TURKEY: GROWTH IN INEQUALITY?

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1. Introduction

While most of the critics are wondering whether the Turkey's accession should be taken into consideration, analyzing the possible advantages or disadvantages that its entrance could offer to the EU, the present paper was thought from a different viewpoint. Starting from Turkish reality and looking toward its possible membership of the EU, our doubts are: which can be the consequences of the accession for a country such as Turkey that, despite its recent fast growth, still suffers from high inequality and poverty rate? To which extent can Europe take off the edge or, on the contrary, deepen the gap?

In the attempt to give an answer to these questions, this paper is driven by the assumption that several sustainable development policies promoted in last years have not matched with their purposes for a mistake during the elaboration process. That is, preoccupations for the impact of an economic policy on the sustainability are usually expressed *ex post*[1]; consequences are determined when sometimes it is too late, when social changes are deeply rooted or when reducing the damage could require time and costs that not all governments can support. Therefore, forecasting and studying the possible effects, without considering as normal ones poverty and inequality, could help a development program to be sustainable. A method of analysis *ex ante* can be simply studying the experience of other countries being in the same conditions. We believe that, although each country has its own development path, there always will be some common key elements that bring about the same dynamics. Discussing these dynamics can provide solutions or, at least, avoid the same mistakes.

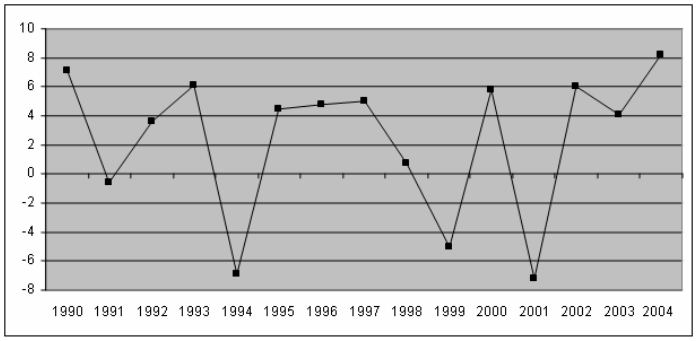
[1]. This consideration was defended in the course of Economic Sustainable Development (Càtedra Mediterranean project, *Universidad de Valencia*, Spain 2005) by Professor Jorge Arturo Chaves Ortiz, researcher at the "Catedra de Etica de la Economia y del Desarrollo", *Universidad Nacional de Costa Rica*.

This paper provides a comparative approach assessment, whose aim is to analyze the possible effects on the Turkish growth as a consequence of its accession to the European Community, in the light of the Mexican experience. The intention is to investigate the Turkish case and its convergence to the EU taking into account the Mexican catching-up process to the US in the last 10 years and, particularly, after the implementation of the regional free trade agreement, NAFTA. The analysis originated from the claim that the American regional agreement experience has revealed some characteristics and aspects rather similar to what is likely to occur in Turkey in the next years.

2. Turkey at a glance

After the severe crisis of 2000-2001, the implementation of a new policy framework, in the subsequence three years has brought about an economic miracle, the so-called "*Turkish Silent Revolution*": in 2004 the Turkish GDP grew at more than 8% against a 3% in the OECD countries and inflation fell to 12%, the lowest level in the last 10 years (OECD, 2005).

Fig. 1 – Turkey's per-capita GDP, 1990-2004, PPP (constant 2000 international $)



Source: Data from World Development Indicator Database: www.worldbank.org/dataonline

Fig. 1 illustrates very clearly Turkish irregular performance in the last decade. Until 2001, ups accounting for a 5% of the GDP per-capita have alternated rather similar downs that reached the lowest levels during a first crisis in 1994, with an almost -7%, and a second stronger crisis that made GDP per-capita fall to a -5% in 1999 and a 7.2% in 2001. Such a trend fully reflected the deep macroeconomic instability that featured Turkish economy over the 1990s. However, as the Fig. shows, the economy has recovered

strongly from the politically triggered currency collapse in 2001, which led to a large contraction of growth. Indeed, in the last years the country is finally enjoying a period of calm and unexpected expansion, going from a GDP per-capita increase of 6% in 2002 to more than 8% two years later, with growth at its highest since 1990. Furthermore, differently to the past decade, when rapid growth had been followed by equally sharp declines, this new performance appears rather more solid and strong, also with respect to its Mediterranean peers.

That does not mean Turkey is richer than EU Members, but it is surely more dynamic[2].This rapid ascent of Turkish economy seems even more interesting if we look at the EU Members' performance, particularly at the new candidate countries Romania and Bulgaria.

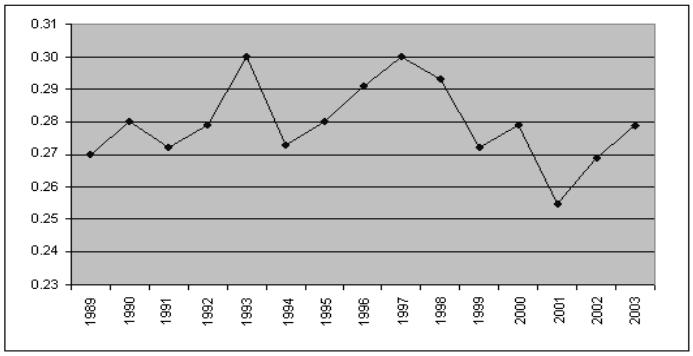
An assessment provided by the Independent Commission on Turkey (2004, p. 40) on the GDP growth in the period 1995-2003 shows that the Turkish performance, 28%, was rather better than the 18.8% of EU-25 and a mere 9.3% and 9% of Bulgaria and Romania, respectively. After 2001, therefore, Turkey has grown at faster rate not only with respect to the EU-25, but also to those countries which are scheduled for accession in 2007.

Notwithstanding such optimistic premises, fast GDP growth does not seem to have helped Turkey to decrease its distance from the EU. Fig. 2 shows the gap evolution between the two areas.

As we saw for the growth performance, also the gap process has been characterized by trends narrowing or widening the distance with the EU. Nevertheless there are only two years where the gap has reached its closest level: in 1993 and 1997 when the Turkish per-capita GDP was 30% the European one. The reason of such a performance has to be found in both sides: it was a combination of a negative for the EU and of an expansion for Turkey. Indeed, in 1993 EU growth rate recorded -1.43% against 6.1% for Turkey. So to a decline in the European growth rate corresponded a greater rise of Turkish economy and this allowed the latter to catch up. In 1997 a new peak featured the gap process, but this time it was brought about mostly by the Turkish side. Indeed, while during the period 1994-1997 the EU grew at an average rate of 2%, the Turkey's rate, after a deep fall to -6.9% in 1994, rapidly increased until 1997, when its per-capita GDP grew at a rate of 5%.

[2]. In the European context it is a relevant point since «*experience in the EU has shown that problems are much more likely to arise from established rich member countries with stagnant economies (Belgium in the 1980s, Italy and Germany today) than from poor, but more dynamic States (e.g. Portugal and Greece today)*» (Dervis K. *et al*., 2004, p. 18).

Fig. 2 – Relative GDP gap between Turkey and EU (1989-2003)



Note: To calculate the gap, the GDP per-capita PPP (constant, 2000 international $) was used for both the areas; The EU data refer to the EUM data for the absence of needed information about any other EU group samples.
Source: Author's calculation on data from the World Development Indicator Database, available at www.worldbank.org/dataonline

Anyway, these two peaks were followed by countervailing declines: in 1994 and 1999, when the Turkish GDP amounted to 27% of the EU's, and in 2001, when the gap recorded its peak with 25%. Comparing the Turkish with the Mexican catching-up path, the latter appears quite more constant and stable, even though its average has been kept at a lower rate, around 25% of the US per-capita GDP. Moreover, in the last years the Mexican gap seems to rebound back to the 1950s' value. The Turkish economy, instead, despite the suffering ups and downs trend, after the 2001 crisis is growing faster than the European one. Indeed, the gap is still important – in 2003 Turkish GDP was 28% of the EU's – but compared with the "leader country" has been narrowed.

Notwithstanding the fast catching-up run of the period 2001-2003, the convergence process toward the EU seems still far away, if compared to other EU Members. Turkey seems to need more time to achieve the rapid catching-up growth rates necessary to close the economic gap with the EU's leaders. How can it do? Does not the theory state that a developing country, since it is growing at a faster rate, should catch up the leader country? That means, if we consider two countries, differing only in their starting level of per-capita income, that the poorer country is supposed to catch-up over time. And in fact Turkey now is catching-up the EU, but not quickly enough. This happens because "*ceteris* is almost always not *paribus*" (Derviş *et al.*, 2004) and in the case of Turkey, the starting conditions are not the same of EU's. Indeed, the

empirical experience suggests that there are other factors, apart from GDP rate, which contribute to a country's development. For example, a greater investment in human capital, a more equal income distribution, a lower poverty rate and more reliable institutions, as well. All these elements can allow Turkey to achieve the rapid catching-up growth rates needed to close the economic gap with the EU leaders. In order to see how important and vital is the influence of these aspects to the overall growth process of a developing country, it can be worth considering the Mexican experience.

3. Elements for growth: the NAFTA experience

The main reason why Mexico decided to stipulate a free trade agreement with two economic powers such as the US and Canada was the vital need to attract new foreign direct investment (FDI) and, hence, raise national economic growth[3]. However, 10 years after its implementation, NAFTA has brought about rather disappointing results[4]. The analysis carried out in our previous study reveals that, against all expectations, Mexico failed to catch up the US. Indeed, NAFTA supporters believed that the agreement could help Mexico to narrow the distance with the North American partner that it had been deepening since 1990[5]. Nevertheless, the agreement not only failed to stimulate a catching-up process but did not succeeded in stopping the decline: in the study it was shown that since the1990s – NAFTA implementation – the Mexican relative gap with the US has been rebounding back to the same levels it recorded in the 1950s[6].

Such unexpected outcome has raised a debate among economists about the effective impact of NAFTA in the context of Mexican overall growth. Despite different views, critics have arrived to the common conclusion that NAFTA alone is not enough to grant a complete and solid development in Mexico in the long run[7]. The Mexican experience seems to have shown that, although free trade can bring about new economic opportunities, if they are not

[3]. The North American Free Trade Agreement (NAFTA) was signed in 1993 among Canada, Mexico and the US. It entered into effect in January 1994.

[4]. All the references about NAFTA derived from the findings of the author's Thesis "The Economic Growth between Globalization and Regionalism. The Mexican case" discussed in May 17, 2004.

[5]. Mexican catching-up performance was not always on these levels. Indeed, over a period of 30 years (1950-1980) Mexico grown at a higher rate than the US and this allowed the Latin American country to decrease the gap with its neighbour. Notwithstanding such good performance, after the 1980s Mexico knew a sudden growth deceleration until when, in only four years, 1990-94, it undid the catching-up rate achieved over the 30 years before.

[6]. Precisely, Mexican per-capita GDP is 25% of the USA's.

integrated by institutional reforms, it will not provide a stable and sustainable development. Growth by itself does not improve the life quality of a whole country's population, especially if it does not keep up with inequality and poverty reduction. These are not secondary factors. This paper moved from the assumption that such "complementary" elements are what effectively allow the passage, according to Abramovitz, from *potentiality* to *capability* and, according to Sen, from *capability* to *freedom*, which means opportunity to utilize such capability.

The lesson that can be learnt from the Mexican case becomes even more interesting if we dwell upon some criticisms raised about NAFTA limits. They can be resumed into 4 points.

- The supporters of the agreement underlined the consistent rise of FDI inflows and North American exports toward Mexico. Notwithstanding everyone has recognized this merit to NAFTA, some critics pointed out that those investments came from the US and Canada exclusively but not from the rest of the world. Such an increasing integration between Mexican and its partners' economies, therefore, seemed to have the opposite effect on the Mexican market since it led the Latin country to close itself to the rest of the world. That means that partners' integration is inversely correlated to Mexican integration with the countries outside the agreement. This suggests that NAFTA implementation has created a trade diversion effect. Consequently, it has prevented the market liberalization to fully bring about new competitive opportunities to Mexico.

- Another success ascribed to the agreement was the liberalization of the rural sector. In particular, the growth of productivity in the irrigated lands, where new cultivations substituted the traditional ones. While the supporters viewed such strategy as a better exploitation of the rural land, the critics focused on how it obliged Mexico to be even more dependent on food imports from the US and Canada, which arrived to cover 70% of the Mexican demand of rural goods. However, the disappointing result in the rural area did not seem to particularly worry the national policy-makers, as it was dimmed with the incredible growth recorded in the *maquiladoras* industry, the main source of Mexican exports. In fact, the rapid development in this sector has increased the whole rate of national exports at a noteworthy amount. Nevertheless, critics underlined that the

[7]. See the World Bank Report (2003), *NAFTA: Positive For Mexico But Not Enough*, Mimeo, Office of the Chief Economist for Latin American and Caribbean, The World Bank, Washington DC.

maquiladoras performance was an exception in the Mexican productivity trend and furthermore it seems to have deepened the gap between qualified and non-qualified workers. Indeed, the increase in the qualified work exclusively in the *maquiladoras* industry took place to the prejudice of all the other sectors in the Mexican economy, especially of the rural one.

- This point leads us to analyze a third aspect: the reverse of what is supposed to happen according to the theorem of Heckscher-Ohlin framework has occurred. As Mexico has a comparative advantage on its relative-abundant factor, the unskilled work, the expectation was, then, that liberalization of trade would have led to an increased demand of unskilled labour intensive goods relative to skilled labour intensive ones. On the contrary, the national income growth was due to its relative scarce factor, the capital, increased by new FDI inflows. At the same time, decrease in productivity, stagnation of wages and contraction of work supply in the unskilled labour sector were recorded. Such collapse of the unskilled work – Mexican abundant factor – occurred because even though it is true that Mexico has such a comparative advantage with respect to its partners, it cannot be said the same with respect to China. Indeed, the Asian unskilled labour not only is four times cheaper, but is also more qualified than Mexican's. As a consequence, eventually China has been achieving place among the most favourite partners of USA and Canada, preventing Mexico to take advantage of its traditional abundant factor.

- Finally, the fourth point, which we think is the most important and relevant in the analysis, deals with the impact the agreement had on the household income distribution. The main criticism raised after 10 years of NAFTA implementation is to have deepened the gap between the North and the South of Mexico. NAFTA appears to have concentrated its benefits to the Northern and Central States only, leaving the South in a worsening condition of poverty. Indeed, income distribution measures reveal strong inequality throughout the country; notwithstanding inequality has featured Mexican dynamic for years, even before the agreement, recent studies have shown that with NAFTA the inequality situation has deteriorated. As pointed out by Perry – economist at the World Bank for Latin America and Caribbean – «*NAFTA definitely further plugged Mexico into the most dynamic economy in the world, but the country's development across the 1990s, including the NAFTA period,*

was unequal. The most developed and competitive regions and sectors have clearly benefited from the trade liberalization, while those lagging behind have not. Extending the benefits of greater integration to all society remains the challenge»[8].

The purpose of this paper is to consider these four elements as starting points for an evaluation of the Turkish panorama and its growth prospects. Similarly to Mexico, Turkey is going to enter a block that is much more developed and competitive; this can represent a two-edged blade: on the one hand it can be a positive stimulus for Turkey to upgrade its potentials; on the other hand Turkey could fall in the temptation to wait for European support and intervention for each domestic obstacle, as an easier loophole to elude its own responsibilities. Furthermore, it could be a counterproductive strategy as, if the country will not overcome its internal weaknesses, they will be the first to collapse in front of the Communities regulations. Therefore, the effects of the EU after the accession will strongly depend on the way Turkey will deal with its *preparation* for membership.

4. Turkey's limits

4.1 Why Turkey and Mexico?

At the borderline with the US, on the Northern side, and with Latin America, on the Southern side, we find Mexico that with its central position represents the melting point of the two American hemispheres, both parts of the same continent but, in many aspects, belonging to two different worlds. On the other side of the ocean, we find another "bridge-country", Turkey, whose strategic geographic position, always in the history, has transformed it into the harbour of the cultural and commercial exchanges between its Western and Eastern neighbours, Europe and Asia respectively.

This is not the only common element that two countries apparently as different as Mexico and Turkey can share. If we examine them over the last decade, we could observe a quite interesting similarity. Both have started up a new macroeconomic agenda after a big currency crisis – in 1994 and 2001 in Mexico and Turkey, respectively[9]; they have been supported by external

[8]. Introduction to the World Bank Report (2003), *NAFTA: Positive For Mexico But Not Enough*, Mimeo, Office of the Chief Economist for Latin American and Caribbean, The World Bank, Washington DC.

[9]. Precisely Turkey experienced two recessions: the first, in 1999, was to a large extent the result of external shocks, such as the Russian crisis and the devastating earthquakes in Turkey's

agents such as IMF and World Bank; they seem to have a comparative advantage in unskilled work and they sell this abundant-intensive factor to the US (in the case of Mexico) and to the EU (in the case of Turkey). Furthermore, the Mexican domestic economy, as well as the Turkish one, is based on a double model structure: a part of the country lives on an industrial economy while the other on an agricultural economy. What is interesting is that in both countries the majority of the labour force is employed in agriculture even though this sector contributes with a small percentage to the households' income; they also record a large extent of the informal sector. Finally, they are both supporting regional agreements[10] with very advanced and industrialized countries or areas (North America and Europe).

Nevertheless, it is better to underline some noteworthy differences: in the last few decades the Turkish growth performance has been more irregular and unstable than the Mexican one. Furthermore, the Mexican process of catching-up to its leader country was stronger in the past but has slowed down in these last years; on the contrary, the gap between Turkey and Europe was pretty high in the past decades but since 2001 it has been surprisingly reducing quite fast.

Probably the main reason behind this different performance is that they remain in two different stages: Mexico presents 10 years backwards of regional integration; consequently the reality we examined is a result of a long-term programme. Differently, Turkey has not joined EU yet, although it already presents some warning signals. We will analyze them, always keeping in mind the main limits about NAFTA as underlined above.

4.2 Trade creation or trade diversion?

industrial heartland. The crisis in 2001 was mainly triggered by domestic factors, such as accumulated weaknesses in the financial sector, which drove numerous banks close to bankruptcy. Both crises led to sharp declines in economic activity, only interrupted by a temporary recovery in 2000.

[10]. It is important to distinguish between NAFTA as a *Free Trade Agreement* and the European Union, since 1993, as a *Common Market*. The former is an economic integration form where all barriers are removed within Member States, but each partner maintains its own barriers toward non-Member States. Differently, the latter is a free exchange area that also eliminates barriers among Members but harmonizes also commercial policies toward the rest of the world. It means that all imports entering the customs union are subject to the same barriers independently of the country of origin.

One of the main concerns about a regional integration is to what extent it will influence overall trade and which effects it will have on the relation between the partners and third countries. Economic theory explains that there can be two opposite reactions, the so-called "*trade creation*" and "*trade diversion*" [11]. The empirical experience, as the Mexican one, suggests that it is not secondary to determine which effect will prevail, since this indicates the level of isolation from all countries outside the agreement, and in addition, to which extent the country effectively takes advantage of the competitive opportunities given by trade liberalization.

However, under this aspect, the possible accession to the EU should not particularly worry Turkey, since it should not change the current trade relation with the EU significantly. Indeed, the two areas have been already bound by an agreement of customs union since 1995[12]. Differently from the NAFTA case, commercial relations among the partners date decades back: the EU had already opened its markets for Turkish exports long before the customs union agreement was concluded. That is why the customs union itself has not caused a major shift in relative trade shares between the two parties (Ülgen and Zahariadis, 2004) and probably it will not, even after the fully EU membership. In fact, in terms of its economic impact, so far the customs union has been positive and the data available for the EU-Turkish case generally suggest that there has been considerable trade creation, but little trade diversion (*ibidem*).

Although trade diversion could not represent a possible limit, Turkey has to deal with some obstacles raised in the customs union context, in particularly with asymmetry phenomena. This takes place on two dimensions.

The first one originated from a discrepancy of conditions between Turkey and those countries outside the customs union but in commercial relations with the EU. In fact, according to free trade agreements stipulated between third countries and the EU, the former can freely trade not only with the EU, but also with other trade areas which have stipulated agreements with the EU. So, in turn, with the Turkey- EU customs union as well. The point is that such

[11]. According to a *trade creation* effect, a country that lowers its tariffs, substitutes high-cost domestic production with cheaper imports from partner States; according to a *trade diversion* effect, instead, the low-cost production of the rest of the world is substituted by a higher-cost production of a partner State. Therefore, in the last case trade within the partners grows at the expense of the world trade.

[12]. In 1995 the EU and Turkey agreed on a customs union accord that came into force on January 1st, 1996. According to this Agreement, tariffs were eliminated and a common tariff established on products from outside the customs union. Anyway, it is important to remember that the EU had been gradually reducing industrial tariffs against Turkey already throughout the 1970s and 1980s, so that by early 1990s tariff barriers only remained on a few sensitive products.

free trade circulation is not submitted to the principle of reciprocity; as a result third countries, as trading with the EU, can export to Turkey on preferential basis, while Turkey, which it is not a Member of the Community, cannot join such special arrangement. Consequently it is hard for Turkey to negotiate directly with those third countries since they obviously prefer trading with Turkey in that indirect way, more advantageous for them. As Ülgen and Zahariadis (2004) pointed out, this asymmetric structure put Turkish exporters in a disadvantageous position with regard to Community exporters in those third countries.

How could the entrance to the EU change these mechanisms? On the one hand, the accession to the EU itself could overcome these barriers as, under free trade agreements, only goods from the Community can be regulated by the preferential treatment. Therefore, also Turkey could join the principle of reciprocity. On the other hand, this scenario is likely to concern only manufactured goods market; a different dynamic is expected to come up with regard to agriculture. Indeed, already now there is a different approach towards this area.

This leads us to the second dimension: the discrepancy between the two partners. Indeed, the Turkish integration potential is still reduced by some unchanged policy barriers imposed by the EU: technical barriers to trade remain partially addressed; trade defence measures and safeguards also continue, along with barriers in external trade policy and the absence of agricultural policy. Will the EU membership improve such condition?

4.3 Agriculture

Agricultural products are explicitly excluded from the customs union with the EU and no provisions are made regarding the Community's agricultural policy, although agriculture remains one of the most important sectors in the Turkish economy. In 2003, its contribution to the total GDP accounted for 12.2%. In terms of employment, agriculture sector represented about 33% of the whole labour force and accounted for about 70% of total rural employment in 2003[13].

Despite its important contribute, in the last years such a share has been subjected to a decrease, due to a general decline in the rural employment, as Tab. 1 shows.

[13]. For deeper details, see Commission of the European Communities (2004), *Regular Rapport on Turkey's progress towards accession*, Brussels, 6.10.2004 SEC(2004) 1201, available on www.europe.eu.int

Tab. 1 – Agricultural employment (2000-2003)

Share in total %			
	2000-2001	**2002**	**2003**
Turkey	**36.8**	**34.9**	**33.9**
Male	27.4	24.8	24.4
Female	61.9	60.0	58.5
Rural	**71.5**	**68.1**	**67.8**
Male	60.7	55.3	55.4
Female	90.2	89.3	89.0

Source: Cakmak (2004).

The amount of agriculture in the international trade is quite relevant as it accounts for 11% of merchandise exports. In 2003, also overall agricultural trade between Turkey and the EU saw a small increase. Turkey's exports to the EU-15 grew from 1,995 million euros in 2002 to 2,036 million euros, while its imports from the Community increased from 965 million euros in 2002 to 1,027 million euros. Turkey regularly has a trade surplus in agricultural produce. Fruit and vegetables are the main export categories. EU-15 Members are the destination for about 45% of Turkey's agricultural exports (Eurostat, 2004).

As it happened to Mexico, the agriculture sector, despite its importance in the national economy, remains quite isolated from the country's overall development[14]. This gap is even deeper if compared with the modernization and technological capabilities reached by EU Members in the agricultural field. It suggests that, with the Turkish accession, this limit is bound to worsen unless bridged in time and with the right passages. If the agricultural liberalization will be promoted without considering the peculiarities of this sector, the risk that Turkey could come up against is double. Firstly, the high level of competitiveness in the EU Members is likely to overwhelm the Turkish agriculture. Secondly, as agricultural development may require more time, there could be a major interest by the Community to invest in the industrial sector (as NAFTA did with *maquiladoras* factories) and, as a result, deepening the gap with respect to the agriculture. In fact, European recommendations already pointed out that in the area of industrial policy there is a large alignment with the EU principles, while this cannot be found out in

[14]. Turkish agricultural sector never reached its potential because of the increasingly inefficient agricultural policies adopted since the late 1980s. See Cakmak (2004).

the agricultural policy; consequently, *specific arrangements* may be needed in this area (Commission of European Communities, 2004, p. 17). Therefore, Turkey not only will have to strengthen its agricultural framework, but also to try to uniform it to the EU requirements. It will be certainly a difficult goal for the country; nevertheless what is more important is that Turkey implements structural adjustment in its agriculture *before* the accession. As Cakmak (2004) argues, the Turkish membership of the EU can be seen as an opportunity for both sides by taking proper institutional and policy measures prior to the accession.

From the Turkish side, a first step paving the way towards such an aim has been the reform[15] started at the end of 1999. The main purpose of the programme was to reduce government subsidies to contribute to fiscal stabilization and to promote allocative efficiency. Indeed, in these last years the state intervention in the output markets has diminished: the share of public support in GDP fell from a 7% in the 1990s to a 4.1% already in 2002 (Cakmak, 2004, p. 12).

From the Community side, it could be interesting to understand what EU recommendations mean with *specific arrangements.* Expectations should be that EU offers the same support as the previous enlargement countries in promoting the regional development and structural change. In this sense, it is desirable that EU follows the second pillar strategy, which provides, as Commission pointed out, «*to create as favourable conditions as possible to participate successfully in the common agricultural policy. Turkey would need considerable time to make a number of agricultural sectors more competitive in order to avoid substantial income losses for Turkish farmers. Under present policies Turkey would be eligible for substantial support*» (ibidem).

Although Turkey needs such a support, it should be alert to two possible risks of an intervention. The first one concerns the type of products that are likely to receive support; the Mexican experience has already demonstrated that investment towards new agricultural products led to a widespread substitution of traditional products and, in turn, to their collapse and import from the partners. Therefore, it is important that EU support will not focus only on the irrigated land products as it can damage the national basic ones.

The second aspect regards the zone of intervention. It is strongly necessary that the promotion of national development is applied considering the regional dualistic structure: Western regions are more market-oriented compared with the Central and the Eastern ones. In the latter areas, agriculture helps to partially overcome high unemployment and compensate the deep lack of

[15]. The Agriculture Reform Implementation Project (ARIP) of 2001-2005 is a radical change of direction for agricultural policy, bringing Turkey more in line with the EU.

human capital. This scenario is facilitated not only by the different availability and quality of natural resources, but also by the different access to basic public services and regional development programmes. A discriminating and rigid EU agricultural support and policy could damage mainly the Central and Eastern regions and then contribute to deepen inequality within Turkey that, as we shall see afterwards, it is one of the gravest sicknesses of the country.

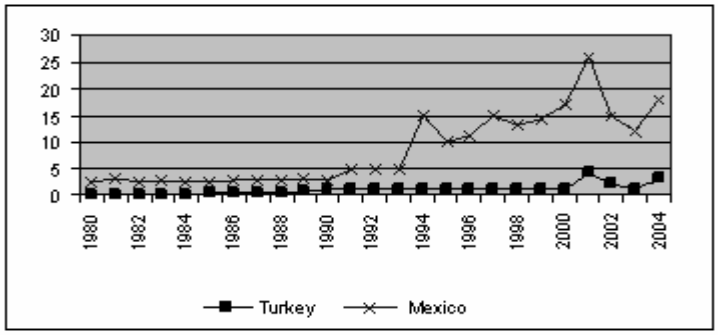
If impact regulations will not be strengthened in time, it is rather likely that what forecasted by Oskam will occur: reducing these regional income gaps will be very difficult because of the dependence of low-income regions on agriculture which, he argues, will come under increased economic pressure within the single market of the EU (Oskam *et al*., 2005).

4.4 Poor FDI: only the peak of an iceberg

The heavy weight that should be given in designing pre-accession strategies does not only regard the agricultural sector but also the regulation of FDI inflows. This is a crucial aspect in the overall expectations from the accession to the Community; indeed, despite the recent rapid performance, differently to other major emerging market economies that have successfully attracted significant FDI flows, in Turkey total FDI accounts for less than 5% of total output.

It is a pretty low value, also with respect to its Mexican peer which, on the contrary, has seen a consistent and rapid climb of FDI in the last decade.

Fig. 3 – FDI inflows in Mexico and Turkey (1980-2004)



Source: UNCTAD (2005).

As it is evident in Fig. 3, since 1995 Mexico has attracted over 10.000 billion Dollars of FDI: it has represented the best result achieved by the NAFTA implementation, better than any previsions. Even though such a successful Mexican performance could inspire great expectations in Turkey's accession to the Community, it should be also worth examining the context where the Mexican FDI performance took place. Notwithstanding it is undoubted that without NAFTA the annual rate of FDI could have been about 40% lower in the 1990s (World Bank, 2003), it should be underlined that such a constant rise was part of a general increase of the foreign funds towards developing countries, particularly consistent in the case of Latin America. Indeed, in this region of the world, investments inflows passed from an average of 10 billion Dollars by the end of the 1980s to 100 billion Dollars over the 1990s. Moreover, in contrast with the sudden and rapid trade liberalization process, in Mexico the FDI policy has been featured by its prudent graduality[16]. Finally, the FDI boom was limited to the years 1994-95, as a direct consequence of NAFTA impact, but later on a process of reallocation has prompted investments to a more normal rate. This fully reflects the temporary nature of FDI, as it has been witnessed by Spain and Portugal as well: while their accession to the EU in 1986 had been followed by a FDI boom, since the middle of the 1990s, investments rate on GDP had returned to the same levels recorded before the accession to the EU.

All this suggests that the EU membership could not represent the unique solution for Turkey to enhance its attractiveness to foreign direct investment. This does not mean that it is not necessary; the experience of Central and Eastern European countries during the 1990s has shown that FDI has been an influential factor in terms of their economic restructuring and modernization. In particular, by bringing capital, technology, expertise and know-how, foreign investments have been very effective in increasing productivity and innovation in these economies. However, Turkey should not wait for the European FDI as an anchor for its innovation because, in order to ensure the country growth to be long-term and sustainable, it has to deal with internal obstacles to foreign investments.

One of the factors that have been usually considered as an obstacle to foreign investment in the country has been the lack of political and macroeconomic stability. In this context, a new foreign direct investment law has been enacted in July 2003. The new law has been designed as an integral

[16]. In December 1993 a new Law on FDI entered into effect which improved investor conditions and widened the area where investors could act. For further details, see Colombo (1994).

part of the ambitious structural reform programme. It aims at improving the investment climate by creating a more transparent marketplace fully integrated with the world supported by a smaller and yet more effective State. Besides this new law, the government has established the Coordination Committee for the Improvement of the Investment Climate (YOIKK). This body, composed of high-level representatives of relevant Ministries, the private sector and NGOs, was set up to identify and remove regulatory and administrative barriers to investment (Bryane, 2004).

However, this paper wants to focus on another aspect of the Turkish system which seems to have a greater and deeper influence on the national potential for FDI: corruption[17].

4.5 Corruption

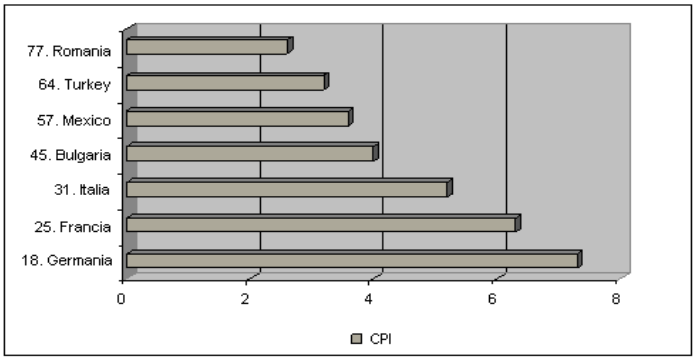
The Mexican experience has already borne out that a development programme implemented with a scarce attention to the institutions brings about a limited economic growth especially in a long-term scenario. Indeed, if in a country the level of institutional reliability is rather weak and inadequate, as pointed out by North (1984), a direct consequence is that transational costs increase notably and, as a result, a dislocation and waste of resources occur, deterring economic growth. If efficient macroeconomic and structural strategies do not keep up with institutional reliability, the realization of a complete and lasting growth is still limited. Problems arise as institutions – the quality of bureaucracy, the incidence of corruption, etc. – cannot suddenly change overnight; they require more and longer passages between the reform phase and its application into society. Indeed, the "second stage reforms" reveal to be pretty more difficult than any other reform, since they often utilize the complicated mechanisms of red tape, involve a high number of social actors and require an intense coordination among all the parts. Moreover, their results are less visible and immediate, while costs are permanent. For these reasons the promotion of institutional reforms is often overlooked or not sufficiently regulated.

However, eventually the undervaluation of institutional reforms can undermine the overall national system: in Turkey corruption is a serious and urgent issue. A recent report by the international anti-corruption watchdog Transparency International ranked Turkey at 64 out of a 102-country sample in terms of perceptions of corruption. Fig. 4 shows, according to the

[17]. Corruption is a function of a number of factors, including the high level of state involvement in the economy, over-staffing in the public sector and the volatile political system.

Corruption Perceptions Index (CPI)[18], the position of Turkey with regard to Mexico, two candidate countries and some EU Member States.

Fig. 4 – Transparency International Corruption Perceptions Index (2004)*



* Estimated corruption lowers with the ranking of countries.

Source: Transparency International (2004).

These data suggest that even though Turkish CPI rate is quite lower than old EU Members' – especially with respect to Germany, but not so much to Italy – if we look at the two 2007 candidates' rate, Turkey appears not so distant from Bulgaria – higher by only 0.8% – and Romania even lower by 0.6%. It seems, therefore, that Turkey is not radically different from other accession countries. The point is that, in the case of Turkey, differences should be searched more in the quality than in the quantity level. Indeed, while from a quantity standpoint, Turkey does not present alarming rate in the overall panorama of accession countries, at a quality level, on the contrary, it has engaged less in anti-corruption programmes than many of the others. This does not regard international conventions only, but also internal initiative for local dimension programmes. Under this perspective, the unique concrete measure adopted was the Parliamentary Anti-Corruption Committee's Report that in July 2003 proposed parliamentary inquiries into the dealings of 25

[18]. The CPI ranks 102 countries in terms of the degree to which corruption is perceived to exist among public officials and politicians. It is a composite index, drawing on 15 different polls and surveys from 9 independent institutions carried out among business people and country analysts, including surveys of residents, both local and expatriate. The CPI focuses on corruption in the public sector and defines corruption as the abuse of public office for private gain. The surveys used in compiling the CPI tend to ask questions in line with the misuse of public power for private benefits, with a focus, for example, on bribe-taking by public officials in public procurement. The sources do not distinguish between administrative and political corruption: http://www.transparency.org/pressreleases_archive/2002/2002.08.28.cpi.en.html

former government ministers, including former Prime Ministers and asked their parliamentary immunity to be lifted. In 2004 a technical committee to assist the Parliamentary Committee for Action Plan on Enhancing Transparency and Good Governance in the Public Sector was set up. Apart from this case, all other provisions regarded signatures and ratifications of international agreements: in 2000 Turkey signed the OECD's Convention on the Bribery of Foreign Officials in International Business Transactions; it has also signed the UN Convention against corruption and ratified the Council of Europe Criminal Law Convention on Corruption. In January 2004, Turkey joined the Group of States against Corruption (GRECO), which monitors compliance with European anti-corruption standards (Commission of European Communities, 2004).

Despite such an engagement, the efficiency and effectiveness of various governmental, parliamentary and other bodies established to combat corruption remain a matter of concern: the problem is the weak coordination among various actors and the lack of an independent anti-corruption body. Even Mexico, with a CPI score almost at the same level of Turkey's, has provided to establish a *super partes* commission that, for the first time in the country, deals with the promotions, coordination, monitoring and assessment of all anti-corruption actions. A first sign paving the way toward increasing transparency was made, with the adoption of the Law on the Foundation of an Ethical Board for Public Servants in May 2004. This law provides for the establishment of an Ethical Board for Public Servants.

However, what Turkey needs urgently is to change the logic of a political system which relies on corruption, the so-called "culture of endemic political corruption" (Bryane, 2004). Yet, although anti-corruption provisions are strongly required by the EU Commission as basic conditions for the membership[19], the accession should not be the main reason for such programme. It is necessary primarily to bolster the weak Turkish institutions and, as a result, its economic growth. Indeed a strong link between corruption and economic performance has been largely demonstrated.

Economic growth and corruption are bound by a mutual reciprocity: countries with high corruption rates reveal a low economic performance. Corruption hinders growth because of fewer national and international investments inflows, more inefficient public expense allocation and wider distortion in the programmes for wealth, education and infrastructures (Wei, 1998). Mauro (1995), in his pioneering study about the relation between

[19]. For more details, see *Communication from the Commission to the Council and the European Parliament*, "Recommendation of the European Commission on Turkey's progress towards accession", available at www.europe.eu.int

corruption and investment, showed that in fact corruption generates negative impacts the investment rate since a high corruption level brings about a low degree of trust in national institutions and organizations. This seems to be the case for Turkey: the economic crisis in 2001 was partly blamed on a loss of market confidence in the Turkish economic reform which was stalled by corruption. The latter also contributed to the chronic inflation and budget deficits which the country has been suffering for the last 25 years. In addition, it has been identified as the main reason why Turkey attracts such low levels of FDI. Corruption is helping to prevent the country from taking advantage of great economic opportunities with which it is confronted (*The Economist*, 2005).

Corruption does not hamper only FDI inflows, but feeds the poverty and inequality rates too. Indeed, it reduces the ability of the State to collect taxes and then apply coherent and rational development programmes among local social groups and regions. As a result, the already poor and backward regions will be the first victims of the loss of control by the State. Corruption distortion on public policy is a clear symptom of inefficiency which, in turns, postpones economic growth.

A blame raised to justify the Turkish weak engagement in anti-corruption provisions is the tepid support Turkey receives by the international organizations with respect to other accession countries. United Nations has provided assistance to Hungary; World Bank has been involved in Latvia, the Slovak Republic and Poland. OECD has an initiative that focuses on South-East Europe (neglecting its own Turkish Member State) and EU assistance under the Phare programme was provided only to Eastern Europe (Bryane, 2004).

Such a situation leads Turkey even more to anchor itself to the EU support. Membership itself will certainly help. Increased policy credibility will boost FDI inflows. Nevertheless, in the light of above considerations, it should be more convenient for Turkey to think about its own anti-corruption strategy with a long-term view. Adoption of the *acquis* has weakened strategic capacities in Eastern Europe: Turkey should arrive to Europe having already developed its personal capacity to deal with corruption.

4.6 The biggest fragility: inequality

As discussed above, the North American agreement has been criticized particularly for creating great benefits to the most developed Mexican regions and, as a result, worsening the unequal income distribution featuring the

country. The gap between Northern and Southern States has been widened and, consequently, the overall country's economic development has been slowed down. What can make us thinking that Turkey could not be bound to the same outcome? At the moment it seems there are more premises confirming the case than not.

Like Mexico, Turkey presents a high rate of national inequality with respect to other countries in the world. It has to deal with a rather deep gap within the country itself. The richest groups' income is almost four times higher than the poorest ones'. In backward regions agriculture is the main economic activity and resource but also the most fragile sector. Human capital, as education, also records pretty low and weak levels. National economic strategies do not provide enough support for distribution policies. The richest regions are also the most open toward international trade and so most likely to gain from a possible further widening and liberalization of the market. In order to have a clearer idea of the inequality scenario, it can be interesting to analyze closer Turkish data.

All recent studies about Turkey point out that over the last years, after the recovery programmes for the 2000-2001 crisis, the main concern for the Turkish Government has been no more instability and inflation, but rather the inequality issue. Indeed, despite a recent surprising performance, the country still suffers from a pretty high income inequality. According to the Gini coefficient, Turkey inequality records a 0.42. To have a better perception of this value, it could be worthy looking at other countries' coefficients. The two types of countries that Duygan and Guner (2005) considered in a comparative analysis are extremely interesting. They included a group of countries that are normally seen as Turkey's peers, such as Mexico, and a group of current and potential EU Members.

Tab. 2 – Gini coefficient for a sample of countries (2004)

Country	Gini coefficient
Brazil	0.59
Chile	0.57
Mexico	0.55
Argentina	0.52
Turkey	**0.42**
Poland	0.37
Portugal	0.36
Greece	0.35

Spain	0.33
Bulgaria	0.32
Romania	0.30
Hungary	0.29
Czech Republic	0.26

Source: Duygan and Guner (2005).

The comparison reveals that, although Turkey performed quite better than its American cousins – with respect to Mexico as well –, the distance with the EU States is not so comforting. And if this can be more justified with regard to older Members, such as Portugal, Spain and Greece, the same cannot be said for the recent Members such as Czech Republic, Hungary and Poland. Here the gap appears even larger and is still present also compared to Poland level. However, inequality in Turkey has been progressively decreasing for years. Indeed the Gini index declined from 0.56 in 1968 to 0.44 in 1987 and 0.42 in 2005 (World Development Report, 2005).

The most serious concern is the wide disparity between the richest and poorest groups: if in developed countries the income share of the highest level is twice the lowest one, in Turkey this relation is pretty much unequal; indeed, the small top 20% (5th quartile) receives an income share almost four times higher than the bottom 60% (1st and 2nd quartiles). So, the point is that «*The richer households do not only have more resources, but also they share it among a smaller number of household members*» (Duygan and Guner, 2005, p .4). The cause lies, indeed, within the richest group. The share of the 1st and 2nd quartiles is not so low with respect to other areas and is only 0.3% lower than the share of developed countries. On the contrary, the amount of the 5th quartile is pretty much higher than the compared countries': it has a share of 50.1% against a 39.8% in developed countries and a 37.8% in Eastern Europe (Tab. 3).

Tab. 3 – Distribution of household per-capita income for a sample of world areas

Quintiles	Latin America and Caribbean	Sub-Saharan Africa	Eastern Europe	Developed Countries	Turkey
1st - 2nd	13.2	14.1	22.2	18.4	15.1
3rd - 4th	33.8	33.5	40.0	41.8	34.8
5th	52.9	52.4	37.8	39.8	50.1

Source: Duygan and Guner (2005).

The only areas presenting a wider inequality are Latin America and Sub-Saharan African countries. The bottom group is not the only one paying for higher income of the top; indeed, also the middle group is damaged. It captures not only a more limited share of household income than developed countries, but its gap to the top's income is as wide as the Latin America's. These data reflect well the society structure featuring those countries, as Turkey and Latin America, which present a strong gap between the two extreme groups and, at the same time, a reduced and weak middle class.

In such conditions, not surprisingly, any intervention promoting liberalization will not prompt the same outcomes at all levels of society, since initial conditions of the two extremities are strongly different and uneven. And even though the top group could take advantages and grow rapidly, narrowing the gap with EU averages, such a performance would not last in the long-term since it cannot remaining 60%, or more, of population. Keeping in mind, moreover, that in this share of population is included more than 30% of the household labour force employed in agriculture with its low productivity. Before any widening of trade and policy could bring about their fruits, it is necessary to even up life conditions and opportunities throughout the country, otherwise any effort will be vain or even counterproductive.

4.7 Geographical gap

In Turkey, unequal distribution is present not only at a social level, but also at a regional level. Regional disparity is huge. As it happens in Mexico, the territory is divided into two big areas: the advanced West and the backward East. As in the society, also here we find the extremities: the richest Marmara against the poorest East Anatolia. Dividing the territory into 12 areas[20], in term of GDP per-capita, the Istanbul sector alone contributes for a 21.3% of the domestic income, while the North-East Anatolia accounts merely for a 1.6%. Tab. 4*A* shows the contribution of each region.

[20]. Following the SIS (State Institute of Statistics) model, the 12 regions are: Istanbul, West Marmara, Aegean, East Marmara, West Anatolia, Mediterranean, Central Anatolia, West Black Sea, North-East Anatolia, Central-East Anatolia and South-East Anatolia. See *Turkey Statistical Yearbook 2004*, available at www.die.gov.tr

Tab. 4 – Regional contribution to household GDP per-capita 2001 compared to regional Gini coefficients

A.

% GDP per-capita	Regions
21.3	*1.* Istanbul
15.6	*2.* Aegean
14.8	*3.* West Marmara
12.8	*4.* East Marmara
12.2	*5.* Mediterranean
10.3	*6.* West Anatolia
5.7	*7.* West Black Sea
5.4	*8.* South-East Anatolia
4.5	*9.* Central Anatolia
3.1	*10.* East Black Sea
2.7	*11.* Central-East Anatolia
1.6	*12.* North-East Anatolia

B.

Regions	Gini coefficient
1. Istanbul	0.43
2. Mediterranean	0.41
3. West Anatolia	0.40
4. East Marmara	0.39
5. North-East Anatolia	0.38
6. West Black Sea	0.38
7. Central Anatolia	0.37
8. Aegean	0.37
9. Central-East Anatolia	0.36
10. West Marmara	0.36
11. South-East Anatolia	0.36
12. East Black Sea	0.35

Source: Data from Turkey's Statistical Yearbook 2004- State Institute of Statistics (SIS).

It is noteworthy that from a top share – that except for the Istanbul value, ranges from a 15.6% to a 10.3% – the rates bounce down to very low share, between 5.7% and 1.6%. Here the regional inequality distribution is even worse than the social one. Western regions such as Marmara and Aegean are relatively more developed. The Istanbul area is by far the most prosperous of the nation; its income per-capita, 3,063 US Dollars, is more than three times that in the poorest region of North Eastern Anatolia, 919 US Dollars.

Nevertheless, if we analyze the regional situation considering also the Gini coefficient, everything appears even more complicated. Istanbul area records the highest Gini index, 0.43, above the national value, 0.42. This is probably due to the heterogeneous composition of people living there; in fact, «*the relatively well-off, migrant-receiving regions are found to have higher degrees of inequality compared to less well-off, migrant-sending regions*» (Dayoiglu and Baslevent, 2005). This seems to be confirmed looking at the second highest Gini index 0.41 and 0.40, which are recorded in the Mediterranean and West Anatolia regions, respectively – that we saw to belong to the higher income group –. Furthermore, the lowest Gini index –

0.35 or 0.36 – can be found in East Black Sea, Central-East and South-East Anatolia, some of the backward regions, but also in West Marmara, a rich area (Tab. 4*B*).

This picture suggests that generally a region's rather small contribution to the country's total income corresponds to a rather low income inequality within the region itself and *vice versa*. Nevertheless, there are four exceptions: Aegean, West Marmara, West Black Sea and North-East Anatolia, where a high contribution is matched by a relatively low Gini coefficient and *vice versa.*

These findings reveal that, firstly, at a territorial level inequality appears rather many-sided as the overall income inequality among regions is summed up to social inequality within each single region[21]. Secondly, although a single region's contribution to domestic income can be helpful to analyze income differences throughout the country, it does not say pretty much about unequal conditions and opportunities within the single region. This is a fundamental feature to determine the development degree in the long-term. Rapid increases in income have often been paralleled with rising inequality. Turkey is a good example of this scheme. Despite rapid progress in income growth, disparities have widened. GDP per-capita, therefore, does not seem exhaustive to explain nature, origins and, hence, possible solutions to Turkish inequality and poverty.

5. Other indicators

Although the data above are clear evidence of growth differences among the Turkish regions, in particularly between the Western and Eastern areas, it could be deceptive to take into account income calculation as the unique indicator for the level of poverty and inequality. As Amartya Sen already pointed out, income inequality is just one of the determinants of poverty; there are other factors that influence the impossibility to improve life conditions (Sen, 1999).

If we consider Sen's vision of poverty as the privation of basic abilities, instead of traditional criteria identifying poverty merely with income inequality, data about GDP should be used just as *media* and not as *final scope* to be pursued as evidence of a country's growth. As «*the reduction of income poverty alone cannot possibly be the ultimate motivation of antipoverty […]* since *that would be a confounding of ends and means*»

[21]. This aspect makes the majority of Eastern areas' conditions even more dramatic: not only they are the poorest regions, but have also to deal with a pretty high internal inequality.

(*Ibidem*, p. 92), we prefer focusing also on other elements that can reveal the deep origins of national inequality.

An index that puts more emphasis on the quality of life than on economic measures is the Human Development Index (HDI). The HDI is more comprehensive than the per-capita income alone, since it is based on 3 components: life expectancy, education and per-capita income. According to the last Human Development Report Turkey (UNDP, 2004), over the period 1965-1998 the country has progressed up from the low to the medium human development category, passing from a 0.438 to a 0.732 HDI value. Now Turkey ranks 85th out of 174 countries. Despite this increase in human development, it can be worthy noting that most of the rise was due to the income component: the HDI has been affected mainly in proportion to changes in income. Indeed, comparing Turkey with the other 26 countries belonging to the same range, what comes up is that there are only three countries (Saudi Arabia, Libya and Mauritius) which have a lower literacy rate than Turkey and only one (Saudi Arabia) which has lower school enrolment than Turkey. It seems clear that income is the strongest and knowledge is the weakest element out of the three HDI's indices. This trend is even more evident calculating the index values at regions and provinces levels: they suggest that inequality between these areas is growing.

Notwithstanding neither the HDI nor any other composite development index reflects the complete picture of the development process; at least they can shift the focus on other factors which sometimes are less evident elements in the development path. Indeed, in the Turkish case, education holds an important role in understanding why some regions find it difficult to improve their growth conditions. Also the report highlights increasing unequal education as a key trend featuring Turkey's development performance. We will focus on this component.

5.1 Education

The importance of education rate lies not only in the value itself but rather in all the opportunities that directly or indirectly derives from it, since it affects the capacity of individuals to engage in economic, social and political life. It belongs to that group of factors which contributes to determine the initial conditions that, in turn, define the development path of a country. Analyzing education inequality conditions in Turkey, deep differences can be found at four levels: first, between poor and rich groups; secondly, between

prosperous-urban and backward-rural regions; thirdly, between women and men; finally, between private and public institutions.

If we consider a child, born in a poor family, probably living in an Eastern region where the most important revenues derive from rural activities, he will be not likely to have the necessary resources to invest in his education. The family income is very low and also the human capital the parents could transfer to their son is quite scarce as neither of them had the means to continue their studies. As a result, the initial conditions of such a child are totally limited. Nevertheless, there should be a further opportunity for the child to overcome his initial disadvantageous condition: the national education system. If high-quality education were freely available to all children, family background would not play such an important role. But since in Turkey the school access is strictly linked to an individual's economic and social level – because the primary and the secondary levels are mainly supplied by the private sector – he is likely to attend a public school where, because of the Government declining expenditure, the quality of education is lower. Eventually, even though he would continue his studies to the higher level – that, on the contrary, receives a great Government support and so could be more accessible for his budget – he will probably have to deal with two crucial problems: firstly, he will have to move to another province, such as Ankara or Istanbul, where the tertiary education supply is higher. Secondly, he will be less likely to enter the text selections; indeed, the high quality difficulty of pre-selection text of the Turkish universities will result inaccessible to his lower school background. And he could neither go to study abroad, as many young of the top social group do, because he will not have financial resources to move so far away. Moreover, if this child was a female, the whole amount of these limits would be even higher, starting from the enrolment stage: there will be a lower probability, 10% less than males' one, that she will be enrolled to school. To sum up, it seems that in Turkey education can, in fact, worsen differences in initial conditions rather than reducing them.

5.2 Disparity at four levels

We argued above that a first disparity arises at income level. As well analyzed in Duygan and Guner (2005), data about the relation between income and education rates within population reveals that poverty is inversely correlated with education level. Two extreme groups are here considered: the bottom and the top of the per-capita income distribution. As Tab. 5 shows,

almost a 60% of the poorest group arrived at most the primary level against a mere 4.20% for the higher level.

Tab. 5 – Education of household head of rich and poor income groups (2002)

	Pre-primary	**Primary**	**Secondary**	**High**	**Higher**
Poorest 20%	30.05	58.24	7.03	4.20	0.47
Richest 20%	5.39	35.89	8.54	23.33	26.84
Overall population	14.92	53.26	9.57	14.21	8.05

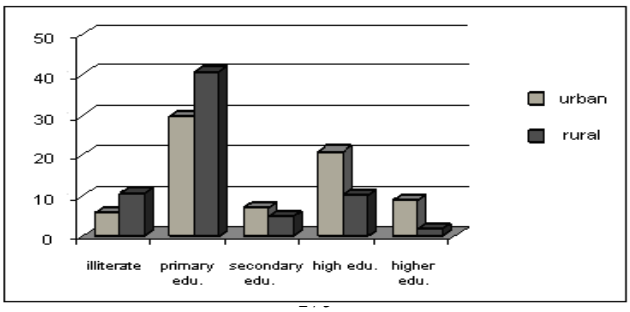
Source: Duygan and Guner (2005).

Such a great lack of human capital assumes a worsen profile if compared with the top's levels. Here only a 35.89% has just the primary level, while a 23.33% arrives also at the higher level. The richest group of the country is pretty much more educated than the bottom poorest one, but also than the overall population.

This wide discrepancy at a social level is not the only component that contributes to feed the education inequality featuring the country. It must be considered also the differences at a geographical – residential level; in particularly with respect to the urban and rural areas.

As Fig. 5 shows, the amount of illiterates in rural areas is twice the share in urban ones. Moreover, almost half of rural population has just the primary education status – 40.62% - and only a 10.30% arrives to the high education level against a double value recorded in the urban sector. The gap becomes even larger in the case of higher education, where a share of 8.94% of the urban area stands out against a mere 1.90% of rural regions. These values highline again the extent of Eastern regions' backwardness with respect to the Western regions.

Fig. 5 – Number of household members by educational status in urban and rural areas (2003)



Source: Author's calculations from the Turkey's Statistical Yearbook (2004).

A further disparity in educational levels can be recorded between men and women rates. As pointed out in the Human Development Report (UNDP, 2004), in Turkey the women enrolment was 62% against a 74% for men. Also the literacy rate of women is one of the lowest with its 78.5%. The gender gap in literacy rate accounts for about 16% and it is surpassed only by Tunisia and Libya. The gender situation is still unsatisfactory, although the gap is narrowing. Indeed, if we examine data in Tab. 6, it can be noted that, with respect to the years 1990-2000, the values for 2003-2004 have risen. In particular, the women share increased more than men's one, both in the primary and, unexpectedly, also in the high level, although by a lower amount.

All these obstacles linked both to unequal income conditions, at a social and a geographical level, and to gender disparities are strong factors affecting the initial condition of a person, even if possibly matched by opportunity factors which could provide accession to education independently from the economic and social starting point. However, the Turkish education system allows that poor groups still have the least access to education opportunities.

Tab. 6 – Schooling ratio by group of educational levels for males and females

		1990-2000	**2003-2004**
Primary	*Male*	99.89	100.0
	Female	88.45	95.67
	General	94.30	98.17
Secondary	*Male*	65.21	95.98
	Female	48.42	71.19
	General	57.00	84.04
Tertiary	*Male*	24.55	27.49
	Female	17.42	20.48
	General	22.05	24.08

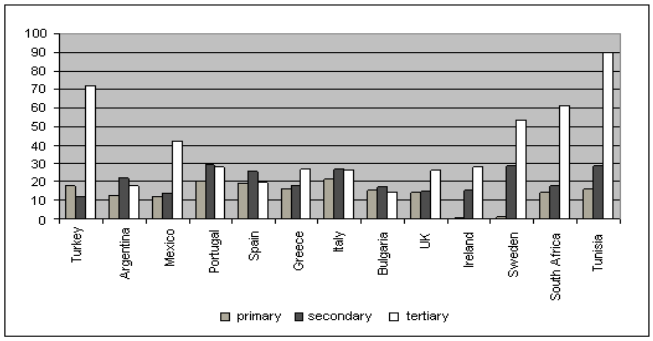
Source: Turkey's Statistical Yearbook SIS (2004).

This happens because the private and the public expenditures to education are shifted. Indeed in Turkey, contrary to what occurs in other countries, primary and secondary education is covered by the private service, while its higher levels are sponsored by the State. The reason for such a curious feature has to be researched in the decline of total Government expenditure over the

last decade, especially after the 2000-2001 crises. Indeed, if in 1990 the share of public spending on education was a 17.94% of GDP, suddenly in 2001 it fell to 8.71% and in 2003 raised slightly to 10.30%. As a consequence, private expenditure has filled the void left by the public, but it has been concentrated only in primary and secondary levels, leaving higher education to the public. The limits of this structure is that if basic education is not provided by a high quality public service, but is rather determined by economic availability of the family, a poor person will never access a higher level due to the lack of high quality education in his/her earlier schooling years. Therefore, the presence of the private in basic education represents a clear obstacle to the possibility for a person to overcome his/her initial conditions, gaining access to higher education no matter what his/her background.

Comparing Turkey's expenditure on education with that of a sample of other countries public – see Fig. 6 – the gap between the share of the first two categories and the third one appears sharply wider: the only countries which have a similar gap are South Africa and Tunisia. Even the relation among the three level shares in its Latin American peers results less uneven. Furthermore, with respect to the equilibrium featuring some EU countries' expenditure, Turkey lags behind and, if it seriously wants to catch up, it has to focus much more on primary and secondary education.

Fig. 6 – Public expenditure per student % of the GDP per-capita (2000)



Source: Author's calculation from Human Development Report-UNDP (2004).

In the light of this scenario, education inequality seems to contribute much to poverty and unequal conditions in Turkey, not only from the quantity but also from the quality standpoint. Turkey should improve its education distribution and institutions, keeping in mind that economic growth is not sustainable without other development factors, primarily a strong human capital.

6. Conclusions

Considering the starting conditions of Turkey, the country should treasure the Mexican experience. Indeed, despite some differences, both countries are bound up by a common characteristic: the prospect to join a more developed market without having overcome internal weaknesses and limits to sustainable growth. The big error lies in undervaluing these domestic problems or, even worse, waiting for the developed partner's aid and support as a unique anchor for safety. However, the NAFTA case showed that if the following country has not the right means, partnership's effects can be more harmful than advantageous. Notwithstanding economic factors are usually identified as the main indicator of scarce means in a country, the Mexican experience has shown that these factors themselves are just a *means* and not a *final end.* Furthermore, they are not the only components influencing a country's economic growth path; indeed, in order to grant a sustainable development, it is important to consider other factors, such as inequality and poverty levels, institutions quality and human capital. A rushed and badly managed liberalization can only worsen already critical conditions. It should not be forgotten that a big leap forward in poverty reduction in China and India, took place in an economic context, where public intervention played an important role, despite liberalization and privatization. Moreover, together with economic reforms, also new social policies and investments in human capital were promoted.

Therefore Turkey, *before entering the EU*, should overcome its domestic weaknesses such as a high corruption degree, low reliability of institutions, fragility of agricultural sector and, above all, deep inequality throughout the country. The last point is extremely urgent in Turkey, since it includes both an unequal income distribution and uneven opportunities. Greater equity implies more efficient economic functioning, reduced conflict, greater trust and better institutions, with dynamic benefits for investment and growth. Better opportunities mean better possibilities to improve life conditions. As the recent World Development Report (2006) pointed out, «*The distribution of opportunities matters more than the distribution of outcomes. But opportunities, which are potentials rather than actual, are harder to observe and measure than outcomes; [nevertheless] unequal endowments would limit the ability of [Turkey] to benefit from [European] opportunities*».

This paper claims that if Turkey will not succeed in reducing these obstacles, any positive effects and advantages following accession to the EU

will last merely for the short-term, leaving for the long-term an unsustainable and failed development.

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