



Economic Advantages and Disadvantages of Turkish EU Accession

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ABSTRACT

The subject of our paper is the hypothetic advantages and disadvantages of Turkey's accession to the EU and, therefore, the level of development of the Turkish economy, especially those macroeconomic and microeconomic criteria which are considered as the EU membership criteria for candidate countries.

The main goal is to determine the extent to which Turkey reached the level of economic development of the EU requirements, determine the characteristics and patterns of economic integration processes related to this state's accession to the existing union of countries whose level of development is higher than its own one, as well as to evaluate the prospective opportunities of Turkey's full-scale economic integration with the EU. The methodological basis of the research conducted within the thesis is linked with a systematic approach using the historical method, the method of comparative analysis, as well as methods of analysis of economic statistics.

1. INTRODUCTION

The relations between the European Union (EU) and the Republic of Turkey, namely in the field of Turkey's gradual procession from an associate to full-fledged member of the European Union, dates back to the 1960's. In 1999, Turkey received the status of candidate for membership, however with greater doubts on the side of the EU member states than in the case of the countries of Central and Eastern Europe (see Guerin and Stivachtis, 2011; Jiroudková et al., 2015). As of today, most CEE countries are already EU members, whereas the accession negotiations with Turkey started only in 2005. The negotiation process was complicated by the emergence of various problems and has been repeatedly interrupted.

This complicated nature of relationships puts on the agenda the question of their actual content, grounding the assumption that the process of Turkey's accession to the EU is regulated

not only by objective membership criteria, but is also influenced by the EU's subjective approach to Turkey.

In order to examine the existence of the alleged element of subjectivity from different perspectives, in this thesis, I would like to conduct an analysis of the actual compliance of Turkey's level of economic development with the EU criteria which include a number of purely economic aspects, but as well numerous institutional, legal and other points that could not be covered in my work. The importance of such an analysis in order to understand the current state and prospects of relationships between Turkey and the EU explains the relevance of the research topic. The exploration and evaluation of the extent to which the level of Turkey's economic development meets both general and some more specific parameters and requirements of the EU can also help identify the economic and institutional problems that will be the main substance of the relationships between Turkey and the EU in the future, and at the same time can be useful in the process of identification and prediction of important trends in the transformation of the national economy in case of a very likely enduring of the policy of Turkey in the development of integration with the EU.

In addition to the theoretical analysis, I will also run a comprehensive statistical analysis of Turkey's key financial and macroeconomic indicators, for which purpose I will use an empirical model of statistical regression. This is important for tracking the dynamics of Turkey's financial and macroeconomic positions, and evaluating how such positions may prospectively affect the country's course toward integration with the European Union. At the same time, such analysis will make it possible to define the weakest points of the Turkish economy which currently do not allow meeting in full the requirements of the European Union, thus braking the entire process of further European integration.

2. STATE-OF-THE-ART: TURKEY AND THE EU

The first studies trying to assess the state of economic relations between Turkey and the EEC countries and to evaluate Turkey's prospects for European integration (see Shorter et al., 2011) emerged in the mid-1960s., i. e. after the country had received the status of associate member. A few years later, with the active development of bilateral relations, the problem of economic relations between Turkey and the EEC (EU) gained coverage in numerous publications. Meanwhile, a particular feature of almost all studies was that they were dedicated to a comprehensive analysis of relations between Turkey and the EU, with a focus on the political relationship between the parties, and paid weaker attention to the analysis of the component of economic cooperation. In 1999, the study of M. Ugur was published ("The European Union and Turkey: An Anchor/credibility Dilemma"), but at that time, the Republic of Turkey had not received a candidate status yet. Later works such as Clesse's "Turkey and the European Union: 2004 and Beyond" or "Turkey's Accession to the European Union: Political and Economic Challenges" by Akçay and Yilmaz provide an analysis of the changes in the Turkish economy under the influence of the harmonization process, which started after gaining this status, as well as the estimates of adequacy of those changes in terms of the EU.

An essential part in the analysis of the subject is played by the annual reports issued by the European Commission on Turkey's progress on the way to EU membership (Turkey Progress Reports), as well as the Pre-accession economic programs of the Republic of Turkey (Katılım Öncesi Ekonomik Programları) developed by the State Planning Organization of Turkey and approved by the Supreme Council. If, in the first case, the European Commission experts estimate the overall level of harmonization achieved by the national economy and completeness of implementation of the set of specific targets for its deepening, the latter contain the official version of the Turkish side concerning the assessment of the current state of the economy, advances in the field of harmonization, and the economic problems, solution of which will be the main goal of work within the process of European integration. The problem of the analysis of

regular progress reports is connected with multiple changes in their structure associated with the revision of the priorities of the European Commission and the assessment system during the period analyzed.

As of today, the relations between Turkey and the European Union in the field of Turkey's integration as the EU's full-fledged member remain strained. Despite of the fact that Turkey has been able to achieve significant progress on the way toward its accession to the European Union, there are still many obstacles to the effective implementation of those processes, and some of the current EU member states actively oppose Turkey's accession due to their fear that it would lead to the aggravation of negative processes in the Union.

The position of Cyprus with regard to Turkey's accession to the EU has remained the same throughout the entire process of negotiations. In 2006, Cyprus blocked several chapters of Turkey's negotiations for accession with the European Union. Due to this, the process of negotiations was in fact suspended, as Turkey was unable to open any other new chapters in the process of negotiations with the European Union. In 2013, Turkey undertook measures to renew the negotiations process, as it claimed the blockage of chapters by Cyprus to be illegal and not complying with the principles established within the European Union. However, the EU rejected those claims due to which rumors emerged that Turkey would completely stop any further initiatives to obtain the official membership status, and the issue of Turkey's accession to the European Union would remain frozen (see Strielkowski and Gazar, 2014).

Due to the lack of chapter opening, and thus due to the suspension of Turkey-EU bilateral negotiations for Turkey's accession to the European Union, in 2011, the European Union adopted the so-called Positive Agenda governing the EU-Turkey bilateral cooperation and focusing on the common interests of both sides. This document was primarily destined to defreeze the stagnated process of negotiations, however it still didn't offer any substantial progress for Turkey in terms of obtaining the status of EU member state. To the contrary, the Positive Agenda again stressed that intensified dialogue needs to be held in the field of political reforms, visa-free regime, free movement of capital, development of the customs union. The positive Agenda also dealt as well with those negotiation chapters which were blocked by Cyprus. However, no provisions were stipulated with regard to how the negotiation process could be defrosted, as there were no changes in the Turkey-Cyprus controversies. Although the Positive Agenda didn't provide for any advancement of the process of Turkey-EU negotiations for Turkey's accession to the European Union, this document was and still remains very important from the perspective of attempts to give a new impetus to the cooperation between the European Union and Turkey. In case that some prospects could be achieved for Turkey in terms of its accession to the European Union in the future, the Positive Agenda could play an important role as the basic act for all subsequent actions in this field (see Strielkowski et al., 2014).

In 2013, the situation with the bilateral negotiations between Turkey and the European Union again worsened. On the one hand, the Turkish officials declared their desire to terminate the negotiations and obtain full membership by the year of 2023, otherwise Turkey would finally withdraw from the process of negotiations, and would stop its European integration alternatives. However, Germany declared that it would not waive its veto to defreeze the currently frozen chapters in the Turkey-EU bilateral negotiations for Turkey's accession to the European Union. Moreover, another leader of the European Union, France, stated that no negotiations would be renewed with Turkey until the end of the European Parliament elections to be held in July 2014. In addition to the aforementioned negative factors preconditioning such an attitude on the part of the European Union, the new wave of negative reaction of the European authorities was caused by the 2013-2014 mass protests in Turkey which were suppressed by the government of Turkey. Opponents of Turkey's accession to the European Union claimed that the Turkish government roughly violated human rights and freedoms, suppressed the free media, and made a number of other violations incompatible with the democratic principles and approaches promoted within the European community (Cabelkova, et al., 2015). As a result of such position

of the European Union, the level of support of European integration drastically fell in Turkey, from over 66% in 2013 to 40% in 2014. Thus, the bilateral negotiations have not yet been renewed, and the future of this process remains very doubtful taking into account the current relations between the European Union and Turkey with regard to the issue of Turkey's accession (see Strielkowski and Glazar, 2014).

Another important aspect to be noted in the context of the current state of Turkey-EU relations is the negotiations on the issue of visa liberalization. Despite of the fact that the visa liberalization process has long been promoted by the European Union as a key stage of deepening of bilateral cooperation with Turkey, as of today, the EU has not yet cancelled the visa regime for the Turkish population. The official negotiations between the EU and Turkey were launched in 2012, but have not much progressed since then. This is further adding to the tensions in the bilateral relations between the European Union and Turkey, and contributes to further slowdown in the process of Turkey's accession to the European Union. The latest achievement in this field is the readmission agreement signed between Turkey and the European Union in 2013, and the so-called Roadmap towards the visa-free regime. As of today, those documents are rather declarative, but they should play an important role in the visa liberalization process in the near future (see Strielkowski and Glazar, 2014).

Having investigated the key milestones in the development of Turkey-EU bilateral relations in the field of Turkey's accession to the European Union as a full-fledged member, and the current state of those relations, in the next section of our paper, we would like to analyze in detail the advantages and disadvantages that the accession to the European Union may in the long run give to Turkey.

3. ADVANTAGES AND DISADVANTAGES OF TURKEY ACCESSION TO EU: AN EMPIRICAL MODEL

As Turkey has long been seeking the status of member state in the European Union, it is important to define the key driving factors which promote the country's authorities' desire to achieve membership in the EU, even despite of the constant refusals on the part of the Union. Obviously, the Turkish political leaders believe that accession to the European Union would provide the country with great benefits, and would allow further strengthening its economic development, national security, etc. Cooperation with the European Union is definitely important for Turkey in both economic and political terms, and therefore completion of the integration process is considered to represent a great opportunity to build up even further deeper ties mutually beneficial to both sides.

In this section of our paper, we would like to investigate in detail the potential advantages and disadvantages of Turkey's accession to the European Union. We will analyze those factors from the perspective of different vectors of the Turkey-EU relations in order to discover how different processes can affect different fields of Turkey's economy, politics, and social sphere. We will also compare the prospective advantages and disadvantages of Turkey's completion of the European integration process for the purpose of evaluating the real outcome of the country's potential accession to the European Union as its full-fledged member.

3.1 Research hypotheses

Based on the literature review and analysis of Turkish-EU relations, the following research hypotheses have been formulated:

- Hypothesis #1: The accession to the EU provides Turkey with access to new markets, and is aimed to build a strong economic relationship between Turkey and the EU in the long run.

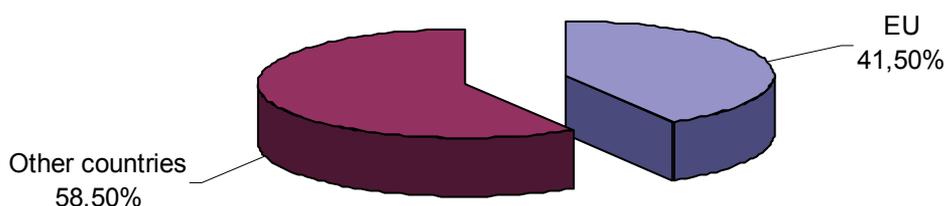
- Hypothesis #2: Turkey plays a fundamental role as a bridge to the Muslim world, also in the relationships between the EU and African and Asian countries.
- Hypothesis #3: Accession to the EU will ensure free movement for Turkish workers, which might be a solution to the aging problem in the EU.
- Hypothesis #4: There is a strong relationship between economic growth and Foreign Direct Investment (FDI), thus the accession to the EU will provide Turkey with a substantial inflow of FDI to its economy.

Further down this thesis, I will attempt to verify or to reject these hypotheses based on the analysis of the available research literature, statistical sources and own implications and reasoning. In addition, I will run an econometric model of the interdependence of economic development in Turkey and FDI to test for the causality and make implications for the case of Turkish EU accession.

3.2 Advantages of Turkey's Accession to the European Union

When investigating the advantages of Turkey's potential accession to the European Union, it should be understood that the European integration processes are differently vectored and are not limited only by one sphere of mutual relations. Therefore, for the purposes of my thesis, I would like to analyze those advantages in three key fields: economic, political, and social. This would allow drawing comprehensive conclusions with regard to how European integration may affect the Turkish state as such, its economic development and geopolitical sovereignty, the wealth and national identity of the population, etc.

Figure 1. European Union's share in Turkey's exports, as of 2013



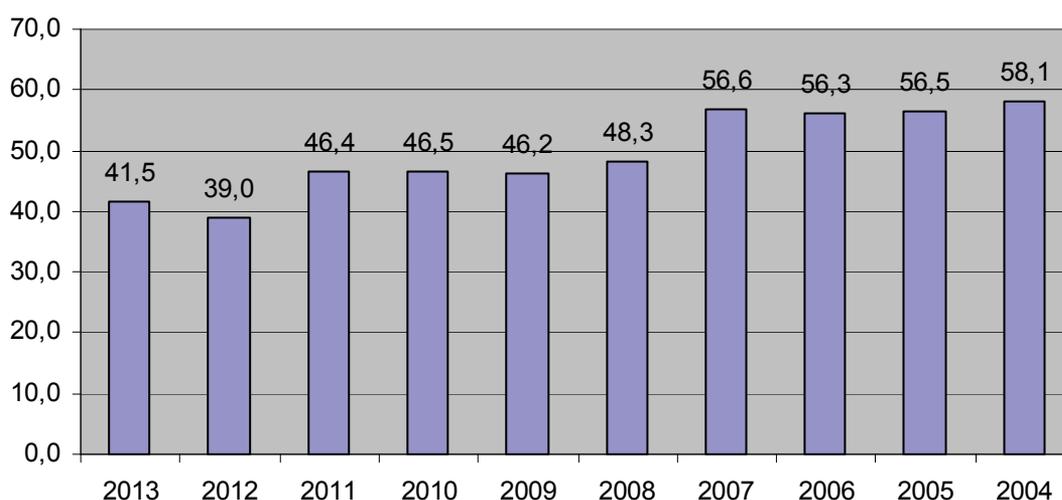
Source: Turkish Statistical Institute (2014)

First of all, it is worth analyzing the economic side of the European integration's positive effects for Turkey, as national economy is the basis for any state's political independence and high positions in the international arena. Here, it is worth understanding that Turkey has well-developed international relations with the European Union, and the mutual cooperation between them is very advantageous to the country, and holds a very high place in its activities.

As we can see from Figure 1 above, the European Union in aggregate accounts for over 40% of Turkey's total exports. Such a high share of the EU testifies that it is a major partner ensuring a significant part of Turkey's total income generated from its foreign trade activities. Turkey mainly exports textiles and clothing, and also household appliances, motor vehicles, and other groups of products. Even though Turkey's exports to the European Union are already large as of today, those figures can even further be increased in the case of Turkey's completion of the European integration process. In case Turkey finally obtains membership in the European Union, the country will be granted even larger access to the European markets. Turkish produc-

ers of different goods will obtain greater opportunities to expand their activities to the European market thanks to their lower prices as compared with the average EU level. The low prices combined with high quality are the key competitive advantage which may help promote Turkish goods among European customers. For instance, products of the textile sector or agriculture in Turkey have a high level of quality, and therefore can successfully compete with the European ones in case of the total elimination of all barriers. Moreover, Turkish producers would be able to participate in the various economic development programs and sector initiatives promoted within the framework of the European Union's economic development. Also, subsidies granted to European manufacturers would be proportionally distributed among Turkish producers as well. Thus, Turkey's accession to the European Union would provide the local companies with greater access to funds both as subsidies and loans, which would significantly ease the funding process, and would raise the capital of Turkish companies (see Tocci, 2011).

Figure 2. Dynamics of the European Union's share in Turkey's exports (in %)



Source: Turkish Statistical Institute (2014)

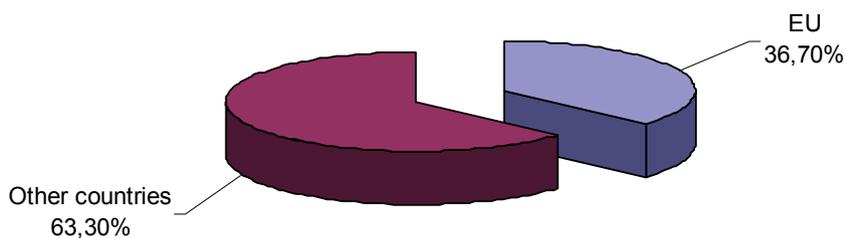
Figure 2 above illustrates the dynamics of the European Union's share in Turkey's exports in the period from 2004 to 2013. As we can see from the chart, the recent dynamics have shown decline as compared with previous years. Eventually, such a decline in the European Union's total share in Turkey's exports correlates well with the slowdown in the Turkey-EU negotiations for Turkey's accession to the European Union. Still, the share of 41.5% is very high, and therefore it testifies the great prospects Turkey would have in economic terms in case the country officially joined the EU.

An important characteristic of the Turkish economy is the role of the agricultural sector in the overall employment and formation of GDP in the country. However, even despite of the sector's crucial role for the Turkish economy, the level of technologies used in agricultural production is rather low and obsolete, due to which the extensive use of resources leads to the deterioration of their quality, and thus lower yield generated from their use. There have already been offers from the European Union to provide subsidies to the Turkish state for the purpose of restoring and further raising the quality of arable lands, but they have not yet been implemented (see Cengiz and Hoffmann, 2013). If Turkey was a full-fledged member of the European Union, the country's farmers could effectively participate in all of the EU's agricultural sector programs, which would allow not only preserving the quality of natural resources, but also further promoting their intensive use. Also, similarly to the industrial producers, companies in the agricultural sector would gain access to finance from the European funds, which would make it possible for

them to generate higher profits through the use of new technologies, and thus intensification of production.

As one can see from Figure 3, the European Union is also a major partner for Turkey in terms of imports. Overall, the EU's share in Turkey's import is 36.7%, which testifies that Turkey is much dependent on the European products. This is predefined by the close geographical location, great logistics, high quality of European goods, and the openness of the Turkish market. On the one hand, Turkey's accession to the European Union would lead to further greater openness of the country's domestic market to powerful European corporations, which would definitely represent a considerable threat for smaller local companies. However, at the same time, this would ensure greater competition, and thus greater level of customer service (see Mulhearn, 2008).

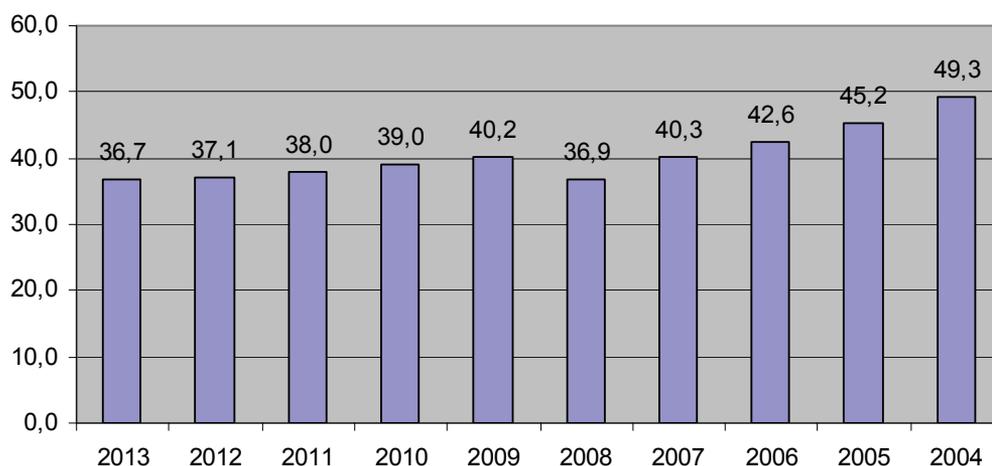
Figure 3. European Union's share in Turkey's imports, as of 2013



Source: Turkish Statistical Institute (2014)

Also, it is worth understanding the social aspect of advantages in this respect. In case of Turkey's membership in the European Union, the local population would gain full-scale access to the high-quality European goods at lower prices. This would be a major advantage for the population in terms of the ratio between quality and prices, and people would definitely win from such accession in this respect (see Arikan, 2006).

Figure 4. Dynamics of the European Union's share in Turkey's imports (in %)



Source: Turkish Statistical Institute (2014)

Figure 4 demonstrates how the European Union's share in Turkey's imports changed in the period from 2004 to 2013. As we can see, those dynamics are very similar to the ones existing in the field of Turkey's exports to the EU, and in my opinion, they are as well connected with the

overall deterioration in the relations between Turkey and the European Union due to the slow-down in the negotiations process.

Table 1. Structure of foreign direct investment inflow to Turkey, as of 2012

<i>Rank</i>	<i>Country</i>	<i>Share in FDI inflow</i>
1	United Kingdom	19,80%
2	Austria	14,70%
3	Luxembourg	12,40%
4	The Netherlands	11,70%
5	Germany	5,40%
6	Malaysia	4,50%
7	Switzerland	4,50%
8	The United States	4,30%
9	Azerbaijan	3,30%
10	Lebanon	3,10%

Source: Turkish Statistical Institute (2014)

Table 1 above shows the Top 10 countries in the structure of foreign direct investment inflow to Turkey in 2012. As we can see from the data presented in the Table, the first five positions in this ranking are held by EU member states, which in aggregate account for 64% in the total FDI inflows to the country. This shows how much Turkey is dependent on the European Union in terms of the investment placed in the country's national economy. It is worth understanding that foreign investment is a prerequisite for the effective functioning of the Turkish economy, as this source of funding allows implementing large-scale projects both in the public and private sectors, significantly raising the level of employment through creating new jobs, and overall boosting the economy through the implementation of innovative projects. In case of Turkey's accession to the European Union, the country's legislation would be fully harmonized with the regulations and standards of the EU, and therefore European corporations would not only get guarantees of their trouble-free activities on the Turkish market, but would also get substantially eased conditions of doing business. This would undoubtedly raise their interest in the Turkish market, and therefore would promote further increase in foreign direct investment flows from the European Union could be expected (see Tocci, 2011).

Turkey's accession to the European Union would be likely to lead to the country's participation in the Eurozone, and thus substitution of its national currency with the single European currency, the euro. The Turkish lira itself is much more vulnerable to negative external effects in terms of the exchange rate fluctuations, as all such fluctuations to a large extent depend on the country's powerful economic basis. The euro is backed by the European Union's stable economic background and well-thought financial and economic policies implemented on the level of the EU's governing bodies. Therefore, in case of its accession to the Eurozone, Turkey would be less vulnerable to the financial market shocks, and the stabilization of the national currency's exchange rate would overall contribute to the faster and more stable development of the country's national economy (see Massai, 2011).

Taking into account how hard the 2008 global financial and economic crisis struck the Turkish economy, it is also worth understanding that the country's accession to the EU would provide it with a far more stable ground in terms of its financial and economic condition. For

instance, the example of Greece shows that, when the country stood on the verge of default due to the disastrous consequences of the 2008 global crisis, the other EU member states in fact saved it thanks to the bailout plans provided by the efforts of all EU countries. In case Turkey hadn't been member of the EU back then, the country would have inevitably fallen into default, and would have faced economic collapse. Therefore, if Turkey in the long run joins the European Union as its full-fledged member, the country will be protected against negative economic effects of global crises thanks to the fact that the EU member states implement reallocation of funds depending on each country's current financial conditions and need for assistance. This would be important in order to provide the local economic subjects with higher confidence in the national economy's stability, and thus to promote their more efficient activities on both the domestic and foreign markets (see Wendicke, 2008).

Another particularly important aspect of Turkey's integration to the European Union is the issue of energy security. As Turkey's economy is much dependent on energy, and has an ever-growing need in power resources, it would be important for Turkey to ensure a stable source of energy supplies. Within the European Union, its member states tend to implement large-scale policies destined to reach a higher level of energy security. Namely, such policies include diversification of power sources and power suppliers, and promotion of the use of alternative energy. Turkey's participation in the European Union's energy programs would obviously provide the country with great opportunities to reach a higher level of energy security, thus ensuring uninterrupted energy supplies for both the needs of its manufacturers and population (see Boomgaarden and Wüst, 2012).

The field of national security is another important sphere of Turkey's existence and activities which could win significant advantages from the country's accession to the European Union. Although Turkey has long been member of NATO, and thus has been participating in the collective security programs implemented in the EU member states within the framework of NATO's activities, Turkey's accession to the European Union would help even further increase the level of the country's national security, and reach its higher integration with the European states in terms of the military power. This is important for the purpose of ensuring Turkey's stable geopolitical positions as the leader among the Middle Eastern states. The collective security mechanisms implemented within the framework of the European Union would provide Turkey with even greater protection against all possible external threats (see Strielkowski and Glazar, 2012).

An important disadvantage of Turkey's current relations with the European Union is that the visa-free regime has not yet been implemented for the Turkish people wishing to voyage to the EU. Due to this, the liberty of their movement is restricted, as traveling to the European Union currently requires substantial amounts of funds to be spent. In case of Turkey's accession to the European Union, the free movement of people across borders within the European Union would be granted. On the one hand, this would be beneficial to the Turkish people, as their expenses for traveling abroad would be reduced, just as the technicalities of the process. On the other hand, this would also allow significantly raising the social mobility of Turkish employees, and thus reducing the overall level of unemployment in the country. For instance, Turkish employees and unemployed people would become able to seek jobs in the European Union without any restrictions, thus freeing a number of vacancies in the country which could be filled with other local workers. At the same time, the wealth of such people would rise, as they would become able to find better-paid jobs in the European Union (see Hale and Ozbudun, 2009).

Next, in social terms, it is worth noting that, with Turkey's accession to the European Union, the Turkish people would obtain a far easier and wider access to the European sector of education services, thanks to which they would get better education, and again, this would raise the overall level of social capital mobility. Also, the level of health services in Turkey would win thanks to the implementation of the EU healthcare programs destined to cover the population with a much higher level of medical services provided (see Guerin and Stivachtis, 2011).

Finally, it is worth noting that Turkey's accession to the European Union as its full-fledged member state would allow preserving the principle of secularity currently predominant in the Turkish state, and would significantly limit the impact of political currents promoting the ideas of Islamism. Also, European integration would allow Turkey raising the level of human rights protection, which is currently a substantial issue in the Turkish, which has many times been stressed by the EU authorities in the course of the negotiations with Turkey (see Tocci, 2011).

In political terms, Turkey would win thanks to the redistribution of responsibilities between the local and all-European governing bodies. This would allow ensuring a much higher level of transparency in the political activities and decisions implemented on all levels. Also, thanks to the regulation of a wide number of issues from the single center, Turkey would get a great opportunity to reduce the overall level of corruption in the country. The European Union member states constantly hold high positions in global corruption ratings, which is achieved thanks to the wise policies of counteraction to corruption which are implemented within the framework of the European Union's governing bodies' activities. Corruption is one of the key threats the Turkish economy on the way toward prosperity, and its elimination is one of the top-priority tasks for the purpose of reaching the maximum degree of liberalization of Turkish national economy. In case of the country's completion of the integration process with the European Union, Turkey would be able to participate in the aforementioned anti-corruption programs, which would obviously allow effectively managing the national programs implemented in this field (see Tekin, 2010).

Also, it is important to note that, by joining the European Union, Turkey would be able to implement its foreign policy within the mutual mechanisms of foreign relations applied by all of the EU member states. This would allow significantly raising the country's levers of impact in the international arena, thus providing it with even higher weight in the eyes of both its partners and competitors. The synergic effect reached through the implementation of such common foreign policies would allow gaining substantial benefits not only in political, but also in economic terms, which would bring significant yield to Turkey's national economy (De Vreese, Boomgaarden, and Semetko, 2008).

Thus, overall, it can be stated that the advantages of European integration are substantial for Turkey, and therefore it is obvious why the country actively participates in those processes. However, in addition to its benefits, Turkey's completion of its European integration processes would also represent considerable threats for the Turkish state in different respects, which is predefined by the negative aspects and disadvantages of European integration. In the next chapter of my thesis, I would like to focus on the issue of disadvantages of Turkey's accession to the European Union as its full-fledged member state for the purpose of evaluating the prospective aggregate outcome of European integration for Turkey.

3.3 Disadvantages of Turkey's Accession to the European Union

When analysing the disadvantages of the European integration processes for Turkey, one should never forget that, although granting high benefits in all fields of mutual relations, such integration processes also have considerable disadvantages which should be thoroughly analyzed in order to understand the overall outcome of the implementation of the European integration scenario for Turkey. Just as the advantages for the Turkish state, the disadvantages of European integration should be investigated as well from the perspective of the various economic, political, and social aspects, in order to understand the complete possible outcomes of the country's accession to the European Union.

As it has already been stated earlier in this thesis, in the economic field, Turkey may significantly benefit from the completion of the country's European integration process. This is mainly preconditioned by the vast liberalization of economic relations with the European Union, and

further greater bilateral openness of the domestic market. Prospectively, such openness allows increasing the overall level of competition in the Turkish economic sector, thus promoting improvement of the goods and services provided to the Turkish customers. However, in reality, liberalization of Turkey's market for the European corporations represents a potential major threat for the country's economy.

Major European transnational corporations are much more powerful than the local Turkish manufacturers in all respects: they have greater funding, more developed technologies, have large customer bases, and so on. Thanks to this, they are able to gain significant benefits on the economies of scale. If such corporations obtain a totally free access to the Turkish domestic market, they will have far greater opportunities to conquer it, taking into account the high quality of products offered. Indeed, as it has already been said, Turkey's products are quite competitive in some fields of the economy such as the industry of textiles or household appliances. However, in other industrial sectors, Turkish companies considerably lag behind the European Union's leading transnational corporations. Moreover, even in the industry of textiles and household appliances, in case of Turkey's accession to the EU, European companies would significantly reduce the share of the Turkish manufacturers on the domestic market thanks to the enlargement of the range of products offered to the population. Potentially, that could lead to the closure of part of Turkish enterprises (especially on the sector of small and medium enterprises), and thus to the overall deterioration of the economic conjuncture in the country (see Voigt, 2008).

Moreover, it is quite doubtful whether Turkish manufacturers would be able to effectively compete on the European market with major European producers of different types of goods. As of today, only the products of the textile industry manufactured in Turkey indeed look prospectively competitive on the European Union's market thanks to their great quality-to-price ratio. However, products manufactured in other spheres of the Turkish economy are much less competitive, and would most often lose to the European analogues in terms of both price and the level of quality. Due to this, Turkish products would be likely to lose competition to the goods offered by European corporations on both the domestic Turkish market and markets of the European Union's member states. In this case, this would mean closure of jobs for the Turkish population and substitution of local production by imports from the European Union. The Turkish budget would also lose due to the decrease in taxes paid in this case (see Tocci, 2011).

Next, it is worth understanding that, in case of Turkey's accession to the Eurozone, the country would have to adopt the euro in replacement for the Turkish lira as its only official currency. On the one hand, the Turkish lira is much more volatile and dependent on external market conditions than the euro, and is overall much more vulnerable to all possible shocks, so the adoption of the euro could be regarded as positive. However, on the other hand, the adoption of the euro would mean that Turkey would be deprived of a number of its own significant monetary mechanisms to a large extent predefining the country's ability to effectively manage its national economy. The monetary supply in Turkey would be completely dependent on the European Central Bank, and that would bring Turkey to a large economic and financial dependence on the European Union (see Tekin, 2010).

The 2008 global financial and economic crisis showed that crisis in the Eurozone is inevitable, if one of its countries undergoes hard times, and the exchange rate of the euro tends to gradually fall in those circumstances. A country with its own national currency has much wider opportunities to regulate its exchange rates using the national reserves, letting the exchange rate flow, purchasing or selling currencies through public institutions, and so on. In the Eurozone, one country's failure to comply with the established principles and standards leads to a chain reaction of negative events to the rest of the Eurozone countries. Therefore, it can be said that, in case of Turkey's accession to the European Union, the country would definitely lose part of its sovereign mechanisms implemented in order to regulate its monetary policies, and thus its economic development in general (Yesilada, Rubin, and Rubin, 2013).

In the financial sector, Turkey would be forced to participate in the common financial policies implemented by the European Union member states. Namely, Turkey would be forced to participate in the bailout plans mutually provided to those European States which are undergoing periods of deep stagnation, and therefore require substantial funds on the part of their EU colleagues. This would be ineffective for Turkey, since, as of today, the country's economy is self-sufficient, and can cover well all its internal needs. Therefore, it would be likely to remain stable, and wouldn't require assistance from the EU. To the contrary, countries such as Greece or Portugal survive harsh times, and overcome the consequences of the 2008 global financial economic crisis, and therefore they would be more likely to demand assistance from other European member states, and namely from Greece. The allocation of such resources to other states would be detrimental to the Turkish economy, and would make the state spend much more on the bailout plans, without being able to focus such resources on the needs of the local population (Guerin and Stivachtis, 2011).

In the financial sector, the Turkish economic subjects could get access to cheaper borrowed funds, which would seemingly be beneficial to the Turkish companies, but would in fact represent another major threat for its national economy. For instance, cheaper loans which would become available to Turkish companies in the case of the country's accession to the European Union as its full-fledged member would potentially be very dangerous, which is testified by the example Greece. Both the Greek public and private sectors used to overuse loans. The 2008 global financial and economic crisis placed the country on the verge of economic bankruptcy and political default. In case of Turkey's accession to the European Union, the same risk would also exist in the context of overuse and the subsequent inability to repay such loans on the part of Turkish companies (see Mulhearn, 2008).

In case of Turkey's accession to the European Union, the visa-free regime would be established between Turkey and the European Union for all transborder movements of people. In this case, there would be a threat that Turkish corporations would far more often use European workforce, namely for high managerial positions, due to their experience and powerful professional background. This would definitely be a negative process for Turkey's employees which would thus be forced either to seek jobs on less important positions and with lower wages, or even would be left with any job at all. Moreover, migration processes from countries such as Greece, Bulgaria or Romania, i.e. those EU member states which are not more developed than Turkey in economic and technological terms, would mean possible use of such foreign workforce as regular employees on many Turkish enterprises. This would bring to increased unemployment, and therefore not only to the deterioration of the Turkish population's living standards, but also to increased state budget expenditures, namely for the payment of unemployment benefits (see Wendicke, 2008; Bilan, 2014).

Another major problem in social terms is the possible relocation of part of the refugee camps in the European Union to the territory of Turkey. This would potentially represent a major threat to Turkey's social sector, as the country would become a site of inflow of refugees. This would increase the tensions inside the Turkish society, and could also lead to an increase in the level of crimes in the country. Moreover, this would inevitably lead to increased government expenditures directed to the struggle against such crimes and payment of costs associated with the maintenance of the new refugee camps (see Tocci, 2011).

Also, the opened borders for the movement of people would probably lead to an increase in the outflow of highly qualified specialists from Turkey to the European Union, and namely to the so-called brain-drain processes. Turkish specialists in different fields would get an opportunity to find better paid jobs on the territory of the EU, and would therefore seek to leave Turkey for the purpose of gaining higher earnings. This would not only deprive Turkey of qualified professionals, but would also lead to an overall poorer situation with scientific development, research and engineering activities run in the Turkish national economy (see Arikan, 2006).

Next, it is important to understand that the completion of Turkey's process of integration to the European Union would deprive Turkey of further opportunities to participate in any integration alternatives available in the Asian region. For instance, Turkey could potentially follow the vector of integration within the framework of the Shanghai Cooperation Organization together with the world's superpowers such as China and Russia. This would potentially be a great alternative for Turkey's economic and political development taking into account the close geographical location of Asian states involved in SCO. However, in case that Turkey finally completes its accession to the European Union, the country would have to ultimately abandon those alternative integration scenarios. This would lead to the deterioration in relations between Turkey and the Asian states. In this case, Turkey would be more likely to lose its leading positions in Asia to China and other regional leaders. Loss of Turkey's geopolitical influence in the Asian region would be much vulnerable to the country's overall positions in the international arena (see Boomgaarden and Wüst, 2012).

Finally, it is important to understand in geopolitical terms that the EU promotes peaceful resolution of the issue with Kurdish separatist movements on the territory of Turkey. As the EU stresses the need to resolve this issue, it is quite possible that, with Turkey's accession to the European Union, the EU would impose liabilities on the Turkish state to hold a referendum on Kurds' independence, with the separation of their territories from the sovereign lands of Turkey, as the EU promotes to the largest extent the principle of self-determination of nations. Of course, such a scenario of resolution of the issue with separatist Kurdish movements would undoubtedly be inappropriate for Turkey, and this could provoke major conflicts already within the European Union (see Akçapar, 2007).

Also, with Turkey's accession to the EU, the intensification of Islamist movements could be expected, as the official accession to the European Union would mean further secularization of the Turkish state, and thus would lead to the suppression of movements promoting the establishment of the sharia laws on the entire territory of the country. This situation could provoke mass riots and street clashes between the supporters of Islamists and the supporters of European integration. Such protests could be supported and promoted by Islamist Asian states, which could even further destabilize the situation in Turkey. This should be taken into account, as such protests would require immediate and effective counteraction, and would probably imply significant economic consequences (see Tocci, 2011).

Overall, when evaluating the advantages and disadvantages of Turkey's prospective completion of integration process with the European Union, it is worth understanding that all and any integration scenarios assume both positive and negative effects, and there are no purely beneficial or disadvantageous integration alternatives due to the very essence of the integration processes. Thus, it is worth comparing the positive and negative outcomes of European integration for Turkey in order to understand the aggregate effects Turkey's accession to the European Union as its full-fledged member could bring to the country.

In our opinion, based on the findings of my analysis, it can definitely be said that the European integration alternative is definitely beneficial to the Turkish state in the context of comparison between the possible positive and negative effects. The economic, political, and social advantages potentially provided by the European Union to Turkey in the case of the country's ultimate accession to the EU exceed the possible risks incurred by Turkey to the completion of this integration scenarios, and therefore it can obviously be stated that continuing the ongoing negotiations with the European Union for the provision of membership status to Turkey is an important task of Turkey's foreign politics. By joining the European Union as its full-fledged member, Turkey would get an opportunity to significantly boost its economic development thanks to the far greater openness of the European member states' markets. Moreover, Turkey would be able to grant its energy security in the long-term period through the participation in mutual energy security programs. Collective security mechanisms implemented within the framework of cooperation in the European Union would allow granting a higher level of the

country's national security. Finally, thanks to the accession to the European Union, Turkey would be able to further strengthen its geopolitical positions in the international arena.

4. RESULTS OF HYPOTHESES TESTING

Hypothesis 1 can be confirmed. Indeed, Turkey's potential accession to the European Union will be likely to provide the country with great opportunities in economic terms. Namely, the completion of the country's integration process with the EU would allow Turkey obtaining a far larger and easier access to the EU member states' markets which are currently inaccessible due to Turkey's position as a non-member of the Union. Due to this, the country doesn't have free access to all markets, and is still subject to restrictions and limitations which are eliminated within the European Union. By gaining wider access to the European markets, Turkey would obviously become able to further deepen its cooperation with the European Union, thus building up closer partnership ties with the EU member states in terms of their mutually beneficial economic relations. Also, this would ease the inflow of investment to Turkey, as European investors would become more confident in the creditworthiness of the country being a member state of the European Union. However, it should be understood here that, together with the advantages for the Turkish economy, the country's integration with the EU would also impose considerable threats on its economic sector. Thus, the European manufacturers would gain far wider access to the Turkish market as well. As European corporations are much more powerful than the Turkish ones, and have larger financial resources, they would have much more effective levers to affect the competition on the Turkish domestic market through both price and non-price mechanisms. Therefore, this would pose under threat the Turkish local producers' effective market results, as they would have to face much more powerful competitors than before. Moreover, it is quite doubtful whether Turkey would be able to benefit so much from the wider openness of the European markets. This is mainly preconditioned by the fact that Turkey's manufacturers' products are generally weaker in terms of their quality and competitiveness than the same products offered by EU member states' residents. Thus, in case of Turkey's accession to the EU, there would be a major threat that most Turkish companies would lose competition on the domestic market, at the same time being unable to establish themselves as popular brands on the markets of the EU member states.

Hypothesis 2 can be confirmed. Indeed, Turkey is a bridge between the European Union and the Muslim world, and the country will be likely to play a great role in the cooperation between the EU member states and the Muslim Asian and African countries, especially in case of Turkey's accession to the European Union. Turkey is an interesting example of an Islamic country which is completely secular and deprived of all signs of Islamism which is prosecuted, Turkish society is highly liberal and democratic, and the religion doesn't interfere in the field of public affairs. This is particularly important for building up close partnership ties with the European Union, and the European society doesn't accept any kind of discrimination, especially when speaking of religion, and the practice of use of religion in state management is not welcomed in the Union. At the same time, in the Islamic world, cooperation between countries with the population sharing Islam tends to be much wider and much more effective than with countries where other religions are prevailing. This is a key factor of Turkey's successful relations with Northern African Arab states. At the same time, Turkey's geographical location between Europe and Asia allows the country effectively cooperating with the Asian states. Thanks to its unique expertise, Turkey would be able to profit much from its ties with both the Islamic world and Asian countries in the process of its integration with the European Union. This is predefined by the fact that the EU currently seeks greater economic expansion, and sees the Asian and North African markets as prospective growth areas which can be effectively filled by European companies. Turkey's involvement in those processes would allow not only further strengthening ties with all parties, but also gaining significant financial dividends.

Hypothesis 3 can rather be rejected. The free movement of labour within the European Union would definitely provide Turkish workers with an opportunity to move freely within the EU member states for the purpose of finding vacancies on the European labour market. As the greatest part of the workforce travelling abroad in search for better living or working conditions are young people, the greater inflows of workers from Turkey to the European Union would obviously be constituted by younger people, and therefore this would contribute to a change in the age structure of the EU. Such change would thus represent a tendency toward decline in the median age of the European citizens. However, it is worth understanding here that the number of people migrating from Turkey would not be so high against the background of the total population of the European Union. Therefore, the young migrants from Turkey would be “dissolved” in the great European population, and the aforementioned changes in the overall age structure of the EU wouldn’t be substantial. Therefore, this wouldn’t help resolve the issue of ageing of the population neither in the short-term, nor in the long-term. Moreover, in my opinion, this problem can only be eliminated through the implementation of wise economic, social and demographic policies on the all-European level, and immigration cannot be an effective solution in this case. After all, it is worth understanding that, even if minor positive effects can be reached thanks to the inflow of immigrants in the short-term period, already in the mid-term perspective, the problems currently existing in the social and demographic fields will again negate all such positive advancements.

Hypothesis 4 can be neither confirmed nor rejected. On the one hand, there is indeed a strong relationship between the level of a country’s economic development and the inflow of investment to it. On the other hand, it can definitely be stated that the level of foreign direct investment to Turkey would increase in case of its completion of the European integration process. However, this would be caused by a number of different reasons, in the first turn this would be achieved through the ease of investors’ access to the Turkish market, and their higher confidence in the successful results of their business in Turkey. However, it may be achieved even without economic growth. At the same time, the correlation between the two indicators above, namely economic development and FDI, is not so obvious in order to say that Turkey’s accession to the European Union would provide the country with greater foreign direct investment thanks to its economic growth within the EU. This hypothesis can be justified through Table 3 and Figure 5 below.

Table 2. Correlation between Turkey’s economic growth and FDI inflows in 2003-2013

<i>Year</i>	<i>GDP per capita (thousand current USD)</i>	<i>FDI inflow (billion current USD)</i>
2003	8,8	1,7
2004	10,16	2,79
2005	11,39	10,03
2006	12,91	20,19
2007	13,88	22,05
2008	15,02	9,76
2009	14,55	8,63
2010	16	9,06
2011	17,78	16,17
2012	17,97	13,22
2013	18,81	12,87

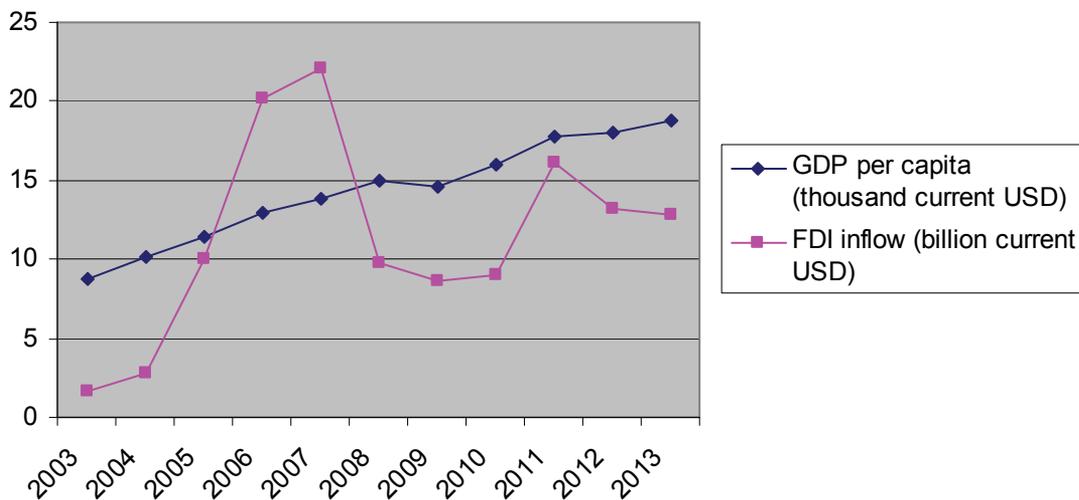
Source: Own results based on materials of the Turkish Statistical Institute and the World Bank (2014)

As one can see from the information given on the charts above, in the period from 2003 to 2013, the curve of Turkey’s GDP per capita which serves as the best index of the country’s economic growth remained mainly positive, while the curve of foreign direct investment didn’t have

any prevailing tendency throughout the analyzed period. Thus, the highest values of FDI inflows to Turkey were reached in 2006-2007 when those figures made up over 20 billion US dollars per year. However, afterwards, there was another peak, and again a decline in 2012-2013. This is in contrast to the indexes of economic growth shown during the same period which only tended to increase. Thus, for instance, as we can see from Figure 4 above, in 2012, the gap in correlation between GDP per capita and FDI inflows only widened, as those indicators showed differently vectored tendencies of changes. Thus, it can obviously be stated that the level of FDI inflows to Turkey in the analyzed period was predefined not only by the country's level of economic growth, as investors may be interested in funding economies in a condition of slowdown, and may refrain from investing in economies currently showing a high growth level.

Therefore, it cannot be definitely stated whether Turkey's economic growth would indeed lead to increase in FDI after the country's accession to the European Union. However, in this case, Turkey's economic growth would definitely contribute to such increase, even though probably indirectly, while the greatest role would be played by Turkey's ability to attract investors using various economic and other means.

Figure 5. Correlation between Turkey's economic growth and FDI inflows in 2003-2013



Source: Turkish Statistical Institute (2014); World Bank (2014)

In order to test more deeply the hypothesis about the interconnection between Turkey's prospective accession to the European Union and the increase of foreign direct investment inflow to the country, the author has built the following econometric model:

$$\lg(\text{real gdp } i) = \alpha + \beta_1 \cdot \lg(\text{fdi } i) + \beta_2 \cdot \lg(\text{inf } i) + \beta_3 \cdot \lg(\text{emp.rate } i) + \beta_4 \cdot \lg(\text{trd } i) + \beta_5 \cdot \lg(\text{rem } i) + \varepsilon \quad (1)$$

where:

real gdp *i* - the real value of Turkey's GDP

fdi i - foreign direct investment (expressed in \$)
inf i - inflation (in %)
emp.rate i - employment rate (in % to the population)
trd i - volume of trade expressed in \$
rem i - remittances received by Turkish households (in \$)

We assume that the level of Turkey's GDP is a constant, and its value is determined by the levels of independent variables. Based on the research literature and on the theory, we assume the following impacts of the right-hand variables on the left-hand dependent variable: foreign direct investment (positive impact), inflation (negative impact), employment (positive impact), trade (positive impact), and remittances (negative impact).

Most econometric models measure growth explained by the stochastic growth models. Stochastic growth models are the modification of basic growth models with incorporated random shocks (in order to understand business cycles), such as technological progress, shock on the supply or demand side, etc. The best example of a stochastic model on the macro-level is the stochastic version of the Cass-Koopmans model (Romer, 2001). Stochastic growth models (the best example on the micro-level is Gibrat's Law) are characterized by the following features: (i) macro and/or aggregated dynamics of the model, and (ii) no fluctuations. Their basic aim is to reproduce observed power-law distributions, derive growth dynamics, and allow for the fitting of real data.

The traditional outlook of any stochastic growth model is presented as a model with two deterministic components (exogenous growth and endogenous growth) and one stochastic component (random growth term ϵ). A model such as Gibrat's Law (the Law of Proportionate Effect) expressed in terms of a stochastic model has two basic assumptions: (i) log is normally distributed and is independent of the observation size; and (ii) the mean proportionate growth of a group is independent of the initial size.

Table 3. Econometric model for Turkey

Year	Real growth (GDP) (in %)	Real GDP (in \$)	FDI (in \$)	Inflation (in %)	Employment rate (in % to population)	Trade (in \$)	Remittances received (in \$)
1998	2,3	194 216 437 976,9	940 000 000	138,0	48,3	111 802 523 974	5 356 000 000
1999	-3,4	187 680 386 832,2	783 000 000	54,2	47,7	96 718 447 947	4 533 000 000
2000	6,8	200 394 710 743,7	982 000 000	49,2	45,6	115 136 236 404	4 560 000 000
2001	-5,7	188 977 269 251,5	3 352 000 000	52,9	44,5	99 484 898 009	2 786 000 000
2002	6,2	200 625 525 075,8	1 082 000 000	37,4	43,3	113 477 057 458	1 936 000 000
2003	5,3	211 188 991 344,8	1 702 000 000	23,3	42,0	142 511 629 689	729 000 000
2004	9,4	230 962 210 199,1	2 785 000 000	12,4	41,0	195 052 433 532	804 000 000
2005	8,4	250 366 772 494,1	10 031 000 000	7,1	41,2	227 999 711 968	887 000 000
2006	6,9	267 625 779 260,4	20 185 000 000	9,3	41,2	266 782 374 519	1 146 000 000
2007	4,7	280 120 101 291,1	22 047 000 000	6,2	41,1	322 329 293 115	1 248 000 000
2008	0,7	281 965 640 210,3	19 762 000 000	12,0	41,4	381 591 082 597	1 476 000 000
2009	-4,8	268 358 330 269,9	8 629 000 000	5,3	40,9	293 377 236 258	1 050 000 000
2010	9,2	292 931 776 183,9	9 058 000 000	5,7	42,7	350 733 417 820	993 000 000
2011	8,8	318 629 941 593,0	16 171 000 000	8,6	44,6	438 697 599 940	1 087 000 000
2012	2,1	325 408 668 119,6	13 222 000 000	6,9	44,9	455 606 702 394	1 015 000 000
2013	4,1	338 829 122 004,1	12 918 000 000	6,1	44,5	475 621 740 677	919 000 000

Source: Own results

Evans (1987) used a modified version of this model, stating that the departures from Gi-brat's Law. Evans's model became an inspiration for the other few researchers. For instance, in their paper on investments, inputs and economic growth, Variyam and Kraybill (1994) began with the model presented by Evans (1987). They first estimated the regression model devel-oped by Evans without the squared and cross product terms, and tested for nonlinearities im-plied by these terms using Theil's BLUS residual tests. Then they estimated several model ex-tensions that have additional sources of heterogeneity in growth rates.

Table 4. Econometric model for Turkey: weight of the factors

	1,00000	2,00000	3,00000	4,00000	5,00000
1998	0,00071	-0,03194	0,23419	0,19854	-0,08281
1999	0,00061	-0,01298	0,23933	0,17773	-0,07253
2000	0,00072	-0,01105	0,21428	0,19816	-0,06833
2001	0,00261	-0,01258	0,22175	0,18156	-0,04427
2002	0,00079	-0,00839	0,20324	0,19508	-0,02898
2003	0,00119	-0,00496	0,18728	0,23273	-0,01037
2004	0,00178	-0,00241	0,16717	0,29127	-0,01045
2005	0,00590	-0,00127	0,15496	0,31408	-0,01064
2006	0,01110	-0,00157	0,14497	0,34380	-0,01286
2007	0,01159	-0,00100	0,13817	0,39686	-0,01338
2008	0,01032	-0,00191	0,13826	0,46675	-0,01572
2009	0,00473	-0,00089	0,14352	0,37704	-0,01175
2010	0,00455	-0,00087	0,13727	0,41294	-0,01018
2011	0,00747	-0,00121	0,13181	0,47485	-0,01024
2012	0,00598	-0,00095	0,12993	0,48288	-0,00937
2013	0,00561	-0,00081	0,12368	0,48413	-0,00814
	0,00473	-0,00592	0,16936	0,32678	-0,02625
	0,00473	0,00592	0,16936	0,32678	0,02625
	0,00887	0,01111	0,31773	0,61304	0,04925
	0,00004	-0,00007	0,05381	0,20033	-0,00129
	0,25282				

Source: Own results

Table 5. Econometric model for Turkey: values of the factors

	<i>lg</i>	<i>lg</i>	<i>lg</i>	<i>lg</i>	<i>lg</i>	<i>lg</i>
	<i>Real GDP (in \$)</i>	<i>FDI (in \$)</i>	<i>Inflation (in %)</i>	<i>Employment rate (in % to population)</i>	<i>Trade (in \$)</i>	<i>Remittances received (in \$)</i>
1998	11,29	8,97	2,14	1,68	11,05	9,73
1999	11,27	8,89	1,73	1,68	10,99	9,66
2000	11,30	8,99	1,69	1,66	11,06	9,66
2001	11,28	9,53	1,72	1,65	11,00	9,44
2002	11,30	9,03	1,57	1,64	11,05	9,29
2003	11,32	9,23	1,37	1,62	11,15	8,86
2004	11,36	9,44	1,09	1,61	11,29	8,91
2005	11,40	10,00	0,85	1,61	11,36	8,95
2006	11,43	10,31	0,97	1,61	11,43	9,06
2007	11,45	10,34	0,79	1,61	11,51	9,10
2008	11,45	10,30	1,08	1,62	11,58	9,17
2009	11,43	9,94	0,72	1,61	11,47	9,02
2010	11,47	9,96	0,75	1,63	11,54	9,00
2011	11,50	10,21	0,93	1,65	11,64	9,04
2012	11,51	10,12	0,84	1,65	11,66	9,01
2013	11,53	10,11	0,79	1,65	11,68	8,96

Source: Own results

The results of the econometric model can be summarized by the following equation representing the equation depicted in (1) and amended to show the values of the coefficients:

$$lg(\text{real gdp}_i) = 7.172 + 0.009 \cdot lg(\text{fdi}_i) - 0.03 \cdot lg(\text{inf}_i) + 0.685 \cdot lg(\text{emp.rate}_i) + 0.286 \cdot lg(\text{trd}_i) - 0.022 \cdot lg(\text{rem}_i), \quad (2)$$

Table 7 shows the factors' effects (the % increase of the independent variables caused by the 1% increase in the dependent variable (real GDP of Turkey)).

Table 6. Factors' effect

1% ↑	<i>FDI</i>	<i>Inflation</i>	<i>Employment rate</i>	<i>Trade</i>	<i>Remittances</i>
Real GDP	0.0047% ↑	0.0059% ↓	0.1694% ↑	0.3267% ↑	0.0263% ↓

Source: Own results

The values are computed with respect to the fact that all the variables were expressed in logarithms and therefore need to be re-calculated in order to be expressed in real values.

Table 8 shows the consolidated factor effects (a 1% increase of real GDP would lead to the 0.25% increase in the consolidated factor).

Table 7. Consolidated factor effect

1% ↑	Consolidated factor
Real GDP	0.2528% ↑

Source: Own results

As one can see from the calculations done for the econometric model for testing the factors predefining the level of Turkey's GDP, trade has the greatest positive impact on the country's gross domestic product. Thus, if the figure of Turkey's trade grows by 1%, the country's GDP will grow by 0.3267%. Other positive factors include the rate of employment and foreign direct investment. If the rate of employment grows by 1%, Turkey's GDP will grow by 0.1694%. Respectively, if the level of FDI increases by 1%, Turkey's GDP will grow by 0.0047%. At the same time, in contrast to trade, employment and foreign direct investment, inflation and remittances are negative factors which contribute to the decrease of Turkey's gross domestic product (Ustubici and Irdam, 2012). Thus, if the rate of inflation grows by 1%, Turkey's real GDP will fall by 0.0059%. Respectively, if remittances increase by 1%, the country's real GDP figure will drop by 0.0263%.

Based on the results of the above testing, it can obviously be seen that the level of foreign direct investment has positive effects on the Turkish economy. However, it is worth noting that, among the positive factors, the value of foreign direct investment is the lowest. This means that the growth of FDI is not the most essential factor predefining the level of Turkey's gross domestic product. Moreover, as the figure of foreign direct investment's impact on GDP is almost equal to zero, this obviously means that the level of correlation between FDI and GDP is quite low. This proves the previous empirical findings of the author's analysis which showed weak dependence between Turkey's GDP and the level of foreign direct investment inflow in the country. At the same time, factors such as the rate of employment and trade have a much higher impact on the level of Turkey's gross domestic product, and their respective values are considerably higher than the ones of foreign direct investment inflow.

Therefore, taking into consideration the results of the author's testing run under the above econometric model, it can be stated that Turkey's accession to the European Union and the subsequent growth of FDI inflow in the country through the investment of European companies and private investors will not play a major role in the growth of the country's gross domestic product, and its figure will more largely be predefined by other factors, namely by trade and the rate of employment.

5. CONCLUSIONS AND POLICY IMPLICATIONS

Turkey's process of integration with the European Union started back in the 1960's, when the country became an associate member of the EU. Since then, Turkey has made many attempts to transform its official status of candidate for membership into the status of full-fledged member of the European community. However, as of today the country has not yet been able to complete its European integration process, and there have lately been declarations of Turkish officials that the country may officially suspend its European integration course.

On the way toward European integration, Turkey has already implemented a great number of reforms in all fields of its activities. Thus, the Turkish legislation in the economic and social fields has long been unilaterally harmonized with the regulations and standards of the European Union for the purpose of complying with the accession criteria imposed by the EU. In the early 2000s, Turkey implemented a wave of economic reforms destined to improve the country's economic indicators and financial results in line with the requirements of the European Union. Thanks to the effective results of those economic reforms, Turkey was able to fulfill the Maastricht criteria, and as of today, in economic terms, the country is compliant with the requirements for prospective members. Moreover, in the social field, the country was able to meet the EU's basic requirements to the protection of human rights and freedoms, and still currently undertakes steps to further improve the situation on this segment. However, the integration process has not recently substantially progressed, which can be explained by objective conditions.

A major obstacle on the way of Turkey's completion of its integration process with the European Union is the country's support of the self-proclaimed Turkish Republic of Northern Cyprus, which is a separatist formation declaring the goal to secede from the sovereign ruling of Cyprus and enter Turkey as its autonomous territory. The self-proclaimed state has as of today been recognized only by Turkey, and it faces heavy opposition of the European Union member states. As Cyprus is a member state of the EU, its antagonistic conflict with Turkey over the territory of Northern Cyprus makes it impossible for Turkey to join the EU. Cyprus blocks all Turkey's intentions to join the EU, and therefore the prospects of integration currently seem to be vague for the Turkish state.

Turkey's prospective completion of the European integration process may potentially provide the country with great economic and security benefits. Thus, by joining the European Union, Turkey would gain free access to the European market of goods and services, and the local manufacturers could benefit from this situation by offering quality goods at prices lower than the European companies. At the same time, the level of unemployment in Turkey could be potentially reduced through migration of Turkish workers to Europe in search for better working conditions. Finally, it is worth understanding that Turkey's accession to the European Union would provide the country with a far higher level of national security thanks to the participation in collective defense and security mechanisms implemented within the EU. However, the threats represented by Turkey's accession to the European Union shouldn't be underestimated. The country's local manufacturers are weaker than their European competitors, and accession to the EU may lead to closure of many Turkish companies, and thus deterioration of the market conjuncture. Also, cancellation of the national currency in favor of Turkey would deprive Turkey of important economic regulation mechanisms. Finally, Turkey would thus lose its sovereign political levers as part of the national powers would be delegated to the single center in the European Union.

Further progress of Turkey's integration process with the EU will be predefined by many external factors, and as of today, it is hard to forecast whether this process will in the long run be successful.

If Turkey successfully completes the aforementioned requirements, its chances for getting EU membership will significantly grow. In case the country is finally able to get the official membership status, its development may follow different vectors, as it has already been stated earlier in this thesis. I believe that, overall, Turkey will get significant benefits from its official membership in the European Union. However, on the first stages after the completion of the integration process, the country will be likely to face some major difficulties connected with the differences in its economic development as compared with the EU.

Here, it is first of all worth noting that Turkey will need to substantially update its legislative base for the purpose of meeting the requirements of the European Union, and complying with the European standards and regulations in all fields. This step will be important for the liberalization of the Turkish economy and the effective integration of its domestic market into the

European single economic space. The change in the legislation will bring challenges to the economic subjects incorporated in Turkey, as they will have to adapt to the new conditions of doing business and the requirements imposed on them.

Another major difficulty will be the inflow of European goods which are generally of a higher quality. In my opinion, many Turkish manufacturers will be unable to withstand the competition of major European corporations, and therefore will be eliminated from the market. However, at the same time, companies which will be able to revamp their production processes and market practices will significantly raise their level of competitiveness as compared with the situation existing now. This will increase their market performance, and they will even be able to expand to the European market, provided that they are able to meet the demand of customers with some particular key advantages.

After the initial stage of membership in the European Union, namely upon completion of the adaptation process, the Turkish economy will be likely to gain unprecedented opportunities for its subsequent development. Namely, as the conditions of doing business in the country will correspond to the ones existing in the European Union, and the rules applied will be the same as in the EU, European investors will be interested in investing in the Turkish economy for the purpose of developing their business. Thus, Turkey will be able to get a major boost of its national economy through the increased inflow of foreign direct investment.

The increased cooperation with the European Union will be likely to provide Turkey with additional vacancies, and thus reduced level of unemployment, through the intensified activities of foreign corporations and the enlargement of the Turkish domestic market. Also, if the country enters the Eurozone, its foreign exchange risks will be significantly diminished, thus contributing to the overall stable situation of the Turkish economy.

Another major advantage for Turkey, in case of the country's accession to the European Union, will be the increased energy security through the energy supply diversification programs currently implemented in the EU. The implementation of such programs in Turkey will be likely to positively impact the level of Turkey's economic independence and stability.

A not less important prospective benefit Turkey will gain, if it joins the European Union, is the country's participation in the European collective security mechanisms and systems. It will allow significantly increasing the level of Turkey's national security, and even help further promote the country's cooperation with its allies within NATO.

However, if the time is right and Turkey will be accepted to the European Union, it will have to give up a part of its sovereign powers. Additionally, the country will inevitably fall under the great dependence on the single EU center, which will significantly reduce its possibility to manoeuvre in the international arena in both economic and political terms. This may become an important obstacle on the way of the country's integration with the EU, as the availability of such sovereign powers raises the level of the state's independence, which would otherwise be diminished.

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