Admitting Turkey to the EU: Assessing the opportunity and the risks

Peter Widmer

Peter Widmer is financial advisor to a small number of wealthy European families. He previously was Chairman of Julius Baer Investment Management, Inc. and Member of the Executive Board of Julius Baer Holding in Zurich, responsible for the company’s institutional investment activities outside Switzerland. Prior to working for Julius Baer, Widmer was with Swiss Bank Corporation and London & Dominion Trust and Thomson-Schwab & Co. He holds the Commercial Diploma from the Swiss Business Association.

Describing the EU’s decision to begin the process to admit Turkey as both a risk and an opportunity, Peter Widmer in his address to the Global Executive posed some questions: “How can a 99 percent Suni and Islamic nation, which Turkey is, be successfully integrated into the Christian tradition and history of the existing EU?

“However, could this be the great opportunity to bring Europe and the Islamic Middle East together for their mutual benefit?”

There is disagreement on Turkey’s status as a European country. Not surprising considering that 95 percent of its territory is in Asia. “Turkey has politically sensitive neighbors like Iraq, Iran, Georgia and Armenia,” said Widmer. “Can Western and Asian nations work together closely within an organization such as the EU?”

With Turkey’s admission, “the population of the EU will expand by 15 percent for a 3 percent added GDP. So as in the case of the 10 new eastern countries, there is an initial factor of dilution in the economy. Is this a risk worth taking?”

Negotiations to start

In 1987 Turkey’s request to join the EU was rejected on the grounds that they weren’t ready. “Last month the EU Commission, which is the executive body, recommended that all EU heads of state at their meeting on Dec. 17, 2004 approve the opening of official negotiations for Turkey’s admission. Negotiations will take 15 to 20 years, which will give Turkey plenty of time to meet EU criteria pertaining to legal systems, human rights and minority issues among other concerns to the EU,” said Widmer. “All these political criteria must be met or at least firmly committed to when negotiations start next year. However, economic criteria have to be met at the date of joining.”

Widmer drew a statistical picture of Turkey:

- Population 70 million, expected to reach 90 million by the time it is admitted to the EU;
- The country is poor with a large agricultural industry that employs 40 percent of the workforce;
- Income level is 26 percent of the EU average;
- 30 percent of the population is under 15 years of age compared to 16 percent in the EU;
- The EU is already the largest trading partner of Turkey, accounting for 40 percent of exports and 35 percent of imports. The corresponding figures for US-Turkey trade are 9 percent for exports and 6 percent for imports. Turkey’s most important industries are textiles, clothing and food;
- Inflation is down to 9 percent. Short-term interest rates take longer to drop, they’re still at 24 percent;
- GDP growth in the second quarter of 2004 hit 13 percent, making it the fastest growing OECD country.
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Turkey’s efforts to transform its economy as a requirement of EU membership are receiving high marks. “The Organization for Economic Co-operation and Development has just published a very favorable assessment of Turkish programs for structural and economic reforms,” said Widmer.

The 2005 budget stems from these reforms. “It calls for continued strict fiscal discipline as a visible sign of economic stability. The budget was very well received by the Turkish public and by the EU.”

On Jan. 1, 2005, the currency will have a make-over. “Several zeros will be lopped off the lira so that one million lira becomes one new Turkish lira. This will have a good psychological effect on the public as it is tangible proof that policies that haven’t worked in the past are being corrected.”

On the international scene, Turkey has been a good and reliable member of NATO since 1952, and is a founding member of the OECD. Turkey has had an association agreement with the EU since 1964 and a customs union since 1996.

Not there yet

Turkey still has a long way to go before it is deemed ready for EU membership. “The main problems are a soaring current account deficit and huge discrepancies in the local economy. The western part of the country is defined by wealth, the eastern part by poverty,” said Widmer.

The government’s treasury suffers because of the black, or unofficial, economy. “It’s estimated that 50 percent of the workforce pays no taxes and makes no Social Security contributions.” These workers are either self-employed and do business on a cash basis or they work for small businesses that are not registered with the government.

There seems to be unity among the population regarding EU membership: 71 percent of Turks are in favor of it, Widmer said. It will be up to existing EU members to vote Turkey in or reject them again.

“There are lots of questions to be debated between now and then in an effort to reduce the risks or at least come to terms with them,” said Widmer. “But I think the opportunity for political breakthrough makes the admission of Turkey as important for the whole world as it is for the EU.”