TABLE 8: **Criterion of 'functioning market economy' and the Commission's evaluation**

Sub-Criteria of Functioning Market Economy	Evaluation of the Commission
1) Price- and foreign trade liberalisation	Room for market forces increased; price instability reduced by decline in state subsidies; Price distortions reduced by cutting the price support scheme in agriculture and introducing a direct support system
2) No notable restrictions for market entry or exit	Barriers to market entry and exit have come down but still impede domestic competition
3) Stable legal framework (especially property rights); guaranteed enforcement of laws and treaties	Progress has been made in reducing state interference in the economy and establishing the necessary legal and institutional framework for a modern, rule based economy; problems with the commercial judiciary cause serious bottlenecks in implementing laws and enforcing contracts.
4) Macroeconomic stability, including appropriate price stability, sustainable fiscal and foreign trade balances	Monetary policy is strictly anti-inflation; floating exchange rate; 2002 curbing in finance policy eased, correction first in summer 2003; state debt quote sinks but still a major burden for the economy; transparency of public finances improves; inflation declines (single digit in mid 2004); current account remains in save margin; public sector reform helps to overcome institutional deficits causing fiscal imbalances
5) broad consensus on the bases of economic policy	The broad consensus about the essentials of economic policy increased
6) privatisation of state enterprises	Progress in privatisation limited; in manufacturing state own enterprises still account for 20% of value added an 12% of employment
7) developed financial sector that will stimulate productive investment	Financial sector sounder but is still underdeveloped; banking sector functioning effectively; restructuring and consolidation not yet completed; improvements in banking sector regulation and supervision improved

Source: Commission 2004a and own evaluation

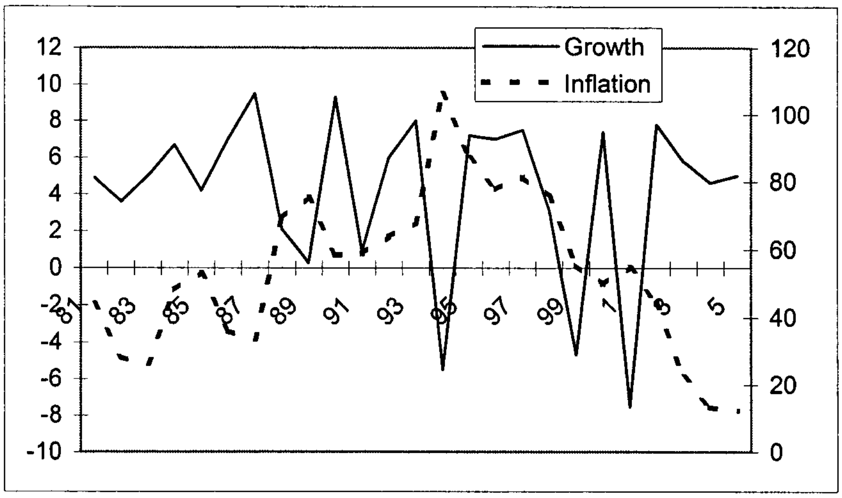
... The basic mechanism of a market economy is in place ....

In contrast to the CEECs, Turkey did not suffer from problems associated with the transition from a planned to a market economy. The economy is based on free prices and realised a high degree of foreign-trade liberalisation, especially toward the EU. Nevertheless, internally some prices are still regulated (around 25% of the CPI basket) such as agriculture, energy and rent. These need to be deregulated further. Cutting the price support scheme in agriculture and introducing a direct support system led to a decline in price distortions over recent years.

From a legal standpoint market entry and exit are already secured but in the real world several obstacles remain. The large number of market entries and exits indicate a liberal regime but bureaucracy means legislative processes are slow. A high density of rules and directives for business and slow reform in regulatory matters are further burdens (OECD 2004: 31). Over-regulation supports the shadow economy, which is extremely large. The OECD estimates its size as 52% of total employment, including agriculture, and 37% in private sector employment excluding agriculture (OECD 2004: 145). Given the large negative effects of informality on fiscal balances, tax wedges and productivity, an integrated strategy based on enforcement and economic incentives is required to reduce it. This would encompass less regulation and a shifting of tax and social security charges away from labour.

Turkey's main economic problem is macroeconomic imbalances. Large-scale fluctuations have been a prominent feature in recent years. Periods of growth follow financial crises, which are then (partially) resolved through stabilisation policies that strive for internal and external equilibrium and to re-establish growth. Observed over several periods, long-term economic growth is receding and annual growth rates indicate volatile shifts. Turkey is the only major emerging country that has not yet brought inflation under control (OECD 2002b), although very recent indicators are more promising. Macroeconomic instability is a principal cause of inconsistent and generally disappointing economic growth.

Figure 2: **Long-term economic growth and inflation in Turkey 1981-2005**



Source: European Commission *European Economy* 2004. Changes in %, left axis growth, right axis inflation.

Enforcement of stabilisation measures in Turkey can only occur with external assistance (IMF) and with political reform as a pre-requisite.

Against this background, Turkey (with IMF help) undertook several attempts at the end of the 1990s to correct macroeconomic imbalances, especially high inflation and the poor condition of public finances. The programs of 1998 and 1999 failed because of insufficient or leisurely structural reforms, chiefly in the banking and fiscal sectors. This unfavourable development led to a rapid rise in the real interest rate, placing great pressure on the budget and the economy in general. The Russian financial crisis and two catastrophic earthquakes further burdened the fiscal balance and the economy.

The December 1999 stabilisation program of the new government had the ambitious goal of defeating inflation. Its course and results showed the same pattern: initially a capital inflow, economic recovery, a distinct decrease in the real interest rate and an appreciation of the currency could be observed. The obverse of this development was rising trade and current account deficits, worsening balance sheets of the banks, and increased exchange rate risks. In the second half of 2000 the macroeconomic situation deteriorated as booming domestic demand and the currency's appreciation – accompanied by other adverse factors – led to a widening of the current account deficit to unprecedented levels (OECD 2002b: 176).

This deficit and connected exchange rate risks, along with the lethargic application of structural reforms precipitated a retreat of foreign investors and financial turmoil in November 2000. Despite state intervention (guarantees for banks and the takeover of some credit institutes) the crisis worsened in February 2001 and led to the collapse of the crawling peg exchange rate (exchange rate as a nominal anchor) and a devaluation of the currency (IMF 2002a: 2).

Table 9: **Attempts to overcome the Turkish economy's internal and external imbalances at the end of the 1990s**

Year, Program and Duration	Measures	Results and Cause of failure or success	Financial Means
1998: Staff Monitored Program (SMP) Envisaged Duration: 3 years	1. Fiscal Policy: several measures to increase incomes (privatisation) and to cut expenditure (indexation of public sector salaries) 2. Monetary policy was directed at sustaining disinflation effort and exchange rate management to achieve inflation targets 3. Measures to strengthen the banking sector and supervision	Some success in reducing inflation rate and fiscal imbalances could be reached. Several Structural reform measures of the SMP (telecommunication, energy sector, social security system) were not implemented. This caused high interests rate.	none
1999 Disinflation Program Envisaged Duration: 3 years	Program based on exchange rate based disinflation and monetary control by setting upper limits to the NDA (Net domestic assets) position of the Central Bank 1. Fiscal Policy: Raise the primary surplus of the public sector (raise incomes: i.e. privatisation) cuts in non-investment public expenditures. 2. Monetary and exchange rate policy: More forward looking commitment on the exchange rate 3. Income policy: indexation of civil servant wages 4. Structural reforms: phasing out of the existing indirect income support for farmers; social security reforms: improve efficiency; privatisation and banking reform.	In the first month economy stabilized and turned to growth. Inflation remained high and the Turkish Lira appreciated. Appreciation together with the booming domestic demand widened the current account deficit. Structural reforms raised concerns about the continuity of the program. Nominal interest rate increase again provoking the first financial crisis in Nov. 2000. Despite government intervention the crisis sharpened in February 2001 and the crawling peg exchange rate had to be given up.	Stand by arrangement of the IMF (US$ 4 bill.)
May 2001: Transition program for strengthening the economy February 2002 Agreement with the IMF	New program represents a deeper attempt to address the fundamental weakness of the economy. 1. Fiscal Policy and Reforms: tightening of fiscal policy combined with reforms in the budgetary process 2. Monetary and exchange rate policy: From 2001 to 2002 change from base monetary targeting to Inflation targeting; floating exchange rate 3. Rapid restructuring of the banking sector 4. New Privatisation drive and public sector reforms 5. Enhanced social assistance to help low income groups	In 2001 recession deeper than expected. Growth picked up in 2002 and Inflation is going down. In 2001 Turkish debt increase because of banking sector bail out and deep devaluation of the currency. In the following years debt indicators improve. After devaluation exchange rate stabilizes as short term capital flows returned. Banking sector reform is successful but still state banks need to be privatised. Important structural fiscal reforms have been implemented but the medium term agenda in this field remains extensive. Privatisation is slow and social security reforms are at the beginning.	Stand by credit of the IMF (US$ 12.8 bill.)

Source: IMF (2002a), World Bank (2003)

The structural weaknesses of the Turkish economy were clear. These included excessive state influence (Gumpel 2004: 176), a frail banking system and, until 2001, careless fiscal and monetary policies. Corruption and bureaucracy were further responsible for a very low level of foreign direct investment (FDI). This currently reaches around US$1billion per year, which is comparable to the smaller economies of Bulgaria and Romania (IMF 2004: 10). In per capita terms there is a vast difference to the CEECs. In 2002 Turkey's FDI stock reached roughly €300 per capita, whereas in the Czech Republic and Hungary it was over €2000 per capita (Commission: 2003c). Unfortunately, this did not change substantially as the FDI flow in 2003 was only marginal (see Table 10).

Again supported by the IMF, from May 2001 Ankara introduced promising reforms with noteworthy results. Fiscal policy was tightened, the banking sector restructured, an ambitious program of public sector change (structural measures, public expenditure management) began. There was also a renewed privatisation drive. Key regulatory and supervisory institutions, such as Turkish Central Bank and the Banking Regulation and Supervision Agency, gained independence (Commission 2004a: 58). Support for low-income groups, which were hit harder by the crisis, provided some social cushioning. The program acquired additional credits of US$10 billion from international financial institutions. It aimed to revitalise the interest of investors, partly overcome shortages of finance, and promote reform of the banking sector (IMF 2002a: 2).

Stabilisation policies and reforms begin to show successful results. Inflation decreases and growth develops.

The results of the stability measures are presently mixed as financial markets and the exchange rate remained fragile and inflation pressures were strong. The primary fiscal balance turned to surplus but doubts persisted whether fiscal adjustment would be sustainable. High interest rates, a significant depreciation of the currency, and the huge fiscal costs of the bank restructuring, in combination with the deep recession, caused public debt to rise significantly (from 57% of GNP in 2000 to 95% of GNP in 2001). The deepness of the recession meant that recovery only started in 2002 (World Bank 2003). At the same time the social costs of the stabilisation program were high. Real wages decreased dramatically and unemployment rose to 7.7% in 1999 and to 10.5% in 2003. The OECD (2004: 45) cites 16% in urban areas in the first quarter of 2004). Youth unemployment increased in the same time span from 15 to 20.5%.

High population growth will place pressure on the labour market in future. In addition, significant underemployment in the large informal sector and intensified structural change in agriculture (due to cuts in subsidies) will intensify the problems. Large-scale job creation will be needed to absorb newcomers to the workforce. This necessitates changes in labour market regulations. Rigid employment protection legislation and substantial labour tax and social contribution wedges hinder companies in responding to changing market conditions (OECD 2004: 23, 32).

Table 10: **Basic Macroeconomic Data for Turkey**

	1999	2000	2001	2002	2003	2004[1]	2005[1]
GDP, real growth rate (in %)	-4.7	7.4	-7.5	7.8	5.8	10.6[2]	
GNP, real growth rate (in %)	-6.1	6.3	-9.5	7.8	5	5	5
Inflation rate (CPI, 12 month, end of period)	68.8	39.0	68.5	29.7	18,4	12	8
Average ex-ante interest rates (in %)	32.0	-9.5	35.5	30.3	28.6	11.2	10.6
Central government budget (overall, in % GNP)	-10.6	-11.2	-19.9	-15.2	-11.3	-8.1	-4.2
Consolidated public sector (operational balance, in % of GNP)	-12.4	-6.9	-4.7	-4.5	-4.9	-2.5	-0.5
Net debt of public sector (in % of GNP)	61.0	57.4	93.9	79.2	70.9	66.5	60.3
Current Account (in % of GNP)	-0.7	-4.9	2.4	-0.8	-2.9	-3.0	-2.4
Net external debt (in % of GNP)	33.6	38.8	53.8	54.1	44.1	36.8	34.1
FDI in % of GDP	0.1	0.1	1.9	0.5	0	-	
Unemployment rate (in %)	7.7	6.5	8.3	10.3	9.0	12.4[2]	

Notes: [1] Projections; [2] First quarter. *Sources:* IMF, European Commission

Inflation and state debt have decreased. The CPI (Consumer Price Index) reduced from 29.7% in 2002 to 12% in mid 2004. Core inflation in the first half 2004 reached only 8%. In 2005 the CPI should be limited to single figures. Success in stabilisation attempts will be partly manifested by a currency reform planned to take effect from 1 January 2005. The Turkish Lira will be revalued and have six less zeros. The economy grew 5.4% in 2003 with a similar figure expected for 2004. However, on the external side some dangers emerged with an increase in the current account deficit. This was mainly due to strong import growth of almost 3% of GDP in 2003. The current account deficit is expected to further widen in 2004 (OECD 2004: 42) and in the first half of the year it reached over 7% of GDP.

Turkey is in a consolidation phase that must be extended into a long-term trend of growth and stability. This requires a consistent macroeconomic policy (fiscal surplus, debt reduction, control of inflation, sustainable current account deficit) and application of structural reforms, among them reduction of the state's presence in the economy, banking consolidation, privatisation and public sector reform (improvements in tax administration, better quality of spending). In December 2001 Turkey agreed on a medium-term program (worth US$ 3.8 billion) worked out with the World Bank to assist in these tasks. It is supported by a US$18.6 billion Stand-By Agreement with the IMF, making Turkey the Fund's largest debtor. US$11 billion of this was outlaid by April 2004 (IMF 2004a; 2004b).

5.2. The 'competitiveness' criterion is harder to achieve

Much more difficult to achieve is the second set of economic criteria, which requires that any accession country is able to cope with competitive pressures associated with the single European market. The rationale behind this criterion is rooted in the fear that accession countries might run into deep problems if not sufficiently prepared. Intensive competition within the internal market could lead to high adaptation costs (enforced structural change, increased unemployment) and thereby also cause social tensions that affect popular acceptance of the European integration process.

The Commission's evaluation touches on many criteria, without pursuing a consistent theoretical line. A quantification and appropriate 'benchmarking' in comparison with other accession candidates is very difficult. For this reason the Commission's measures are supplemented by the World Economic Forum's bases for evaluating the competition capacity of individual countries.

Table 11: **Criterion of 'Competitiveness' and its evaluation by the Commission**

Sub-Competition Criteria	Evaluation of the Commission
1) Functioning market economy and macroeconomic stability	Progress in functionality of the market and strengthening of the institutional environment; macroeconomic stability and predictability slowly gaining ground
2) Human- and physical capital provision	Education levels have been improving from a low level. The growth of the capital stock started to accelerate, but FDI has remained limited; Infrastructure is fairly developed but investment has been limited and uneven.
3) Competition policy, state assistance as well as support for SME's	State interventions in the economy reduced
4) Company investment for restructuring and improved performance; enterprise control	Restructuring of enterprises accelerated after the financial crisis, but slowed somewhat in 2003-2004
5) Integration level related to the EU economy, Volume and structure of foreign trade	Trade interconnection stable, export composition improved; despite volatile exchange rate Turkish exports are competitive
6) Share and dynamic of SME's	Medium, small and micro family firms are the backbone of the economy (in manufacturing: 30% of value added and 60% of employment)

Source: Commission 2004a

Commission states that low investment in human and physical infrastructure weakens competitiveness ...

An important aspect of the EU's evaluation is whether Turkey has a sufficient endowment of human and physical capital. Investment in these areas has been lacking in the past decade. Physical infrastructure is very unevenly distributed across the country. Whereas the road network is reasonably developed, especially in the industrial core regions and Western parts of the country, the railway network urgently needs to be improved. The growth of the physical capital stock has slowed as gross fixed investments declined over the last five years. FDI inflows are negligible. Failure to attract FDI is a major impediment to Turkey's growth potential as it represents a missed opportunity to modernise the economy's capital stock (Commission 2003c; 2004a).

... and further structural change and reforms are necessary to improve the competitiveness of the Turkish economy

Further important areas for the Commission are legal security and structural factors. The competitiveness criterion requires the establishment of a well-structured legal system with incentives to support a robust economic performance in the private sector. Laws affecting industrial organisation and degrees of competition have to be introduced not only formally but also in substance. State interference in the economy started to decline in Turkey but is still too high. Progress in privatisation was rather limited in 2003 and the first half of 2004. Although restructuring has accelerated due to structural reforms and budgetary constrains, Turkey still faces the challenge of improving corporate governance and the restructuring of enterprises.

The transition from an agricultural to a service economy has continued but over 35% of the labour force is still employed in the agricultural sector (EU-15: 1.7%). Small and medium-sized enterprises are the stabilising core of the Turkish economy and seem to be an important motor for economic growth and structural change. A problem related to such firms is that they face real limitations in their access to investment funds. They also have difficulties adapting EU standards. Trade integration with the EU is high and the composition of exports has continued to improve over the past few years. However, price competitiveness is volatile due to the instability of the macroeconomic framework.

World Economic Forum indicators suggest that Turkey's competitiveness could be compared to that of Bulgaria and Romania.

In order to compare the competitiveness of the Turkish economy with the EU and other candidate countries we use the WEF's aggregated evaluation, which compares and estimates the economic potential of over 100 countries. Table 13 presents the overall 'Growth Competitiveness Index' (GCI) ranking, controlling for the current level of development (different weights for country groups concerning technology and institutions). GCI measures the capacity of national economies to achieve sustained growth over the medium term. The index consists of three sub-indices: technology, public institutions and macroeconomic environment.

Whereas a large difference exists between CEEC-Round-1 and CEEC-Round-2 (19 positions), the difference between Turkey and CEEC-Round 2 is not large (5 positions). The main reason for Turkey's bad ranking is the national macro-economic environment. If the Turkish economy is stabilised, its growth potential is greater than that of Bulgaria and Romania. However, this is not the essential yardstick. A much better performance is necessary to assure a successful catch up process.

In the category of macro-economic stability Turkey compares unfavourably

Turkey's still precarious economic situation is reflected in various WEF (World Economic Forum) indicators, among which macro-economic stability receives a particularly negative evaluation for 2003. An international ranking of 102 places Turkey near the bottom (94), lower than Bulgaria and Romania. Turkey rates better (75) than these two in the category of 'government waste', which for the first time accounts for the scale of misused resources as well as state deficits. In international credit ratings Turkey ranks 63, similar to the second round of CEECs.[4] In the overall evaluation of macro-economic conditions for 2003/2004 Turkey did not change substantially. The scores improved but the ranking remained nearly the same (considering the different sample of countries). It is worse than Romania (71) and far below the average of the first round of CEECs (43), Greece (31) and the EU-15 average (18).

[4] This might have improved in 2003/2004 but sub-indices for 2004 were not available at time of writing.

Table 12: **WEF-Index 2003 and 2004: Macroeconomic Environment Sub-Indices** (Ranking)

	Index Macroeconomic environment		Sub indices (2003)		
	2004 104 countries	2003 102 countries	Macro-economic Stability	Government Waste	Credit-Rating
EU-15	18	16	36	23	11
Finland	3	2	7	2	11
Greece	31	33	45	49	23
CEEC-1	43	39	53	45	36
Estonia	30	34	25	26	36
Poland	51	49	62	65	33
CEEC-2	66	77	78	91	62
Bulgaria	60	73	76	86	57
Romania	71	81	81	96	66
Turkey	84	82	94	75	63
	Score: 3.22	Score: 2.93			

Note: The values of the country groups (CEEC-1, CEEC-2) represent the arithmetic average of the ranking position of the single countries. *Source:* WEF 2003 and 2004, own calculations.

... if Turkey stabilises its economic and political situation growth will speed up

Another comprehensive measure employed by the WEF is the 'Business Competitiveness Index' (BCI). The microeconomic approach focuses on comparing the complex array of national circumstances that support a high and sustainable level of productivity. This Index tries to move beyond the examination of broad, aggregated variables and is computed by two sub-indices (Company Operations and Strategy; Quality of National Business Environment), primarily drawn from a survey of 4700 senior business leaders in 80 countries. Table 14 shows that Turkey's ranking is clearly better than that of Bulgaria and Romania but far behind the average ranking of the CEEC-Round 1.

Table 13: **Growth Competitiveness and Business Competitiveness Index (BCI) and related Sub-Indices (Rankings) 2004**

	Index	Index	Sub indices	
	Growth Competitiveness	Business Competitiveness	Company operations and strategy	Quality of the national business environment
EU-15	20	16	15	18
Finland	1	2	7	1
Greece	37	41	40	42
CEEC-1-Round	39	41	44	41
Estonia	20	27	34	24
Poland	60	57	47	64
CEEC-2-Round	61	65	74	65
Bulgaria	59	75	86	72
Romania	63	56	61	57
Turkey	66	52	44	55

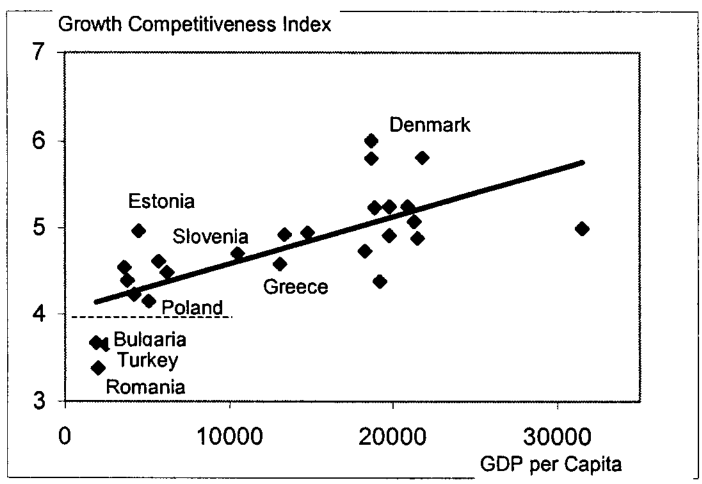
Notes: The values of the country groups represent the arithmetic average of the ranking position of the single countries.
Source: WEF, own calculations.

Turkey experienced a dramatic decline in its business competitiveness compared to the previous ranking (2001), which was not too far behind that of CEEC-Round-1. Its drop of 22 places was driven by a relative decline in factor quality (university-industry research collaboration, quality of management schools, administrative burden of start ups) and the context for strategy and rivalry (effectiveness of anti-trust policy). Company sophistication is estimated more favourably, but technology licensing and staff training had suffered. The BCI-ranking is nonetheless better the GCI-ranking. This may indicate that Turkey's microeconomic competitiveness has an upside potential.

Summing up: Turkey's accession will present the EU with similar problems to those presented with Bulgaria and Romania. These two, however, are not the 'benchmark' for an accession to the EU. In comparison with them, however, Turkey's membership adds more heterogeneity. Turkey has much greater internal disparities. Some growth regions and sectors can reach a sufficient level of competitiveness and EU standards relatively quickly; others are underdeveloped and will have to undergo massive structural changes in the coming years. This indicates that Turkey will require a longer time-span to fulfil the criteria.

Meanwhile the EU 'club' will have a strong bias towards low and medium income 'catch-up countries' with far-reaching implications for major EU policies. This trend makes it questionable whether the internal market can develop its full potential. Figure 3 shows that the Growth Competitiveness Index (GCI - the aggregated competitiveness level of a country) is closely correlated with per capita income levels. In order to improve or sustain the integrative capacities of the internal market and the competitiveness of the entire Union, it may be prudent to set a threshold value for the convergence in real terms and in the competitiveness of countries, which must be reached before they can accede to the EU. A scholarly founded appraisal of where such a threshold should lie is not so simple. An evaluation of this type requires more than the WEF Indices. Additional forms of measurement would have to be developed.

Figure 3: **Growth Competitiveness Index (Scores) and Per Capita GDP**



Source: WEF (2003) and own calculation

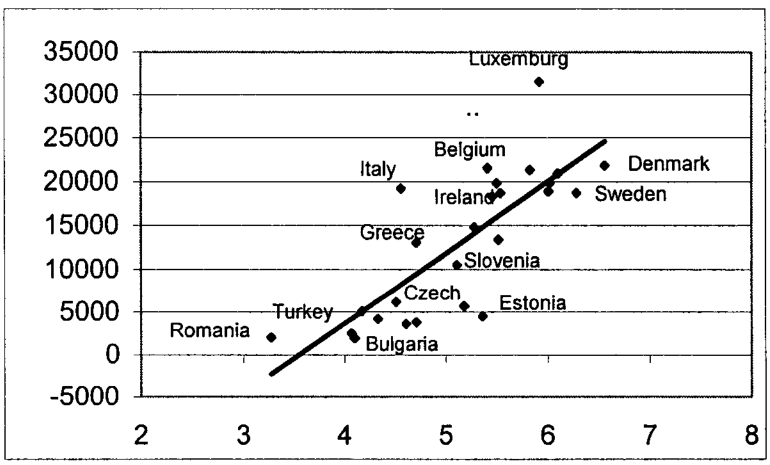
6. Consequences of a EU Membership for Turkey

For aspirant countries, the objective of EU membership should be based on rational political and economic decisions and not be a question of 'honour'. A politically rational argument can be made for wanting greater stability and for desiring influence over decisions that one-self will in any case be affected by. The aim for growth, welfare and financial transfers that are to some degree all likely to occur as a consequence of membership is economically rational. This will not, however, be without costs. Every club has its own rules, preferences and entry preconditions, which are often bound with the availability of resources and investment requirements. Some investments may be covered by development goals (presuming these are accomplished); others may be a burden indefinitely. How does a realistic potential balance for Turkey look?

The Implementation of the acquis will be a major problem for Turkey

Apart from the economic and political Copenhagen Criteria, the acceptance and implementation of the entire legal corpus, the *acquis communataire,* is also a requisite for membership. This is not easy and has its costs, especially for countries at a less advanced stage of economic development, which applies to most new or potential EU entrants. In purely formal terms the economic disparities between Turkey and the EU (as already experienced with the eastern enlargement) are not grounds for the refusal to begin negotiations or, more so, to reject membership. Real convergence is not an entry condition, regardless of the massive problems that variations in income and economic development may lead to.

Figure 4: **Correlation between per Capita GDP and Public Institution Index (2003)**



Source: WEF (2003) and own calculation

There is substantial evidence to support that a country's level of economic development is correlated with the quality of its institutions and 'social capital' (see figure 4); that is, with factors that are decisive for successful integration in a progressively deepening EU internal market. As Section 4 showed, even optimistic prognoses suggest it will take many decades before the income differential between Turkey and the EU-15 has noticeably reduced. Weak institutions can therefore be a major barrier to successful adoption of the EU's communal legal corpus and obligations. In this regard, however, Turkey is evaluated by the WEF index as very similar to Bulgaria and is distinctly better that Romania. With EU support Turkey's institutional capacity can increase significantly in the longer term.

The list of adaptation measures noted in the Commission's regular report (2004a) is long and it will be many years until the *acquis* is sufficiently imposed. The EU will supervise the factual implementation of the communal legal corpus very closely. The experience of the NMC's indicates that Turkey will have serious problems in the areas of agricultural policy (standards and norms), regional policy (administrative capacity) and environmental and social standards. Shortcomings in justice and home affairs and consumer and health protection will also be present for some years.

At the present time, before negotiations have commenced and not all details are available, a sweeping speculative analysis does not seem appropriate. However, some aspects are noteworthy because they affect the existing state of integration. These are related to *Free Movements of Goods* and the *Customs Union* where Turkey lacks sufficient progress in legislation and reducing state aid. The Commission concludes that alignment with the *acquis* is at an early stage for most chapters and further work is required in all areas (Commission 2004a).

Cultural difference should not in principle exclude a country from accession to the EU, though it should be dependent upon the agreement of the European citizenry.

The issue of Turkey's cultural belonging to Europe has a 'Turkish' and a 'European' dimension. The meeting of these dimensions is another example of a recurring theme: whether and if so to what extent differing cultural backgrounds hinder integration (Wehler 2002; Winkler 2003). That would occur if a particular culture's rules, organisations and social norms undermined the effective implementation of commonly accepted European values. The reasoning for this argument is not so convincing in the case of Turkey. It is correct that there is no categorical 'Muslim democracy', meaning a polity in which a majority of citizens are of this faith and the state functions, without serious reproach, according to democratic norms (Jenkins 2003). Turkey comes closest and is moving further in this direction. Along the way it has had difficulties in fulfilling the Copenhagen Criteria. However, this could only partly be explained by its Islamic culture, as Turkey has been an insistently secular state.

The 'cultural argument' is also questionable from a more fundamental viewpoint. Although based on 'European' history and its socio-cultural mores – leaving aside the hugely illiberal phenomena of fascism and communism – the Copenhagen Criteria should be treated as universally acceptable and potentially achievable by any society. This does not mean that there will not be implementation problems. As demonstrated in Section 3, Turkey has made great steps towards becoming a western style polity. It has not completed this process and still is regionally and culturally a divided country: modernised cities are contrasted by backwards regions. It cannot be determined *a priori* whether Turkey will successfully complete its transformation. Though many political actors and intellectual commentators impress it, we do not consider Turkey's democratisation (or that of any other Islamic country) as constituting an argument for its acceptance by the EU *per se.*

Turkey's 'Europeanisation' will not occur without risks. Full implementation of democratic rights and freedoms is a challenge for both Turkey and the EU. Potential shifts to radi-