with an increase in domestic political support, the JDP government's need for the EU as a source of legitimacy has diminished and the reforms have come to a standstill (Alessandri, 2010). Therefore JDP has been criticized for becoming "disablingly conservative, increasingly disconnected from the reality disregarding democratization" (Tekerek, 2012) and for having purportedly moved away from its goal of full EU membership.

The argument has also been made that ongoing inconsistencies on the behalf of the EU regarding Turkey's full membership have led to the slowdown of negotiations, thus creating the impression that Turkey has given up on its goal membership. There was also the dual opposition of Sarkozy and Merkel to Turkey's full membership and their proposition of a privileged partnership for Turkey, which caused deep disappointment in Turkish public opinion and led to a strengthening of anti-EU rhetoric (Öniş, 2008; Uğur, 2008).

While it is true that relations between Turkey and the EU have been severely strained since 2006-2007, interpreting this situation as if Turkey is moving away from its goal of full EU membership may lead to misleadingly subjective assessments. As this study attempts to illustrate, one of the main objectives of Turkish foreign policy - being a full member of the EU – should be analyzed in terms of economic rather than solely political commitments which can fall prey to subjectivity. The political claim that Turkey has drifted away from its goal of European integration can thus only be substantiated by means of a long-term quantitative analysis.

The aim of this study is to analyze whether Turkey has internalized its goal of full membership in the EU by taking into account Turkey's compliance with the Maastricht criteria for the reason that they represent one aspect of full membership. Since the EU is an economic and monetary union, the Maastricht criteria shape the monetary dimension of integration with the union. Also, the Maastricht criteria play an important role in the fulfillment of the Copenhagen economic requirements, and it is our opinion that these criteria can thus be regarded as implied membership criteria. Considering the fact that Turkey has already integrated with the EU at the level of the Customs Union, its compliance with the Maastricht criteria provides valuable clues about its internalization of the goal of full EU membership.

The main question posed by this study is: In the context of the Maastricht criteria, to what extent Turkey has internalized its goal of full EU membership? The sub-questions that will help us answer the main question are as follows: For a prospective EU member state, why are the Maastricht criteria a measure of the internalization of full EU membership? And, given the Maastricht criteria, what is the status of Turkey's goal of European integration?

This article is based on three arguments: First, it cannot be claimed that Turkey has moved away from its goal of full membership in the EU on the grounds that the negotiation process has nearly come to a standstill and that reforms have slowed down. Second, Turkey's goal of full EU membership can be assessed by looking at the level of internalization of this goal. Third, internalization of the goal of full EU membership is directly proportional to its ability to achieve and maintain the EU criteria (whether Copenhagen or

Maastricht) that are practically unaffected by the day-to-day political and social developments in Turkey.

The first part of the study states the importance of compliance with the Maastricht criteria within the context of European integration and why the Maastricht criteria are a measure of the internalization of full membership for a prospective EU member state. In the second section, the cointegration analysis used in the study is explained and an analysis of the data is presented. The last section discusses the economic and political reasons why Turkey has complied with Maastricht criteria during in the period from 2001 to 2010, which stands in contrast to the 1990s, and concludes that Turkey has internalized the goal of full membership in the EU.

II. The Importance of the Maastricht Criteria in Terms of European Integration

The Maastricht criteria[3], which are comprised of the reference values that EU member states must satisfy to join the common currency Euro, were stipulated by the Maastricht Treaty signed on February 7, 1992. Accordingly, a member state must fulfill the following five criteria to join the Euro:

- 3% of the ratio of planned or actual government deficit to gross domestic product at market prices
- 60% of the ratio of government debt to gross domestic product at market prices
- An average rate of inflation that does not exceed by more than 1.5 percentage points that of, at most, the three best performing member states
- An average nominal long-term interest rate that does not exceed by more than 2 percentage points that of, at most, the three best performing member states
- Member states shall not have devalued its currency's bilateral central rate against any other member state's currency on its own initiative in at least two years. (The Treaty on European Union, 1992).

The Maastricht criteria were formulated with the purpose of helping member states to ensure fiscal and monetary discipline. The rules that govern fiscal discipline aim to prevent member states that joined the Euro from developing excessive budget deficits and public debt, since excessive budget deficits and public debt can hinder long-term economic development by leading to a crowding-out effect and an increase in interest rates. The rules that govern monetary discipline aim to curb inflationary tendencies in the economic and monetary union, as low inflation rates support economic growth by providing economic stability (Bukowski, 2006). After all, the Maastricht criteria have two ultimate goals. The first is to create harmony between the economies of the member states. The second is to facilitate the achievement of sustainable growth and macroeconomic stability in the Eurozone (Lavrac, 2004). However, Buiter (2004) points out that the Maastricht criteria, formulated to help member states achieve sustainable growth and macroeconomic stability, may instead suppress economic growth. Buiter is theoretically correct in his contention since concurrently implemented tight monetary and fiscal policies, particularly in developing economies, can slow down growth and even lead to stagnation.

Sikulova (2007: 754) argues that the Maastricht criteria must be altered to conform to the current conditions of integration on the grounds that in the early 1990s, when the criteria were established, the monetary union did not exist, the transition period in Central and Eastern European countries had just started and enlargement was not included in the European agenda. However, revision of the criteria could have some drawbacks. For example, if the Maastricht criteria were relaxed, states with varying levels of economic development could enter the Eurozone. Afxentiou argues that "in order to be effective rules for monetary and fiscal stability, the Maastricht criteria must operate within an environment characterized by economic homogeneity, not by internal and external economic disparities and disequilibria" (Afxentiou, 2000: 248). There is a low likelihood that a monetary union could have an optimum currency if its economies are developed to varying levels.

Lewis and Staehr (2010: 688) touch on the inconsistency of using states that are outside the Eurozone as a reference. For example, Finland as well as non-Eurozone members Poland and Sweden were included in the calculation of the annual inflation rate for March 2006 and a reference value of 2.6% was obtained. Lithuania with an annual inflation rate of 2.7% missed the inflation target by 0.1% (European Central Bank, 2006: 26). Sikulova (2007: 755) states that the inclusion of non-Eurozone countries as a reference country is devoid of economic logic. Indeed, the inclusion of non-Eurozone states in a calculation to determine the eligibility of a member state to join the monetary union does not seem to be meaningful.

In the establishment of the Maastricht criteria, not only the economic rationale but also political considerations played a role. Heisenberg has argued that the 3% limit on budget deficit was imposed for political reasons (2006: 241). From an interview with an official from the Bundesbank in 1993, he recounted that the purpose of the 3% limit was to prevent Italy from being among the first group of countries to join the EMU. In the determination of such criteria, it is not surprising that political motives play a part since integration itself is a product of politics.

The importance of the Maastricht criteria for European integration is that it provides a measure of functionality for the common currency, the use of which is an indication of a one-step forward transition from a common market to an economic and monetary union. John McCormick (2005: 177) has asserted that the common currency would increase European citizens' awareness of integration, provide greater price transparency, reduce transaction costs, create large-scale stock markets and help the EU have a greater influence on the global market. The indirect importance of the Maastricht criteria regarding the benefits of the common currency, as summarized by McCormick, are obvious.

We argue that the Maastricht criteria are a measure of the internalization of the EU membership goal for a prospective EU member in general, and this is particularly the case for Turkey. The mainstays of our argument are as follows: First, there is a positive relationship between the Maastricht criteria and the Copenhagen criteria, as the Copenhagen criteria require a candidate country to have a functioning market economy. The most important requirement for a functioning market economy is macroeconomic stability (Faucompret and Konings, 2010: 49). As stated earlier, the achievement of macroeconomic stability is among the ultimate goals of the Maastricht criteria. Theoretically, it is not possible for Turkey to become an EU member without fully satisfying the Copenhagen criteria. If Turkey possesses a functioning market economy, it will have met the Copenhagen economic criteria to a great extent. Therefore, Turkey has to comply with the Maastricht criteria whose ultimate goal is macroeconomic stability.

Second, the achievement of the Maastricht criteria requires disciplined economic policies in the long term. However, it is not easy to ensure discipline in concurrently implemented monetary and fiscal policies. For this reason, it is difficult for a developing candidate country to satisfy the Maastricht criteria without internalizing the goal of full membership. Therefore, without internalizing the goal of full membership, Turkish governments should not be expected to satisfy the Maastricht criteria, which leave little room for maneuvering in their economic policies.

Third, a candidate country must fully comply with the acquis. In this context, if a candidate country becomes a member, it is expected to join the EMU since the EU is an economic and monetary union. The Maastricht criteria serve as a guide to help a candidate country enter the EMU. The report prepared by the Council of the European Union is worth noting. It states, "Turkey will participate in the EMU, from accession as a member state with derogation. It shall adopt the Euro as its national currency following a Council decision to this effect based on an evaluation of its fulfillment of the necessary condition" (Council of the European Union, 2006a). This means that Turkey will be a part of the Eurozone upon fulfillment of the criteria. The Council's report, which can be regarded as a formal commitment, provides an important opportunity for Turkey to become a powerful actor in European integration.

When all these are considered together, the Maastricht criteria represent a benchmark for a candidate country to internalize its goal of full membership in the EU. In this context, Turkey must achieve and sustain the Maastricht criteria in order to join the EU, which, as noted above, is both an economic and a monetary union.

III. Research Design, Data and Results

A. Empirical Literature

Before answering the question of how we can measure Turkey's compliance with the Maastricht criteria, it will be helpful to briefly summarize similar studies that have been carried out. The number of studies conducted on the compliance of candidate countries with the Maastricht criteria is limited. Nonetheless, we can talk about some tendencies they share. First, Germany is taken as a reference country by itself or in conjunction with the other core EU countries. Second, these studies generally utilize the cointegration method. Finally, the studies do not employ an interdisciplinary approach.

It is possible to categorize the studies in two groups. While some studies examine the compliance of candidate countries with the full Maastricht criteria, others deal with the compliance of monetary or fiscal criteria. In the first group of studies, Kutlu and Kavrukkoca (2007) analyzed the compliance of Turkey, Croatia, Romania and Bulgaria with the Maastricht criteria using the cointegration test. In this study, Germany was taken as a reference country and data from the 1991-2005 period for candidate countries were used. However, as it was not possible to access data on the budget deficit for candidates other than Turkey, the robustness of the analysis is open to debate. Koukouritakis and Michelis (2003) examined the compliance of the 10 states that joined the EU in 2004 through compliance with the Maastricht criteria. In this study, the cointegration test was used, and in addition to Germany, Holland and France were also used as reference countries. It was found that 10 states were partially ready for the Eurozone and needed some adjustments in terms of government policy to enter the EMU.

In the second group of studies, Kutan and Yigit (2004), using data covering the 1993-2000 period, tested the compliance of Central and Eastern European states with the Maastricht monetary criteria. The authors concluded that countries which failed to meet the monetary criteria would experience delays in entering the EMU, and those candidate countries that were unsuccessful in achieving real convergence had to have policy autonomy. Kocenda et al.(2008), using data on fiscal discipline within the context of the Maastricht criteria, studied the financial compliance of countries that joined the EU following the 2004 enlargement. What makes this study unique is that the study tested the financial indicators of the newly joined countries not only within the context of the Maastricht criteria but also in comparison to the EU-15 countries. Siklos (2010) analyzed the compliance of the countries that joined the EU in 2004 with the Maastricht monetary criteria. This study, which used unit root and cointegration tests, demonstrated that new member countries had generally been successful when the inflation rate was taken into account;

however, they were not as successful in terms of interest rates. This is a relatively current and important study as it reflects the changes the EU has gone through during the transition.

B. Methodology

In this study, cointegration analysis was used. Within the context of the Maastricht criteria, this analysis will provide an insight into the likelihood of Turkey’s achieving European integration, and thus it will be possible to evaluate whether or not Turkey has internalized its goal of full EU membership. Namely, cointegration analysis provides information about the long-term relationship between two or more non-stationary time series. This approach deals with a non-stationary time series whose linear combination is stationary. For this reason, cointegration analysis is based on the examination of whether the linear combination of the non-stationary time series is stationary or not. There are two main advantages to using cointegration analysis. First, it allows you to distinguish between the short-term and long-term effects, and second, the speed of adjustment to long-term values can be directly estimated.

This study covers the period from 2001 to 2010. There are a number of reasons for choosing this period: First, Turkey has been implementing strict economic policies and structural reforms since 2001 to overcome its chronic economic problems. Second, during the 2001-2010 period, Turkey experienced momentum towards its EU goal; in 2005, accession negotiations were launched between Turkey and the EU. Third, the EU put the Euro into circulation on January 1, 2002. Starting with this period, the Maastricht criteria have become much more important for EU members.

In the study, Germany is taken as a reference country. Germany, with a population of 82 million, is the largest and strongest economy in Europe, producing one-fifth of the EU’s GDP.[4] With an export-oriented economic structure, it is the largest net exporter in Europe. As an industrial country with a highly developed and efficient economy, Germany plays a key role in exerting economic and political influence on the EU. Furthermore, Germany has not devaluated its currency since World War II. Thus, Germany has been able to fulfill the fifth requirement of the Maastricht criteria as outlined earlier.

C. Data and Results

The four Maastricht criteria used in this study are inflation rates, interest rates, budget deficit to GDP ratio, and public debt to GDP ratio. Germany's inflation rate, interest rate, budget deficit to GDP ratio and public debt to GDP ratio are denoted by GERCPI, GERINTR, GERDEF, GERDEBT, respectively, and Turkey’s inflation rate, interest rate, budget deficit to GDP ratio and public debt to GDP ratio are denoted by TURCPI, TURINTR, TURDEF, TURDEBT, respectively.

The data set used is quarterly and covers the 2001-2010 period. Most of the data was obtained from the International Financial Statistics (2012) published by the IMF. The data for Turkey's public debt and budget deficit were obtained from the statistics of the Central Bank of the Republic of Turkey. The Consumer Price Index (CPI) was used as an indicator of the inflation rate for both Turkey and Germany. However, as an indicator of interest rates, the long-term interest rates were used for Germany and the Treasury bond interest rates were used for Turkey.

Table 1: *Zivot-Andrews (1992) Unit Root Test Results*

Variable	Break time	t-value	Lag
GERCPI	2007Q4	-4.365767	4
GERINTR	2007Q1	-3.546923	3
GERDEF	2007Q3	-1.797194	0
GERDEBT	2009Q2	-3.387969	2
TURCPI	2003Q4	-8.545176*	4
TURINTR	2004Q2	-21.65789*	0
TURDEF	2005Q4	-3.317830	4
TURDEBT	2007Q2	-3.462607	3

Note: The Critical values at one per cent, five percent and ten per cent significance levels are -.57, -5.08, and -4.82 respectively. "*" denotes the significance at one per cent significance level.

Economic time series are not stationary by their nature. In this context, the stationary nature of the data should be ascertained when working with time series. Otherwise, this may lead to a spurious regression. The Zivot-Andrews (1992) unit root test was performed to determine whether the series were stationary or not. Due to economic and political developments during the period covered, structural breaks in the series will likely be seen. For this reason, the Zivot and Andrews unit root was applied because it treats such breakage as endogenous.[5]

Before applying cointegration analysis, the Zivot-Andrews unit root test was applied to determine whether the series had a unit root or not. The results are shown in Table 1. In the determination of the proper lag length, the Akaike Information Criterion was used. As can be seen in Table 1, only the TRCPI and TRINTR variables were found to be stationary and all other variables had a unit root.

In empirical research, cointegration for long-run relationship among variables can be investigated through several approaches. The famous tests for cointegration include those developed by Engle and Granger (1987), Johansen (1988), and Johansen and Juselius (1990) which generally require that all series are integrated in the same order (Tang, 2003: 421). The ARDL (Auto

Regressive Distributive Lag) bounds testing approach, introduced by Perasan and Shin (1999) and later extended by Perasan et al. (2001), can be used to examine cointegration properties even if the order of integration is mixed (Tang and Zhou, 2013: 307).

Depending on the unit root test results, cointegration analysis was conducted to determine the presence of a long-term relationship between the macroeconomic data for Germany and Turkey. In the unit test results, the degrees of integration of variables are not the same. Therefore, standard cointegration analysis cannot be applied to variables with different integration values such as I(0) and I(1) (Engle and Granger, 1987). In order to overcome this problem, the ARDL (Auto Regressive Distributive Lag) method developed by Pesaran et al. (2001) was used. Another reason for applying the ARDL method is that it is relatively more efficient in the case of small and finite sample data sizes (Pesaran et al., 2001). Accordingly, we used the ARDL bounds testing approach to investigate the long-run relationship between the variables of interest.

Table 2: *Co-integration Test Results*

Bounds Test Results			
	F-stat	10% Critical Value Bounds	
		I (0)	I(1)
F(TURCPI | GERCPI)	29.0697	4.2420	5.0339
F(TURINTR | GERINTR)	8.5281	4.2420	5.0339
F(TURDEF | GERDEF)	5.9638	4.2420	5.0339
F(TURDEBT | GERDEBT)	1.3132	4.2420	5.0339

The bounds approach to the cointegration involves the comparison of the F-statistics against the critical values. In the model Turkey is taken as a dependent country in the calculation of the F-statistics, which are reported in Table 2. Their values are: for variable CPI, F(TURCPI | GERCPI) = 29.0697; for variable INTR, F(TURINTR | GERINTR) = 8.5281 and for variable deficit to GDP ratio, F(TURDEF | GERDEF) = 5.9638 at a 10 percent significant level. From these results, it is clear that there is a long-run relationship among the variables because their F-statistics are higher than the upper-bound critical values.[6] Thus the null hypothesis of no-cointegration can be rejected. However, for the other variable, debt-to GDP Ratio, the null hypothesis of no cointegration cannot be rejected. As a result, no long-term relationship has been detected regarding the debt-to GDP ratio variable between Turkey and

Germany. In the study, the conclusions are drawn based on the findings from a cointegration analysis – ARDL bounds test procedure.

IV. Discussion

The fact that no relation appears between Turkey and Germany in the public debt to gross national product ratio in the long run requires further study. An analysis of the findings presented in the accompanying graphs and Table 3 indicates that Turkey's public debt has been steadily decreasing while Germany's debt is on the rise. In other words, in the context of the public debt variable for the period 2001-2010, Turkey's performance conforms to the Maastricht criteria while Germany is deviating from it. When the findings of the study and the statements made on the level of public debt are taken into consideration, it appears that Turkey has fully embraced its goal of full membership in the EU, and the probability of achieving European integration seems to be rather high.

Table 3. *Maastricht Criteria for Turkey and Germany (2001-2010)*

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GERMANY										
Interest Rate	4,8	4,8	4,1	4,0	3,4	3,8	4,2	4,0	3,2	2,7
Inflation Rate	1,9	1,4	1,0	1,8	1,9	1,8	2,3	2,8	0,2	1,2
Deficit to GDP Ratio	-3,1	-3,8	-4,2	-3,8	-3,3	-1,6	0,2	-0,1	-3,2	-4,3
Debt to GDP Ratio	59,1	60,7	64,4	66,3	68,6	68,1	65,2	66,7	74,4	83,2
TURKEY										
Interest Rate*	96,2	63,8	45,0	25,7	16,9	18,2	18,8	19,3	12,7	8,5
Inflation Rate	54,4	45,0	25,3	10,6	10,1	10,5	8,8	10,4	6,3	8,6
Deficit to GDP Ratio	-11,9	-11,2	-8,8	-5,4	-1,3	-0,8	-1,7	-1,9	-5,5	-3,4
Debt to GDP Ratio	78,9	73,4	65,5	59,6	54,1	48,2	42,2	42,9	48,9	45,0

* The compound interest rate of Turkish government securities was used.

Table 4: *Reference Values for Maastricht Criteria (2001-2010)*

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Interest Rate	6,86	6,78	5,83	5,65	5,03	5,58	6,22	6,03	5,27	4,85
Inflation Rate	3,03	2,50	1,00	2,16	2,53	2,86	2,80	4,06	0,56	0,80

So far there has been only one study to test the compliance of Turkey with the Maastricht criteria employing the co-integration method. The study in question, using data for the period of 1991-2004, concluded that Turkey did not meet any of the Maastricht criteria (Kutlu and Kavrukkoca, 2007). The result is not surprising because Turkey's economy was not stable at that time. One reason for this is that during the 1990s Turkey faced four crises which adversely affected its macroeconomic stability. Another reason was that, despite the fact that Turkey had been going through a process of neo-liberalization since 1980, the state remained to be the primary actor and the largest employer in the economy throughout the 1990s. As a result, government expenditures far exceeded revenues. This was the main reason for the increase in the budget deficit. Furthermore, internal and external borrowing by the government to finance its spending led to an increase in interest rates. Finally, from 1991–2002 weak coalition governments developed inadequate economic policies that failed to come up with solutions for pressing economic problems.

Despite the unfavorable economic conditions prevailing in the 1990s, Turkey has not deviated from its objective of full membership in the EU. Turkey’s entry into the Customs Union in 1996 clearly demonstrated Turkey’s commitment to its goal of full membership in the EU. Unlike the 1990s, economic indicators for the 2001-2010 period confirm that Turkey has met the Maastricht fiscal criteria and will tend to fulfill the Maastricht monetary criteria. Consequently, economic data from the 2001-2010 period weakens the argument that Turkey is abandoning its objective of full membership.

What are the political factors that have facilitated Turkey’s compliance with the Maastricht criteria? First, Turkey achieved political stability after the 2002 general elections, and unlike during the period of coalition governments in the 1990s, is still being governed by a single party government. The common characteristics of the single party governments since 2002 are that they have been dominated by the JDP, enjoyed strong parliamentary support and embraced neo-liberal economic principles.

The pro neo-liberal JDP government was able to implement its economic recovery program known as the “Transition to a Strong Economy Program” without compromise, which was structured according to neo-liberal economic principles implemented by its predecessor. Furthermore, the JDP government was able to implement legal and institutional arrangements swiftly thanks to strong parliamentary support. By carrying out the transitional economic program, the JDP government launched a process of economic recovery as well as completed the neo-liberalization process to a great extent.

Another political factor which has accelerated Turkey’s economic recovery and reform process since 2001 is the pivotal role played by the EU rather than the IMF. The EU has functioned “as an anchor of Turkey’s economic stability” (Ataç and Grünewald, 2008: 48) because “the material hardships associated with the 2001 crisis rendered the potential economic benefits of EU membership all the more attractive” (Öniş and Bakır, 2007: 155). Furthermore, the Turkish government legitimized the austerity measures with the objective of full EU membership to reduce their adverse impact on the public.

The fact that Turkey sees the EU as an anchor to ensure macroeconomic stability and sustainable development is evident in the 8th Five-Year Development Plan:

> The basic objectives of macroeconomic policies during the 8th Plan period shall be to reduce inflation to levels in harmony with the EU criteria, provide a sustainable growth environment and enhance competitiveness and adaptive capabilities in the economy along with the ultimate objective of EU membership (State Planning Organization, 2001).

Finally, another political factor was the shift in the EU's economic policies from modern liberalism to neo-liberalism. In order to re-achieve global competitiveness, which was developing in favor of the United States and Japan during the 1980s, EU members signed the Single European Act (SEA). In this way, the EU signaled the abandonment of the welfare state approach, which had reduced its global competitiveness. However, "the neo-liberal shift was most evident in the Maastricht Treaty (1993), which was a qualitatively new step in European integration as the European Monetary Union (EMU)" (Eder, 2003: 233). The monetary union was a clear sign of the EU's transformation according to neo-liberal economic policies. This transformation also affected the EU's enlargement policy. The EU Copenhagen criteria stipulate that candidate countries should complete the neo-liberalization process before they are granted full membership in the EU. For this reason, the Maastricht criteria that establish the transition to the monetary union play a key role in the neo-liberalization process for candidate countries, and in our opinion this is an implied condition for full membership in the EU.

The economic approach of the JDP government was compatible with the neo-liberal shift in the EU economy. For this reason, although not a full EU member, Turkey has adopted the Maastricht criteria that govern the transition to the monetary union as a benchmark in its economic policies. For example, the Minister of Economy, Ali Babacan, has stated repeatedly that the ministry was aiming for Turkey to meet the Maastricht criteria concerning inflation, interest rates, public debt stock and budget deficits by the year 2007 (Hurriyet, 2003; Ntvmsnbc, 2004). On the other hand, expecting Turkey to implement economic policies in the 1990s based on the Maastricht criteria would be unjust because the function of the Maastricht criteria gained importance with the introduction of the euro.

In summary, unlike in the 1990s, Turkey's performance was remarkable in terms of economic stability and growth during the 2001-2010 period. Turkey has achieved much needed political stability and viewed the neo-liberalization process in the success of the EU economy not only as a political objective but also as an anchor for economic success. All these developments facilitated the process of Turkey's compliance with the Maastricht criteria.

In this context, the question of which structural economic reforms have helped Turkey achieve the Maastricht criteria becomes significant. In the 1990s, the Turkish economy suffered from a number of chronic problems such as high inflation, public sector deficits and unstable growth. After 2001, with the "Transition to a Strong Economy Program," important steps were taken to solve these difficulties, and as a result Turkey drew closer to fulfilling the Maastricht criteria.

The mainstay of the "Transition to a Strong Economy Program" is fiscal policies. In order to curb the continuing irregularities and undisciplined practices that existed in fiscal policy throughout the 1990s, many comprehensive arrangements have been made as regards budget consolidation, budget control, broadening the scope of the budget and limiting internal borrowing. For example, in 2002 a law was promulgated which regulated public finance and debt management, and it contains basic arrangements for the administration of public debt and treasury receivables by limiting net borrowing. Furthermore, a financial management and control system was developed in accordance with the EU acquis, and a transition from a consolidated budget to a central administration budget was made by expanding the scope of the 2006 budget. Thus, the public sector was subjected to classification in compliance with EU standards.

On the other hand, income measures played an important role in the success of fiscal policy. Starting with the fuel consumption tax, value added tax, private consumption tax and transaction tax, the diversification of taxable items and raising tax rates all contributed to an increase in tax revenues. Finally, the tax forgiveness program and intensified tax audits all played an important part in increasing tax revenues.

To sum up, during the 2001-2010 period public spending was taken under control and total revenues were significantly increased making it possible to achieve the Maastricht criteria. However, one can still argue that the success of these measures can be attributed to palliative measures. Therefore, to increase total revenues more permanent measures such as broadening the tax base and reducing the size of the grey economy are needed. Otherwise, there may be problems in achieving the Maastricht fiscal criteria because public spending, while it was brought under control, has not been reduced yet.

Turkey's privatization process has been another important step towards fulfilling the Maastricht criteria:

> Privatization in Turkey not only aims to minimize state involvement in economic activities and to relieve the financial burden of State Economic Enterprises (SEE) on the national

budget, but also contemplates the development of capital markets and the re-channeling of resources towards new investments (Privatization Administration, 2010).

After 2001, privatization gained momentum resulting in a noteworthy increase in revenues.[7] As a result of privatization, the state's role in the economy and the financial burden imposed by state-owned enterprises on the budget have been reduced.

It is worth emphasizing that the proceeds from privatization were used to finance the public debt rather than infrastructure spending. Furthermore, the effect of privatization on public debt financing will decrease in the coming years, as more than half of the highest-valued state-owned enterprises have already been privatized. So no significant revenue is expected from those enterprises that have not been privatized yet. Therefore, it is essential for Turkey to develop sustainable and structural alternatives to finance its public debt. Otherwise, the country's ability to maintain its compliance with the Maastricht criteria in the long run could be jeopardized.

The sustainability of strict fiscal policies that have been implemented within the context of the "Transition to a Strong Economy Program" in the long run is another area of debate. Especially given the fact that the growth of the Turkish economy has been fueled by public expenditures and anti-poverty policies for many years, the sustainability of economic growth with such belt-tightening policies needs to be scrutinized (Voyvoda and Yeldan, 2005: 763 - 764). In light of these assessments, the new structural and institutional reforms that are supportive of fiscal policy reforms will help the Turkish economy develop resilience to conjectural changes and ensure sustainable development in the medium and long term.

In 2001 another important measure was the granting of autonomy to the Central Bank of Turkey in the implementation of monetary policy objectives and use of policy instruments. By granting autonomy to the Central Bank, the aim was to curb unnecessary interventions by political bodies and prevent public sector financing by the Central Bank. The Central Bank's independence was in line with the EU's expectations. However, to what degree the Central Bank is autonomous is a controversial issue. For instance, according to Prime Minister Erdoğan, if the political price for the Central Bank's actions were to be paid by the government, then the Central Bank should conduct its monetary policy in accordance with the economic decisions of the government. For this reason, the Prime Minister had a dispute with Durmuş Yılmaz, the head of the Central Bank, at that time. Once his term was up, the government chose not to extend his term and appointed another person expected to work in cooperation with the government.

In 2000, the exchange rate-based economic stabilization program failed, and the floating exchange rate regime was adopted. After the 2001 crisis, under the floating exchange rate system, the monetary base was effectively used as a nominal anchor and interest rates as a monetary policy tool. During this process, the Central Bank of Turkey made changes to short-term interest rates in the light of existing inflationary tendencies and economic expectations. Funds obtained from the International Monetary Fund and the World Bank, adherence to fiscal discipline and global abundance of liquidity reduced the possible negative effects of the program.[8] On the other hand, the Central Bank of Turkey saved public banks and the Savings Deposit Insurance Fund banks from overnight borrowing at high interest rates by making certain changes. In addition, it extended the maturity dates on borrowing. Thus, the Central Bank was able to bring interest rates down.[9]As a result, after 2001 interest rates and inflation rates, which constitute the basis of the Maastricht criteria, followed a declining trend in Turkey. The ongoing vicious cycle of internal public borrowing and high interest rates was broken, and economic stability was achieved.

The impact of Turkey’s economic and structural transformation policies that have been implemented with reference to the Maastricht criteria must also be discussed in terms of the country’s level of prosperity. In the long run, Turkey’s successful performance within the context of the Maastricht criteria will prepare the groundwork for real convergence with EU economies. In this context, the data produced by the economy itself, such as GDP per capita (with purchasing power parity), unemployment rates, employment rates, and openness of the economy to global markets can provide clues about Turkey’s level of real convergence with the EU.

As can be seen in Figure 1, Turkey has made substantial progress in terms of GDP per capita. In our opinion, Turkey is capable of attaining the EU average in the long run with the implementation of a production-oriented growth strategy. In that period, Turkey has also made significant progress in reducing unemployment. On the other hand, it can be argued that government policies have not been satisfactory in creating new jobs, particularly given the increase in the population. In the 1990s, while the level of openness of the economy was about 40.9% on the average, the same figure rose to 49.1% in the 2000s. The effects of the Customs Union Agreement that was signed in 1996 became visible in the 2000s and Turkey’s trade and economic integration with the EU has progressed significantly.[10]

Turkey’s membership in the EU is not only contingent upon its economic success but also on its compliance with the EU acquis and the Copenhagen political criteria. However, an examination of the EU progress reports (2005-2012) indicates that Turkey has not made satisfactory headway in those regards. But clearly the main reason why Turkey has not been able to make progress in terms of compliance with the EU acquis can be attributed to the decision made by the EU Council in December 2006:

> "The Council agrees that the Member States within the Intergovernmental Conference will not decide on opening chapters covering policy areas relevant to Turkey's restrictions as regards the Republic of Cyprus… and provisionally closing chapters until the Commission verifies that Turkey has fulfilled its commitments related to the Additional Protocol (Council of the European Union, 2006)."

With the Council's decision, Turkey is apparently being penalized for openly supporting the Annan Plan for the resolution of the Cyprus problem. As a consequence of the decision, only thirteen chapters out of thirty three were opened in the accession talks and Turkey's progress in the negotiation process has thus been hampered.[11]

On the other hand, Turkey has taken steps to fulfill the Copenhagen political criteria, but the effect of these efforts has been limited. The harmonization laws (such as the establishment and fulfillment of duties of the Ministry of Justice and implementation of Protection of Personal Data and military justice) that would ensure that these changes are felt in daily life have not yet been passed into legislation (European Commission, 2006: 8). Also, some harmonization laws have not been carried out in accordance with the spirit of the necessary changes. For example, "external audit and public financial management and control have been strengthened, but recent amendments to the TCA [Turkish Court of Accounts] law raise serious concerns regarding the independence and effectiveness of the TCA audit and control" (European Commission, 2006: 9). Despite the fact that the lowering of the election threshold and democratization of the Law of Political Parties have been persistently emphasized in the progress reports published since 2005, no steps have been taken in this direction. While Turkey has enacted regulations on human rights and minority rights, however, substantial reforms are still lacking in the improvement and advancement of fundamental rights and freedoms.

In terms of compliance with the Copenhagen political criteria and the EU acquis, the general impression is that Turkey has been unable to meet the required criteria. Perceptions that the Justice and Development Party (JDP) government has not given priority to the EU objective have only served to strengthen this impression. Nevertheless, it would be an exaggeration to claim that Turkey has abandoned its objective of full EU membership because, ultimately, Turkey sees full EU membership as the culmination of its efforts towards Westernization. Moreover, the results of this study indicate that Turkey is indeed connected to the EU economically and monetarily. Provided that Turkey strengthens its will as regards attaining the objective of full EU membership and the EU approaches the negotiation process in a consistent and unbiased manner, Turkey's level of compliance with the Copenhagen political criteria and the EU acquis should be more satisfactory.

V. Conclusion

Since 1959 Turkey has always viewed being an essential part of the European integration as one of the main objectives of its foreign policy. The historical process suggests that from time to time Turkey has wavered from reaching its goal of full EU membership as a result of conjectural developments. At present, however, Turkey emphasizes its commitment to the goal of full EU membership at every opportunity and firmly refuses suggestions of a privileged partnership. In fact, Turkish Foreign Minister, Ahmet Davutoğlu, stated:

> While Turkey pursues a policy of constructive engagement in its neighborhood and beyond, full integration with the EU is and will remain the priority… Membership in the EU is Turkey’s strategic choice and this objective is one of the most important projects of the Republican era (Davutoğlu, 2009: 13).

Based on the analysis above, the main conclusion of this study is that Turkey has at least internalized European integration from an economic perspective and remains loyal to its goal of full EU membership. This conclusion does not confirm the findings of studies in the literature that assert that Turkey has moved away from its goal of full EU membership and/or does not view EU membership as its main priority.

Turkey’s unwillingness to fulfill its political commitments while meeting its economic commitments to the EU is an issue that needs to be addressed. The JDP government has been rewarded for the implementation of economic policies to comply with the Maastricht criteria by coming to power three terms alone. For this reason, the JDP government has been willing to fulfill its economic commitments to the EU.

On the other hand, the JDP government lacks the support to justify and manage the changes caused by the EU negotiation process because EU members have not been able to reach a consensus among themselves about Turkey’s full membership and are unable to guarantee Turkey’s full membership, even if it fulfills the criteria. However, the JDP government believes that the EU is acting in a contradictory manner even in the technical aspects of the negotiations.[12] Therefore the JDP government has been reluctant to endure the political and social costs of negotiation and has slowed down the reform and adjustment process.

This study offers two suggestions. First, Turkey’s compliance with the Maastricht criteria must be reanalyzed using current data in the upcoming years. In this way, the sustainability of Turkey’s compliance with that criteria and even its level of real convergence with EU economies can be discussed more extensively. Second, the groundwork must be laid for more objective assessments by placing more emphasis on quantitative studies that deal with

Turkey's objective of full EU membership. With such studies, qualitative research on the issues discussed here will be more consistent.

Notes

[1] Two constitutional reform packages and eight harmonization packages were passed into law between 2001-2004.

[2] According to the Transatlantic Trends report, public support for Turkey's full membership in the EU stood at 73% in 2004. However, according to the 2010 Transatlantic Trends report, the support increasingly dwindled and dropped to 38%.

[3] In the relevant literature, there are two basic distinctions between nominal convergence and real convergence. While the Maastricht criteria are considered to be instances of nominal convergence, real convergence refers to changes in the levels of development, competitiveness, macroeconomic stability and labor market performance that occur over time (Marelli and Signorelli, 2010: 141-142).

[4] Looking at the average level of national income during the years 2001-2010, which constitute the focal point of this study, the German economy produced 20% of the EU and 27% of the Eurozone average. When the real growth rates from the same period are examined, the EU average remained at 1.39% and the Eurozone average at 1.18% with Germany following them very closely with an average of 0.97%.

[5] The recent application of the unit root test in time series analyses in various fields is important. Econometric methods have been progressively developed, and structural breaks in time series analyses have also been incorporated into unit root tests. An extensive body of literature exists on unit root tests based on structural breaks. Perron conducted the first study on this issue in 1989, and structural breaks were added to the augmented Dickey-Fuller (ADF) test. Thereafter, Zivot and Andrews (1992) suggested determining the break points endogenously. By improving the model of Zivot and Andrews, Lumsdaine and Papell added two structural breaks. Lee and Strazicich however, allowed the breaks to be included in the null and alternative hypotheses by improving the two-break model one step further (Glynn et.al.,2007).

[6] Pesaran et al. (2001) tabulated two sets of critical values. The first set of critical values is called lower-bounds critical values, and the second set of critical values is known as upper–bounds critical values. For some significance levels (1, 5, or 10 %), if the computed F-statistic exceeds the upper critical value, the null hypothesis of no cointegration is rejected. On the other hand, if the computed F-statistic falls below the lower critical value, we cannot reject the null hypothesis and hence the variables are not cointegrated. Finally, if the computed F-statistic falls within the critical value bounds, the decision about cointegration is inconclusive.

[7] Between 1986-2002, the proceeds from privatization transactions were $8 billion dollars whereas this figure was $35 billion dollars during the 2001-2011 period.

[8] Inflation would be reduced with a money-based anchor as well, but that would have been associated with high interest rates and a recession in the early phases of the program.

[9] In this context, a resolution was adopted to reduce the overnight borrowing by public banks and the banks under the coverage of the Savings Deposit Insurance Fund from private banks and non-banking sector at high interest rates as well as to meet the overnight borrowing needs of these banks by the Central Bank.

[10] "Trade openness has long been on the standard textbook list of optimum currency area criteria. One implication is that if trade among the members of the EU is increasing over time, then the will satisfy the optimum currency area criteria strongly in the future than in the past" (Frenkel, 2004).

[11] Opened 13 chapters are : Science and research; Enterprise and industry; Statistics; Financial control; Trans-European networks; Consumer and health protection; Intellectual property law; Company law; Information society and media; Free movement of capital; Taxation; Environment; and Food safety, Veterinary and phytosanitary policy.

[12] "Given the double standards that it applied to Turkey, the European Union has shown that Croatia and Turkey are not two countries negotiating under equal conditions. We wish that Turkey were faced with a negotiating framework with a defined process and whose rules do not change in the middle of the game" (Bağış, 2011).

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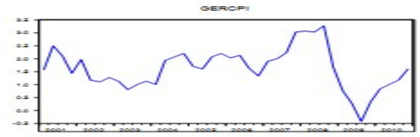
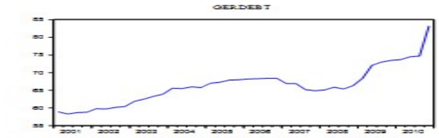
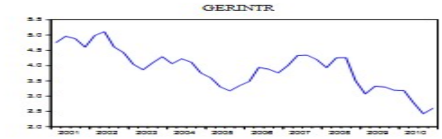
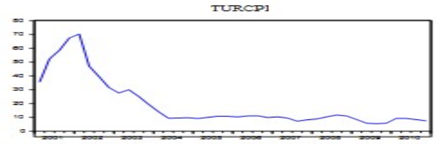
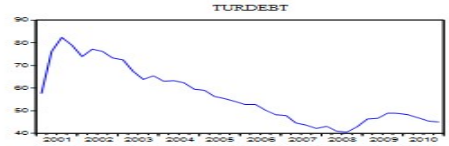
Appendix I

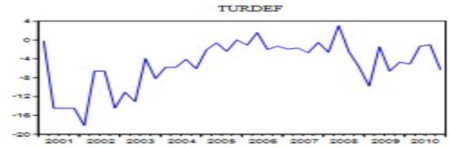


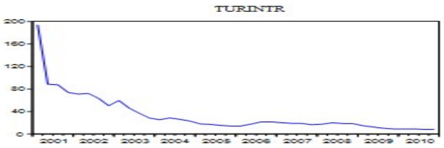




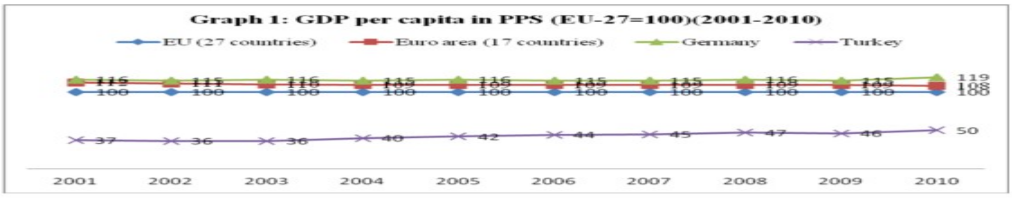




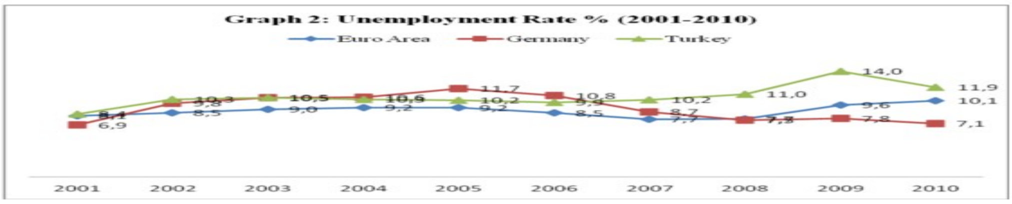




Appendix II



Source: Eurostat, 2012



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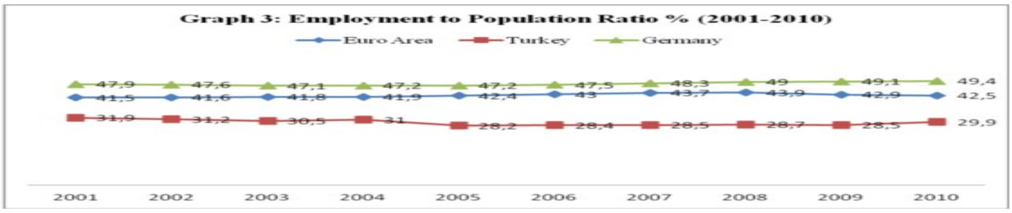

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