

An Evaluation of Turkey's Aim for Full European Union Membership in Light of the Maastricht Criteria

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Abstract

This study analyses the extent to which Turkey has internalized its goal of full EU membership in the context of the Maastricht criteria. It is important to evaluate the level of Turkey's internalization of this goal in light of the Maastricht criteria because the EU, one of the world's most important economic actors, represents an economic and monetary union. In this study, quantitative analysis performed on economic data renders a forecast of Turkey-EU relations, which constitute an important dimension of Turkish foreign policy. This study uses a cointegration model to present Turkey's compliance with the Maastricht criteria.

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

JEL Classification: F50, F15, O57, C32.

Introduction

A decision was made to open negotiations with Turkey in 2005 for full membership in the European Union (EU) at the European Council summit meeting on 17 December 2004 (Council of the European Union, 2004). The Council's decision coincided with a period in which Turkish political and social will was in agreement on full EU membership and observers believed that public support for full membership would induce the Turkish government to implement the reforms necessary to ensure compliance with the *acquis communautaire*.

The number of dissenters regarding Turkey's EU aspirations increased after the country was granted candidate status. These dissenters argued that Turkey underperformed during the EU negotiation process, and as a result, domestic and foreign public opinion has accused Turkey of abandoning its goal of full EU membership. However, the Turkish government has reiterated its commitment to the membership process at every opportunity and vigorously refused the offer of a privileged partnership, signaling that Turkey has not abandoned its objective of full EU membership (Davutoglu, 2009, p.9; İdiz, 2011).

Although it is questionable whether Turkey has pulled back from its goal of full EU membership, it is true that the country did not perform satisfactorily during the negotiation process (The Economist, 2010). Observers differ in their opinions concerning Turkey's

underperformance. Some observers argue that Turkey could not meet EU expectations due to the double standard applied by the EU during the negotiation process. On his website, Chief Negotiator Egemen Bagis (2011) stated that,

Given the double standards that are applied to Turkey, the European Union has shown that Croatia and Turkey two countries that are not negotiating under equal conditions. We wish that Turkey were faced with a negotiating framework with a defined process where the rules do not change in the middle of the game.

Bagis' statement demonstrates that the Turkish government shared the opinion that the EU applied double standards towards Turkey. However, in light of the fact that only the science chapter among 12 chapters was decided upon throughout the negotiation process and that Turkey's reforms decelerated during the negotiation process (Commission, 2010), the argument of the double standards alone is insufficient. Furthermore, Turkey's failure to open its seaports to ships from the Cyprus weakens the claim that the EU applied double standards in its negotiations with Turkey.

Another group argues that Turkey was unsuccessful in the negotiation process due to increasing European opposition to its membership in the EU. This group asserts that the explicit opposition of French President Nicolas Sarkozy and German Chancellor Angela Merkel to full Turkish membership and their offer to Turkey of a privileged partnership caused deep disappointment in the Turkish public and strengthened Turkish discourse against the EU (Öniş, 2008, p.41). In this context, it is rational to argue that the change in the Turkish government's discourse and practices reflected the hurt feelings of the Turkish voters and their opposition to the EU. However, it is important to stress that the statements against Turkey of French and German officials, whose countries comprise the driving force of European integration, were shaped by their internal politics. Their negative statements concerning Turkey cannot be considered official French or German policy, as former German Chancellor Gerhard Schröder's support toward Turkey attests. Despite Sarkozy and Merkel's negative attitudes, it is rational to argue that the Turkish government induced the public, particularly the electorate, to support full membership by distancing itself from anti-EU discourse.

Some observers assign a passive role to the EU in terms of the breakdown observed in Turkey-EU relations. Turkey's choices dampened the relations between itself and the EU. According to observers who interpret this situation negatively, Turkey demoted the importance of Western-oriented foreign policy goals, such as EU membership, by centralising the old Ottoman geography (Cagatay, 2009; Crooke, 2009). Therefore, they assert, Turkey was unable to perform as expected during the negotiation process. According to observers who interpret Turkey's multcentred foreign policy approach positively, however, Turkey is becoming a regional power. Although Turkey has maintained its commitment to full EU membership, its new approach to foreign policy has led to the perception that it has detached itself from the EU (Barysch, 2010).

The arguments summarised above follow the belief that Turkey was unsuccessful in the EU negotiation process. However, it is questionable whether Turkey's poor performance during negotiations

proves that it has abandoned its goal of full EU membership. We hypothesise that the deceleration in Turkey's reforms and its inability to make strong progress during the negotiations are not related to Turkey's goal of full EU membership but rather demonstrate Turkey's periodic performance as an EU candidate country. Evaluations made by ignoring the nuances between the level of Turkey's internalisation of the aim of full membership and its performance throughout the negotiations are not reliable because Turkey's performance is influenced by both internal and external political developments. For instance, it is expected that Turkey will not perform well when Cyprus assumes the EU presidency in July 2012. However, Turkey's negative attitude will be a temporary attitude shaped by the course of political development. Thus, Turkey's performance during the Cypriot presidency will not provide clues concerning Turkey's goal of full EU membership. The level of Turkey's internalisation of this goal can be understood by its compliance with the EU's political and economic criteria, which are seldom affected by political developments. An evaluation of Turkey's objective of full EU membership is more consistent, for example, when examining its capacity to meet the Copenhagen criteria. Therefore, separate evaluations of Turkey's performance in the reform process and of the level of internalisation of the goal of full EU membership are necessary.

This study aims to analyse the extent to which Turkey has internalised its goal of full EU membership in the context of the Maastricht criteria. It is important to evaluate the level of Turkey's internalisation of this goal in light of the Maastricht criteria because the EU, one of the world's most important economic actors, represents an economic and monetary union and the Maastricht criteria comprise the monetary dimension of this union. At a time when Greece's exit from the Eurozone is being discussed, EU member commitment to the Maastricht criteria, which determine entrance and exit from the Eurozone, demonstrates the extent to which members have internalised the goal of integration. In our opinion, the level of compliance with the Maastricht criteria provides important clues as to the level of Turkey's internalisation of its goal of full EU membership. For this reason, this study aims to determine to what extent Turkey has internalised its goal of full EU membership in the context of the Maastricht criteria. In pursuing this goal, the study asks two sub-questions: How do the Maastricht criteria serve as a measurement for the level of internalisation of full membership for prospective EU member states? What is Turkey's position in terms of the Maastricht criteria?

This study is important because it includes a quantitative analysis of economic data that renders a prediction of Turkey-EU relations, which are an integral component of Turkish foreign policy. This study uses a cointegration model to present Turkey's compliance with the Maastricht criteria. The first part of this study discusses the Maastricht criteria, the importance of compliance with these criteria in terms of European integration, and why the criteria are used to measure a candidate country's internalisation of the goal of full EU membership. The second part of this study explains the methods used and presents an analysis of the data. In the final part, Turkey's level of internalisation of the goal of full EU membership is evaluated in light of the Maastricht criteria.

The Importance of the Maastricht Criteria in Terms of European Integration

The Maastricht criteria comprise economic reference values as stipulated by the Treaty of European Union (1992, Arts.104c-109j) as well as the protocols prepared in accordance with the treaty that allow EU members to adopt the common currency, the Euro. Member states must meet the following five criteria to adopt the Euro:

- Three percent of the ratio of the planned or actual government deficit to the gross domestic product (GDP) at market rates
- Sixty percent of the ratio of government debt to the GDP at market rates
- An average inflation rate of no more than 1.5% stemming from, at most, the three best-performing member states
- Nominal long-term interest rate not exceeding 2% of, at most, the three best-performing member states
- Member states shall not devalue their currency's bilateral central rate against any other member's currency on their own initiative for at least two years.

The Maastricht criteria were formulated so that member states could ensure fiscal and monetary discipline. The rules regulating fiscal discipline aim to prevent member states that have adopted the Euro away from acquiring excessive budget deficits and public debt. By producing a crowding-out effect and an increase in interest rates, excessive budget deficits and public debt can create obstacles to long-term economic growth. The rules regulating monetary discipline aim to suppress the inflationist tendencies of the European Monetary Union (EMU) because low inflation rates promote growth by providing economic stability (Bukowski, 2006). In this context, it can be said that there are two ultimate goals of the Maastricht criteria. The first is to form a basis for the creation of a harmonious economy between the member states in the Eurozone, and the second is to provide for sustainable growth and macroeconomic stability in the Eurozone (Lavrac, 2004).

The Maastricht criteria are criticised for several reasons. Buiter (2004) points out a contradiction within the criteria, stating that they restrict economic growth despite having been formulated to ensure member states' sustainable growth and macroeconomic stability. Buiter is correct because tight monetary and fiscal policies can decelerate growth, particularly in developing economies, and can even produce stagnation. Therefore, developing EU members that want to be included in the Eurozone are faced with a conflict between growth and meeting the criteria.

The failure to adopt the Maastricht criteria to the new terms of integration has also been criticised. Sikulova (2007, p.754) argues that the monetary union did not exist in the early 1990s, when the criteria were determined, that the transition in central and eastern Europe has only just begun, and that enlargement was not included in the EU agenda. However, revising the criteria according to new terms may be inconvenient. First, a revision may set a precedent for compromising long-term economic policies that must be applied to obtain the interest rates determined by the criteria. Second, a revision may render the criteria ineffective. Hence, Afxentiou (2000,

p.248) argues that, "in order to be effective rules for monetary and fiscal stability, the Maastricht criteria must operate within an environment characterised by economic homogeneity, not by internal and external economic disparities and disequilibria." It is worth noting that not all EU members are at similar levels of development. For instance, the level of economic development of central and eastern European members is lower than that of members in western Europe. Therefore, a softening of the reference values may undermine a functioning monetary union. A monetary union that includes members of varying levels of development has a low probability of surviving.

Another criticism centres on the calculation of the reference values of the Maastricht criteria. Lewis and Staehr (2007, p.5) mention the contradiction that non-Eurozone countries are used as reference countries. For example, to calculate the annual inflation rate for March 2006, non-Eurozone members Poland and Sweden were included in the calculation in addition to Finland, and the resulting reference value was 2.6%. Lithuania, with an inflation rate of 2.7%, missed its inflation target by 0.1% (European Central Bank, 2006, p.26). Sikulova (2007, p.55) states that there is no reasonable economic basis for using non-Eurozone countries as reference countries. We agree with Sikulova's criticism because it seems counterintuitive that non-Eurozone countries should play a role in determining the criteria for accession to the Eurozone.

Finally, observers criticise the fact that politics can shape the criteria. For example, Heisenberg (2006, p.241) states that the 3% limit on the budget deficit was chosen for political reasons, alleging in a 1993 interview with a competent person of the Deutsche Bundesbank that the 3% limit was imposed to restrain Italy from being among the first group of countries to join the EMU. It is not surprising that politics play a role in determining the criteria because integration itself is a product of political will.

The importance of the Maastricht criteria for European integration lies in the fact that they bring functionality to the common currency. Use of the common currency is a sign of a transition from the common market to the economic and monetary union. McCormick (2005, p.177) states that the common currency increases European citizens' awareness of integration, ensures greater price transparency, decreases transaction costs, creates large-scale stock markets, and provides the EU with greater influence in the global market. The indirect but important role of the Maastricht criteria, as summarised by McCormick, is clear regarding the benefits of the common currency.

The Maastricht criteria measure the extent to which prospective EU members in general, and Turkey in particular, have internalised the goal of EU membership. There are three pillars to this argument. First, there is a direct correlation between the Maastricht criteria and the Copenhagen criteria because the Copenhagen criteria require a candidate country to have a functioning economy. One of the indicators of a functioning economy is macroeconomic stability (Faucompret and Konnings, 2010, p.49) Ensuring macroeconomic stability is among the ultimate objectives of the Maastricht criteria. It is theoretically impossible for Turkey to become an EU member without fully meeting the Copenhagen criteria. If Turkey can attain a functioning market economy, it will meet most of the Copenhagen criteria. Therefore, Turkey's capacity to meet the Maastricht criteria, the ultimate

objective of which is macroeconomic stability, is indispensable in terms of creating a functioning economy.

Second, for economies, long-term and disciplined economic policies are required to meet the Maastricht criteria. It is challenging to ensure discipline in concurrent monetary and fiscal policies in economies. For this reason, it is difficult for a candidate country to meet the Maastricht criteria without internalising the goal of full membership. In this context, we cannot expect Turkey to meet the Maastricht criteria, which limit the government's economic policy choices, without internalising the aim of full membership. Turkey has prioritised its policies to achieve macroeconomic and financial stability and has a successful profile for the monetary and fiscal policies that it has consistently implemented since the 2001 crisis. Chronic and high inflation of the 1990s stemmed mainly from fiscal deficits, the monetization of these deficits by the Central Bank's resources and a weak banking system. After the financial crisis of 2001, the transition program for strengthening the Turkish economy designed to address these structural deficiencies and reduce inflation. Structural reforms implemented after the financial crises experienced in 2001 and the political stability obtained after 2002 have provided a significant improvement in economic fundamentals. The main characteristics of post 2002 period could be summarized as structural reforms supporting market economy and budget discipline, implementations leading to a healthy banking system, monetary policy focusing on price stability and as a result, inflation decreasing rapidly.

Third, there is the requirement that a candidate country must comply with the *acquis communautaire*. Complying with the *acquis* renders a candidate country's entry into the EMU inevitable and reasonable because the EU is an economic and monetary union. The Maastricht criteria act as a guide to help candidates join the EMU. Particularly in the case of Turkey, it is worth noting the report of the Council of the European Union, which states, "Turkey will participate in the EMU, from accession as a member state without 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 conditions" (Council of the European Union, 2006). This means that Turkey can join the Eurozone as long as it meets the necessary criteria. The Council's report, which we consider an official contract, is an important opportunity for Turkey to become a powerful actor in European integration.

Considering the three points of our argument together, it follows that the Maastricht criteria are the criteria by which EU membership is realised and therefore are the criteria that must be internalised in order to become an EU member. Turkey's capacity to meet the Maastricht criteria is thus crucial to its ability to join the EU, an economic and monetary union. Thus, Turkey must internalise its goal and meet the criteria in question, such as the Copenhagen criteria, to achieve its membership objectives.

Research Design, Data and Results

Empirical Literature

Before answering the question of how we can measure Turkey's level of compliance with the Maastricht criteria, we must summarise similar

studies. Studies on the capacity of EU candidate countries to meet the Maastricht criteria are limited in number. However, we can discuss some common trends in these studies. First, these studies used Germany, both alone and together with other core EU members, as a reference country because Germany has been the most successful in meeting the Maastricht criteria. Second, these studies predominantly used the cointegration method. Third, these studies did not use interdisciplinary approaches.

It is possible to separate the above-mentioned studies into two groups. Candidate countries in the first group of studies were analysed in terms of all of the Maastricht criteria. The performance of candidate countries in the second group of studies was partially evaluated in terms of the Maastricht criteria. In other words, they were evaluated according to the capacity of the candidate countries to meet either monetary or fiscal criteria.

Among the first group of studies, Kutlu and Kavrukkoca (2007) used the cointegration method to analyse the capacity of candidates Turkey, Croatia, Romania, and Bulgaria to meet the Maastricht criteria. Germany was used as the reference country, and candidate country data from 1991 to 2005 were analysed. The validity of the analysis is questionable, however, because data for the budget deficits of the candidates (except Turkey) do not exist. Koukouritakis and Michelis (2003) studied the Maastricht criteria performance of the 10 countries that joined the EU in 2004. They applied the cointegration test and used Holland, France, and Germany as reference countries.

Among the second group of studies, Kutan and Yigit (2005) analysed the real and monetary harmonisation of the 10 countries that joined the EU in 2004 based on macroeconomic data spanning 1993 to 2003. The study discussed which exchange-rate regime each country should choose in order to be included in the Eurozone and the timing for joining the Eurozone. Kocenda et al. (2008) investigated the fiscal harmonisation of the countries that joined the EU in 2004 using data on fiscal discipline within the Maastricht criteria. The uniqueness of this study arises from the fact that it examined the fiscal policies of the new member countries not only within the scope of the Maastricht criteria but also according to the EU-15. Siklos (2010) attempted to estimate whether the countries that joined the EU in 2004 met the inflation and interest rate criteria for compatibility and, based on unit root and cointegration tests, determined that the new members were generally successful in terms of inflation rates but unsuccessful in terms of interest rates. Siklos' study is important because it is current and representative of the changes that took place in the EU throughout the accession process.

Research Design

In this part of the study, we examine the extent to which Turkey has met the Maastricht criteria. Three concerns appear at this point. First, which period should be studied for this evaluation? Second, what method should be used to examine the performance of Turkey within the scope of the Maastricht criteria? Third, which reference country should be used to make comparisons in evaluating Turkey's performance in the context of the Maastricht criteria? By primarily addressing the post-2001 period, when Turkey began to address structural problems and its economy became stronger, we can observe the distance Turkey has covered on its journey to EU membership and conduct current research.

After deciding which period of Turkey's history would be studied, the final step was deciding which method should be used to set the framework for quantitative analysis. We used the unit root test, a current approach for investigating the existence of long-term relationships among macroeconomic variables, and cointegration methods, similar to other related studies. The data set used in this study played a significant role in choosing these methods.

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 Strazlicicik however, enabled the breaks to be included in the null and alternative hypotheses by improving the two-break model one step further (Glynn et al., 2007).

The cointegration model was developed to analyse relationships between non-stationary time series. This test deals with time series that are non-stationary on their own but are stationary when in a linear combination. Therefore, the cointegration test involves investigating a linear combination of time series (which are non-stationary on their own) to determine whether it is stationary. The cointegration technique has two main benefits: it allows for differentiating short- and long-term effects, and the adjustment rate of the long-term values is directly predictable. The number of variables used determines which method should be used to investigate the existence of cointegration between integrated variables of the same order.

It is insufficient for us to take a snapshot of the Turkish economy for the period discussed and to determine what exists and what is missing because the data cannot be compared and analysed from only one perspective. The empirical method used allows for both a comparison and a concurrent analysis between the reference country and Turkey in the context of the Maastricht criteria.

Unit root and cointegration tests help us form a link between the macroeconomic performance of Turkey and Germany (where Germany is the reference country). It is possible to say that there are different implementations in similar studies on this subject. For example, there are studies in which core EU members such as France and Holland are included in the model in addition to Germany. The main reason for using only Germany as the reference country is to allow for a deep analysis on the subject and to prevent different interpretations. In this context, Germany's performance in terms of the Maastricht criteria within the period discussed was investigated. In addition, Germany was used as the reference country in most of the related studies, which supports our opinion.

Data and Results

Four Maastricht criteria were used in this study: inflation rate, interest rate, budget deficit to GDP ratio, and public debt to GDP

ratio. The data set covers the period from 2001 to 2010. Data were obtained from the International Financial Statistics database and the Central Bank of Turkey.

We applied unit root tests in this study primarily to determine the integration form of the data set. The unit root test was applied so that the integration would be one-dimensional in the event of breaks in the serials. To determine the integration form of the data set, we used the unit root test of Zivot and Andrews. In the second stage of the study, we investigated the existence of a long-term relationship between Turkey and Germany in terms of these data by considering each Maastricht criterion individually.

We used Zivot and Andrews' unit root test to test for stationarity at 5% and 10% significance levels for the four Maastricht criteria for Germany and Turkey. The results are shown in Table 1 and Table 2. The Akaike information criterion was used for the selection of optimal lag length. Unit root test analysis was performed using Model C in the Zivot-Andrews unit root test.

Table 1: Zivot-Andrews Unit Root Test Results - Germany

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

Table 2: Zivot-Andrews Unit Root Test Results - Turkey

Variable	Break time	t-value	lag
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 1%, 5% and 10% significance levels are -5.57, -5.08, and -4.82 respectively. "" means that the values are significant at 1% significance level.*

According to the test results shown in Table 3, a cointegration relationship between Turkey and Germany exists only for budget deficit among the four Maastricht criteria. It is impossible to discuss the long-term relationship between Turkey and Germany regarding the other three criteria.

Table 3: Cointegration Test Results

	Bound Test Results		
	F-stat	10% Critical Value Bounds	
		I (0)	I (1)
CPI	3.8377	4.2042	5.0688
INTR	2.0169	4.2420	5.0339
DEF	5.9638	4.2042	5.0688
DEBT	1.3132	4.2420	5.0339

Conclusion

Since 1959, Turkey has aimed to become a principal actor in European integration as part of its foreign policy. The start of negotiations in 2005 regarding Turkey's EU candidacy represented a substantial step toward realising its goal of full membership. However, Turkey was unable to make significant progress in the negotiations till 2012, and the reform process has stagnated. Arguing that Turkey has abandoned its goal of full EU membership by considering only these developments is erroneous. Observers must also examine Turkey's level of internalisation of its goal of full membership. The country's compliance with the Maastricht or Copenhagen criteria must also be examined.

In this study, we determined that Turkey has not met the Maastricht convergence criteria despite its progress on several macroeconomic indicators since 2001. We observed that Turkey met the budget ratio criterion of the Maastricht convergence criteria; however, the decreased budget deficit was an expected result of the acceleration in the privatisation process after 2002. It is not significant in terms of the Maastricht criteria that Turkey met a fiscal criterion while adopting a tight monetary policy between 2001 and 2011. We conclude that Turkey has not internalised its goal of full EU membership, at least in terms of its macroeconomic performance.

The results of this study support the idea that Turkey has distanced itself from its goal of full EU membership. In addition to the alleged shift in Turkish foreign policy, the failure to develop fundamental rights and freedoms, particularly democratisation, neglect of the necessary reforms, and failure to meet the Maastricht criteria strengthen the argument that the government has ignored the goal of full EU membership.

The Turkish government should revive its aim of full EU membership. First, Turkey should review the relatively successful economic policies that have been pursued since 2002 with respect to joining the EU. Economic policies should be planned with an approach to sustainable growth and macroeconomic stability by pursuing the Maastricht criteria. To attain the EU standards, in the short term, the government should implement political regulations on fundamental rights and freedoms, particularly democratisation. Moreover, technical reforms that allow for easier compliance with the *acquis* should be accelerated. Finally, the government should assure both domestic and foreign audiences that it is definitively pursuing full EU membership.

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