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# Economic Integration Problem of Turkey: An Evaluation about Shanghai Cooperation Organization within the Frame of Alternative Searches

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## Authors' contributions

*This work was carried out in collaboration between the three authors. Author IE designed the study, wrote the first draft of the manuscript and reviewed the draft manuscript. Author MU wrote the second, the third and the fourth draft of the manuscript. Author NK wrote the fifth and the sixth draft of the manuscript. All authors read and approved the final manuscript.*

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## ABSTRACT

When the economic developments analyzed after World War II, the economic integration movements, which include the liberalization of countries' economic relations between each other, draw attention. In terms of world trade, globalization tendencies on one hand and regionalization tendencies on the other hand are being experienced. While global trade is shaped by Customs Tariffs and GATT, which propose the elimination of the limitations for customs tariffs and other trade limitations between countries, regional economic integrations are shaped differently between the countries that are geographically close to each other. Turkey has been found in the global and

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regional economic integration initiatives; and it's in the negotiation phase for the EU membership, while the country is already a member of World Trade Organization (WTO), The Economic Cooperation Organization (ECO), The Organization of the Islamic Conference (OIC), D-8 Organization for Economic Cooperation (D-8), Organization of the Black Sea Economic Cooperation (BSEC), Organization for Economic Co-operation and Development (OECD). The fact that Turkey's attempts for global-regional economic and political integrations did not give the expected results has brought different searches. This study contains an evaluation of Turkey's seek for new integrations as determinants of democracy in the scale of democratic index, which consists of some criteria like free and fair elections, pluralism, good governance, political participation, political culture and freedom, and an evaluation between EU and SCO alternatives. In the light of the assessment it has been concluded that SCO is not a suitable alternative for Turkey because of the fact that its priority is zone's safety, it does not contain economic cooperation and its inefficient democratic foundation comparing with the EU. According to these facts, Turkey should continue with the EU membership negotiations and it should show necessary sensitivity for adjusting to Copenhagen political criteria which forms EU's political criteria, and Maastricht economic criteria which forms EU's economic criteria.

*Keywords: Integration; EU; globalization; regionalization; SCO.*

## 1. INTRODUCTION

Scholars have various opinions about the definition of economic integration. While there is not a certain or common definition, economic integration has meanings like cooperating, coalescence and liberalization for financial relations. When the globalization process expeditiously continues around the world, countries are in the search of economic integration to establish a steady growth and to accelerate their development.

Some of the regional integrations, which have gained speed after the World War II, became successful and some of them failed. Although globalization and regionalization seem the opposite to each other, they have mutually complementary roles. In fact, as the inter-regional economic relations get stronger there will be a regional environment for the globalization. The role which the countries play in this system will determine not only how they will be a part of the new global economic order, but also how they will regionally take their national economic interests to higher levels. While economic integrations around the world move on as global and regional, two regional integrations in Europe, European Economic Community (EEC) and then European Union (EU), came to light after the World War II, and EU is one of the most successful integrations of the present day. Turkey's EU adventure has witnessed many negotiations since 1959. Turkey participates in global and regional economic integrations and while it continues its membership negotiations for the EU, it's the member of the organizations like

World Trade Organization (WTO), Economic Cooperation Organization (ECO), Organization of Islamic Cooperation, D-8 Organization for Economic Cooperation (Developing-8), Black Sea Economic Cooperation (BSEC) and Organization of Economic Co-Operation and Development (OECD). Search of the reconciliation for membership process of the EU with which Turkey tries to be integrated still continues, and Turkey's search for other alternatives also draws attention.

The aim of this study is to evaluate the Turkey's membership alternatives for EU and SCO besides the regional and global integrations that Turkey participates in. In this study's methodology the result has been obtained by comparing the EU and SCO standards with the help of Turkey's, EU's and SCO's democracy index<sup>1</sup>. In this context, the concept of economic integration and its process will be studied in this work. Later the economic integrations will be discussed on global and regional basis, and then the opportunity and the threat that the economic integrations, in which Turkey participates, offer will be reviewed. Finally, Turkey's search for new integrations will be discussed in the perspective of the current integrations' problems, and then the conclusion and suggestions will be shared.

<sup>1</sup> *Democracy Index; It's been formed by the Economist Intelligence, a member of The Economist Group, considering criteria like free and fair elections, pluralism, good governance, political participation, political culture and freedom. See The Economist, Democracy Index 2014-Democracy and its discontents, A report from The Economist Intelligence Unit (The Economist [1]).*

## 2. THE CONCEPT OF ECONOMIC INTEGRATION

The word integration is originally from the Latin word *integratio*, which means renewing. The usage of this word goes back to the year 1620. The first usage of it in Economics was in Europe in 1947 and two years later it was used in the United States (Ertürk [2]). Economic integration, which does not have a precise definition in the economical literature, is included in the social integration by some authors and yet some of them discuss about it as different formations of international cooperation and offer the existence of trade relations between independent national economics as a proof of the sign of integration. According to Balassa [3] economic integration consists of several political and economic elements. He suggests that the integration is formed to take away the discrimination between economic units of different national states.

According to C.P Kindleberger [4], the extent of the term "integration" has to be well explained, so that it can gain significance in literature. To him the word integration is a polysyllable like cooperation, coordinating and organizing, and he defines economic integration as the equalization of the price of productive factors. According to Tinbergen integration is carrying the international economic cooperation to the optimum level (Ertürk [2]). Imre Vajda, on the other hand, urges on the trade integration, and he highlights the differentiation between market integration and development integration (Ertürk [2]). Lawrence separates the integration term as high integration and low integration. He defines the low integration as all kind of border barriers regarding merchandise trades, customs tariffs, non-tariff barriers, development of regional production systems, investment incentives of services and removal of the border barriers about factor. According to him the high integration is an indicator for a much more large scale integration that includes removal of the cross-border barriers for trade agreements, harmonizing the politics and agreeing on the domestic policy (Lawrance [5]).

The words integration and economic cooperation, which should be separated from each other, are often used as synonyms. While cooperation aims limited goals like trade and substructure, the target of the regional integration is a high level cooperation and a combined diplomacy. Free trade agreements let the integration and cooperation be distinguished in

today's world. The fact that the countries, which participate in regional integration, show no interest in other free movement forms the cooperation, and a group of countries' aim of forming a customs union and a higher level of cooperation constructs the regional integration (Dieter [6]). For example, while the removal of trade barriers is an act of economic integration, international agreements made for trade politics are parts of the international cooperation (Balassa [3]).

Economic integrations bring statistical and dynamic effects on a country's economy. Viner's study is the first in terms of defining the concrete criteria between the advantages and disadvantages of economic integration. Viner divides these effects as trade creation effect and trade diversion effect with the help of the "statistical analysis". The trade creation effect means importing for cheaper than another country in the union, when two or more countries in the partnership are in a trade agreement. The trade diversion effect, on the other hand, comes in view when a non-union member country imports with higher costs to a country in the union after the customs union takes its place (Hosny [7]).

Balassa brings a new dimension to the field after proving that economic integration's statistical effects are not enough to analyze the welfare earnings in the integration and introducing the dynamic effects of the economic integration (Hosny [7]). The dynamic effect of the economic integration expresses the developments caused by the performance of the long term economic growth by affecting the resource allocation in the economy. What cause the dynamic effect are the increasing investments, formation of external economies and providing the source efficiency after production resources' free circulation in a result of the increase in the competition, using the scale economies emerging after the market expansion and the fact that the competition and growth market become more attractive to the investors (Şanlı [8]).

### 2.1 The Processes of the Economic Integration

Economic integration was first brought forward by Bela Balassa in 1961 (Andrei [9]). In this context, from the narrowest to the most extensive level the economic integration follows 4 steps (Hosny [7]). The steps of this process are;

### **2.1.1 Free trade zone**

It's an economic integration, which removes quantity limitations and all tariffs that limit the trade between the member countries, and which allows free circulation of the goods. Member countries apply their own tariffs to nonmember countries. This generally is called "trade integration". The best example of this integration is the North America Free Trading Area (NAFTA) that has been established by the United States of America, Canada and Mexico (Hosny [7]).

### **2.1.2 Customs union**

In customs unions, which are the most basic forms of integration process, the countries in a free trade zone apply customs tariff to the import from the third countries. Since this kind of integrations includes the coordination of international trade policies in addition to all characteristics of free trade zones, they can be recognized as a deeper kind of integration than the free trade zone. European Community, which has been established by West Germany, France, Italy, Belgium, Holland and Luxemburg in 1957, can be the most popular example for the Customs Union movement (Hosny [7]). The first customs union movement is the German Customs Union, which removed the customs tariffs between the states in Germany in 1834 (Ertürk [2]).

### **2.1.3 Common market**

Common Market is the customs union that includes the free circulation of the production factors like labor and capital between the member countries. It is generally defined as "factor integration". In the beginning of 1993 EU acquired common market status (Hosny [7]). Other examples for common markets are CACM (Central America Common Market) and EAC (East African Common Market) (Ertürk [10]).

### **2.1.4 Economic union**

The difference of the economic union than the common market is that it removes the limitations on the goods that are subject to the trade and the discrimination with factor policies (Balassa [3]). Economic union is the most well developed type of economic integration, and it allows the member countries to be compatible with monetary and financial policies and it even allows them to become fully integrated. This is generally named as "political integration" (Hosny [7]). Members start to use one single currency, and there is one single central bank. On this

stage, where the national economic independence almost disappears and common foreign policies are applied, we can mention an integration at the macro level. Europe became the European Community with the Maastricht Agreement in 1993 by reconciling all its economic and financial policies, and in the end it completed the monetary and economic union stage in 2002 by starting to use the shared currency Euro. With its current state EU is the most developed integration (Ertürk [2]).

## **3. GLOBAL AND REGIONAL ECONOMIC INTEGRATIONS**

The number of global and regional economic integrations is getting more and more. The concept of global economic integration came to the fore beginning from the late 1980s with the concept of "globalization", and it became popular with the concept of financial liberalization. Global trends in the world appear in two types. One of them is the global trend that is based on the liberalization of the trade within the frame of GATT, which means that the international trade includes all countries; and the other trend is the economic integration movements that are established to associate the foreign trade and other economic activities between the countries, which are in a certain region, with economic relations (Seyidoğlu [11]).

Regional integration means a state's specific policies, which are regulated in a way to level up the economic integration, for removing the limitations on circulations of goods, services, labor and capital. Even though the term of integration theory is a term which is mostly referred to Viner, Adam Smith also has opinions for the application of customs tariffs besides the tariff regimes which had been sought to be applied before 1950s (Ertürk [2]). However, integration theory, which has expanded new horizons for the existing idea of customs tariff, came to light in 1950s with Viner's "The Customs Union Issue" (Kindleberger [4]). Therefore, while the development for economic integrations after Viner are described as "old regionalism", dynamic effects like increasing competition, scale economies, technology transfers and developed productivity express the concept of "new regionalism" in the economic integration theory (Hosny [7]). The differences between the old regionalism and new regionalism have been addressed in Table 1. The old regionalism phenomenon started with forming European Communities (EEC), and after the constitution of European Free Trade Association (EFTA) the

regionalization movement has continued to spread quickly (Grilli [12]).<sup>2</sup> The fact that developed countries in Europe and developing countries in other regions are in integration movements is an attention-grabbing characteristics of old regionalism (Genç and Berber [13]).

The new regionalization, on the other hand, shows itself in 1980s and started to attract more attention in 1990s. With the neo-liberal wave in global scale the new regionalization has come out disparately, and it's more deeper, comprehensive and permanent when it's compared to the old regionalization (Çalışkan [14]). It's most significant characteristics is seen with the USA's change of mind about the regionalization and its positive attitude on it. This also caused the process of the new regionalization (Genç ve Berber [13]).

The situation similar to the one that was emerged with the first appearance of regionalism can be seen between the developments in information and transportation sectors that come out with the new regionalism. Old regionalism has left its place to the new regionalism movement with expansion and economic integration movement. In this context, EFTA and European Community have liberalized the trade of production goods between their members. New regionalism started with the free trade agreement, which was created in 1988 between Canada and USA and then turned into the North American Free Trading Agreement after Mexico's participation. The process of new regionalism gained speed after the USA became a dominant power and the USSR ended in 1991; after these import substitution industrialization policies had been widely left all around the world, and countries performed liberalizations in financial policies. Developments in economic policies and political environment are the progresses which has given momentum to the new regionalism. (Genç and Berber [13]).

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<sup>2</sup> These listed establishments are examples for the process of old regionalism; West African Economic Community (CEAO-1966), Mano River Union (MRU-1973), Central African Customs and Economic Union (UDEAC-1973), Economic Community of West African States (ECOWAS-1975), Economic Community of the Great Lakes Countries (CEPGL-1976) and Southern African Development Community (SADC-1980) in Africa; the Latin American Free Trade Association (LAFTA -1960), Central American Common Market (CACM-1960), Caribbean Free Trade Association (CARIFTA-1965) ve Andean Pact (ANDEAN-1969) in Latin America; Arab Common Market (ACM-1964) in Middle East and Association of Southeast Asian Nations (ASEAN-1967) in Asia.

Many examples of the new regionalization movement have been formed with one or several developing countries' integration achievements with a developed country (Çalışkan [14]). Except for the well-known EU, EFTA that has been established by Switzerland, Lichtenstein, Iceland and Norway; NAFTA that has been established by the United States and has Canada and Mexico as members; ANZCERT that has been established after the first free trade agreement signed by Australia and New Zealand; AFTA that has Brunei, Indonesia, Malesia, Philippines, Singapore and Thailand as members; MERCOSUR that has been established by Argentina, Brazil, Uruguay and Paraguay; and APEC that has all the countries participates in AFTA and NAFTA and additionally Japan, South Korea, China, Hong Kong, Taiwan and Papua New Guinea form the major regional integration movements (Ertürk [2]).

The reason of the increase in regional integrations can be shown as the globalization movements. "Even though the tendency of being participated in the regionalism movements in a world, where the walls of the customs are tried to be removed, seems like a contradiction with the globalization, the globalization and the regionalization have complementary roles for each other, and there will be a suitable environment for the globalization as the economic relations of the countries between the regions increase" (Karluk [15]). Briefly stated, regional integrations form a basis for the globalization.

The regional economic integration should be seen as one of the current policy options for developing countries. Regional integrations has some benefits for the member countries like providing access to markets, reducing risks and liberating the trade on the domestic industry (Balassa and Stoutjesdijk [16]). Developed countries are industrialized countries that are also active in institutions like International Monetary Fund (IMF), World Bank (WB) and World Trade Organization (WTO), whose goals are to realize and to handle the free economy at the global level. These countries establish big markets and their aim is to maintain the stable environment, which provides the continuance of the advantages they have. They follow their policies in consultation with each other in the groups they created (Aydin [16]).

Industrialized countries' organizations that direct the world economy in a global level are G-8, G-10 and G-20. G-8 has an actual structuring and

**Table 1. Old and new regionalism**

<b>Old regionalism</b>	<b>New regionalism</b>
Quitting the Import-Substitution World Economy	Import trend – Integrated to the world economy
Planned distribution of resources	Market distribution of resources
Government based	Private companies based
In principle free circulation of industrial productions	Every goods, services and investment
Regional competition	Global competition
Preferential treatment for developing countries	Equal rules for every nation

Source: (Lawrance [5])

is globally the most influencing group. G-10 is set up with General Arrangement to Borrow to increase IMF's resources and to supply the needs of member countries. G-20, on the other hand, aims to protect countries against crises and to reduce the effects that cannot be avoided during globalization. Developing countries also set up some organizations to provide solidarity for each other and to carry the problems they are having to the global platforms. For instance, G-77 promotes economic and technical development. G-24 has been established to facilitate coordination about monetary problems and development. D-8 is a group that has been constituted between 8 Islamic states (Karluk [15]).

#### **4. ECONOMIC INTEGRATIONS THAT HAS TURKEY AS A MEMBER**

Turkey is a member of many economic integration organizations that includes different aims and regions. These are Black Sea Economic Cooperation (KEI), Economic Cooperation Organization (EIT-ECO), Organization of the Islamic Conference (İKÖ), Developing 8 (D-8), Organization for Economic Cooperation and Development (OECD), European Free Trade Association (EFTA) and lastly European Union (EU), with which its membership is still in the process.

##### **4.1 Black Sea Economic Cooperation (BSEC)**

BSEC was signed in Istanbul in 1992 by Turkey, Russia, Ukraine, Moldova, Georgia, Romania and Bulgaria that have costs to the Black Sea and by Greece, Armenia and Azerbaijan that do not have costs to the Black Sea. The aim of BSEC is to bring peace, stability and prosperity conditions to the Black Sea basin. It intends to develop economic, technological and social relations between countries by using their similarities like their geographical proximities and their economic supplementary features. For the

long term to create a free trade zone has been decided (Çelik [18]). At the first article of BSEC it's been aimed to have solidarity, respect, trust and cooperation between the member countries by addressing to the Helsinki Final Act, the Conference on Security and Cooperation in Europe and to the Carter of Paris for a New Europe. Thereby, at the first stage its target is a political relaxation (Ertürk [2]).

Even though BSEC has a long past, when we consider the integration process we cannot say that it has been proceeding successfully, since the substructure of the member countries don't complete each other and they don't have ready substructures to follow for the integration processes. It's an unavoidable fact that the member countries don't have any intention to construct these substructures. The countries are more close to the Europe and for that reason concentrating on BSEC would cause a costly diversion from the target for them. Although it has an important place within the existing integrations, BSEC is not a bigger market than Europe. Countries that signed the agreement has more to gain from and offer to the West and to the United States than what they can offer each other in the short term (Ertürk [2]). While correcting the negative conditions of BSEC is not hard, the first step to take would be to prepare the substructure. Member countries are mutually complementary but it's difficult to understand the purpose of including the countries without costs in the union.

##### **4.2 Economic Cooperation Organization (EIT-ECO)**

RCD (Regional Cooperation for Development) that has been established by Turkey, Iran and Pakistan in 1964 aims to provide a well-rounded regional economic cooperation between the member countries. These countries have seen the historical and cultural bonds as a facilitative factor to reach their goals. The aim of the Regional Cooperation and the integration between countries is development. The primary

target of this integration is development and what the integration places importance on is to be specialized. However, to reach its specializing target development aimed integration, which has been established by developing countries, a good organization is a must. Beside a development aimed free trade zone and customs union they also attach importance to create the substructure. But after the Islamic Revolution in Iran in 1979 RCD was suspended and its activities were terminated. Although there has been 16 investment projects discussed to be realized by the member countries together in the second half of 1960s, most of them couldn't be completed. In 1985 the ECO has been established in place of RCD (Ertürk [2]). The turning point for ECO's history is the membership of Uzbekistan, Kirgizstan, Azerbaijan, Kazakhstan, Afghanistan and Tajikistan in 1992. With the participation of the new countries EIT became a regional cooperation organization, and with the Izmir Agreement signed in 1996 it aimed to develop the cooperation and trade for the member countries (Seyidođlu [11]).

Expansion of ECO is a big breakthrough, but the economy policies of mutual relations in integration movements are also important. The countries establishing the zone have population and relation, which would be potentially tension factors. There are controversies between the countries. Turkey has problems with Russia. Pakistan has domestic affairs and also problems with India. The problems between Turkey and Russia and between Pakistan and India are against ECO's goals to be a regional economic cooperation organization and its expansion targets; because the fact that Russia and India are in the same region is contrary to ECO's characteristics of being regional. Free market economy and price mechanism in the region could not have been fully established and countries do not have their own currencies or foreign exchange mechanisms. When the resource allocation and income distribution from the factors, which ensure the success of integration in the region, is examined, it is obvious that there are inequalities, however, the complementariness in economies is a very important advantage (Seyidođlu [2]). When the problems about trade, industry, banking business, insurance business, communication and transportation between the EIT countries are solved, there can be a chance for a well-rounded cooperation by developing the financial relations and harmonizing the monetary policies (Baykal [19]).

### **4.3 Organization of Islamic Cooperation (OIC)**

The name of Organization of the Islamic Conference (OIC), which was established to build solidarity between Islamic states in 1969), has been changed as Organization of Islamic Cooperation (OIC) according to the decision taken at the 38<sup>th</sup> meeting of Foreign Ministers (Ertürk [2]; [www.ab.gov.tr](http://www.ab.gov.tr) [20]). Cooperation has been established to create a global union image regarding to the goals like to develop and support the solidarity between Islamic states, to make an effort to remove the racial segregation, discrimination and every kind of colonialism, to preserve the real image of Islam and to support international peace and [21]. However, it's not likely to see the organization as a global actor, since it cannot react to the problems that the Islamic World has been facing with (Ataman and Gökşen [22]). Although the union has important benefits for the Islamic World, there are some difficulties that have to be resolved, and the differences in the socio-cultural status, economic development level and political structure of the members prevent the formation of concurrence between the members (Ertürk [2]; Ataman and Gökşen [22]).

### **4.4 Developing 8 (D-8)**

D-8, whose foundations laid in 1996 at "Development Cooperation Conference", has been officially announced in Istanbul in June 15<sup>th</sup> 1997 at the Summit of Heads of States and Governments. The principles of the organization are stated as peace instead of conflict, dialogue instead of confrontation, cooperation instead of exploitation, justice instead of double-standard, equality instead of discrimination and democracy instead of oppression. The cooperation within D-8 is carried out in sectoral basis. In this context, Turkey coordinates the cooperation in industry, health and environment; Bangladesh coordinates the cooperation in rural development, Indonesia coordinates the cooperation in alleviating poverty and human resources, Iran coordinates the cooperation in science and technology, Malesia coordinates the cooperation in finance, banking and privatization, Egypt coordinates the cooperation in trade, Nigeria coordinates the cooperation in energy, Pakistan coordinates the cooperation in agriculture and fishery (D8 Organization [23]). Since the countries that established the Developing 8 have important places in world population, it's possible for them to be a pressure group. Turkey also has an essential place between these countries. Thus,

Turkey should look for the ways to open up more to these countries (Ertürk [2]).

#### **4.5 Organization of Economic Cooperation and Development (OECD)**

The ground of OECD is based on OEEC (Organization of European Economic Cooperation). OEEC has been established to run the Marshall Plan, which financed by the United States of America, after the World War II [24]. 16 founding members of OEEC are the England, Denmark, France, Austria, Iceland, Sweden, Italy, Norway, Holland, Belgium, Turkey, Switzerland, Portugal, Luxemburg and Greece. With the Paris Agreement that came into force in 1961 OEEC became OECD. With this transformation the “Europe” in OEEC left its place to “Development” in OECD because of the necessity of realization the development mentioned in the first article of the Agreement should not only be for the member countries, but for world economy (Karluk [25]). OECD has 20 founding members. These are the 16 founding members of OEEC and the United States of America, Canada, Germany and Ireland. Later on Japan, Finland, Australia, New Zealand and Hungary participated in the Organization, too. After the participation of Mexico, Czech Republic, Poland, South Korea, Slovakia, Chile, Estonia, Slovenia and Israel there are 34 members of the Organization (Akbulut [26]).

The aims of the Organization are to ensure the economic stabilization and development of 34 member countries and to look for the ways to turn the problems of globalization into opportunities (Karluk [27]). For Turkey OECD has to important organs. These are Consortium for Aid to Turkey constituted in 1962, where our country's economic statues is discussed every year, and “Working Group on Turkey's External Debt” which was established on 17 May 1978 with the purpose of better management of Turkey's increasing foreign debt [28]. Turkey never presided any western organization except for the OECD which has a 65 years history (Karluk [27]).

#### **4.6 World Trade Organization (WTO)**

The idea of creating an organ in international trade goes back to the years 1947-1948, and in this regard International Trade Organization was the first attempt. The main goal of the organization is to liberalize the world trade (Seyidoğlu [11]). Although the aim of WTO is to

liberalize the world trade and put the trade forward, developed countries use this liberty for their own interests and that's why developing countries and underdeveloped cannot have the same opportunity. There is no support for underdeveloped and developing countries' improvements. Liberation policy for the world trade makes the integration between these countries meaningless and makes them become distant to be active (Ertürk [2]). Even though the countries are interested in the liberation of the world trade developed countries did not recognize the organization. Hereupon, the General Agreement on Tariffs and Trade (GATT) appeared as a temporary agreement. GATT aims in general to liberalize, develop and organize the world trade widely, but the relations in this regard went beyond the trade in goods; when it expanded by including invisible items of trade, intellectual property rights and agricultural sector, GATT-47 has been changed, and a new regulation was applied with the constitution of GATT-94 and WTO (Seyidoğlu [11]).

#### **4.7 Turkey – Israel Free Trade Agreement (TIFTA)**

TIFTA, which was signed in 1996 with the law no. 4239 in Jerusalem, is a result of the Customs Union between EU and Turkey. This agreement contains two goals; Turkey's acceptance of the free trade agreement, which is signed by Israel and EU within the frame of Mediterranean Policies, in connection with our foreign policy, and providing an indirect support to solve the conflict between Israel and Palestine. The first article of the agreement states that it's aimed to establish a free trade zone between Turkey and Israel until 1 January 2010. Although an essential economic benefit is not expected from TIFTA, with deepened financial relations it can bring not only better economic benefits but the agreement signed with Israel is also important to enter the United States' market as well as Israel's (Ertürk [2]; Aydın [17]).

#### **4.8 European Union (EU)**

The Union that was named European Coal and Steel Community, which was established in 1950 and aiming to provide economic and political peace, has a goal to end the wars between the neighbors in Europe. In 1957 with the Treaty of Rome, European Economic Community (EEC) which was based on the free circulation of labor, goods and services has been established. In Table 2 the EU agreements and their explanations are briefly explained.



**Table 2. EU agreements**

<b>EU agreements</b>		
Treaty of Paris	1951	The treaty that created European Coal and Steel Community
Treaty of Rome	1957	The treaty for the establishment of the Union
Merger treaty	1965	The treaty signed in Belgium gathers three European unions (European Coal and Steel Community, European Economic Community and European Atomic Energy Community) under a single roof.
Single European act	1986	The act signed by Germany, Belgium, French, Holland, England, Ireland, Spain, Luxemburg and Portugal changed the agreements, which established the European Unions, extensively.
Maastricht treaty	1993	The Union's name has been changed as European Union. Thus the transformation from a common market to an economic union has been completed. With this treaty it has been decided to complete the monetary union, to establish the European citizenship, and to make policies for a common trade and security and cooperation for justice and internal affairs.
Amsterdam treaty	1997	The rights for the European citizenship term have been strengthened. It's been aimed to provide the European citizenship with fundamental rights, free circulation and civil rights, and also to establish a single market, create employment and a common currency. Freedom, security, justice and strengthening the global role of the EU are the goals to achieve.
Treaty of nice	2001	It's been signed to overcome the deficiencies of the Amsterdam and Maastricht Treaties. This Treaty targets mostly the institutional regulations.
Constitutional treaty for Europe	2004	In 2001 the first draft of the Constitution for Europe has been established at the Laeken Summit. The Treaty of the Constitution of Europe was signed in Rome in 2004. 18 of the 27 member countries accepted the treaty.
Treaty of Lisbon	2009	With the treaty it's been aimed to overcome the deficiencies of the decision making mechanisms of the EU and to reach a more democratic and efficient structure for the Union. The name of the treaty which founded the European Community has been changed as Treaty on the Functioning of the EU. By using the word "union" instead of "community" the EU gained a single legal personality.

*Source: (Seyidoğlu [11])*

The community has expanded to the South with the participation of Greece in 1981 and Portugal in 1986, and the number of members increased to 12; in 1995 with the participation of Austria, Finland, Sweden to the Union the number of members increased to 15. The common currency of Europe Euro got officially in circulation in 2002 in 12 countries. Soon after the number of the countries using the Euro currency increased to 19; in 2004 the biggest expansion took place with the participation of 10 new countries (Czech Republic, Estonia, Greek Cypriot Administration of Southern Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovakia and Slovenia) to the EU,

and with the participation of Bulgaria and Romania in 2007 and Croatia in 2013 the number of the member countries reached to 28 [29].

The first reason which gets Turkey closer to the EU is Greece. The aim of the membership application which was made right after Greece's application was to keep a close watch on Greece. The other reason is historical, which can be described as the importance that Ottomans gave to the Europe and the desire to develop intimacy with the center of Europe. Another reason why we want to be a member of the EU is

that the EU is seen as a modernization project and the strong thought about reaching to the modern standards, which is possible with culture-civilization-modernism trio. In addition to this, the fact that we can benefit economically from the wide market advantages of Europe can count as one of the reasons for being a member of the union (Ertürk [2]).

Turkey's relations with the EU started with its membership application for the EEC in 1959. In 1963 Ankara Agreement was signed. The purpose of the Ankara Agreement is to support the relations between Turkey and EEC and to gain the free circulation for labor, services and capital and accordingly to be integrated to European Single Market. According to the agreement a gradual customs union is to be established between EEC and Turkey, and at the last stage a full membership will follow that [30].

The decisions for establishment, method and conditions of the customs union were made as it is stated with Ankara Agreement in 1995 at the Turkey-EU Association Council meeting, which was conducted in Brussels. Beginning from 1996 the customs union relationship between Turkey and EEC, which has been established after the full membership application, started to be applied (Özer [31]). The most important benefit that Turkey gained with the Customs Union Agreement was the removal of the textile quotas (Seyidoğlu [11]).

In the Progress Report, which has been published by the EU Commission in 2004, it is declared that Turkey's harmonization package, which foresees changes on many regulations to meet the Copenhagen Political Criteria, found satisfying and a positive opinion was expressed at the Council for the full membership meetings. The inconstant relation between Turkey and EU took yet another turn with the Intergovernmental conference took place in Luxemburg in 2005 (Seyidoğlu [11]).

In the Progress Report in 2006, which is the most comprehensive progress report prepared for Turkey after its full membership process began, important subjects regarding Turkey like Cyprus, Border Conflicts, Minority Rights, Cultural Rights, Religious Freedom, Parliament, Public Administration, Adaptation to the International Bill of Human Rights, Civil Rights and Fight against Corruption were handled in detail (Özer [32]). Southern Cyprus' existence in EU on behalf of the entire Cyprus, the reason of not initiation of the trade with Southern Cyprus and

oppositeness of France, Germany and Holland for Turkey's full membership caused the suspension of the negotiations (Seyidoğlu [11]). The accession negotiations for EU, which were static for the last two years, started to get into motion with the phase of Economic and Monetary Policies. The purpose of the phase is to provide an economic harmony in the existing strong economic structure, to encourage innovation, to establish a sustainable development, to ensure the freedom of central banks of the member countries, to forbid the finance of public sector by central banks and avoiding the privileged access to financial institutions by the public sector. Southern Cyprus blocked out the jurisdiction and fundamental rights (23<sup>rd</sup> Phase) and justice, freedom and security (24<sup>th</sup> Phase) (Bugün [33]).

According to the 2014 Innovation Union Scoreboard of EU, innovation performance of Turkey made progress staidly between 2006 and 2013. While Turkey's performance to fulfill EU standards was 36% in 2006, it increased 40% in 2013. Turkey's innovation performance recovered and it started to catch up with the EU performance. Report evaluates many countries progress, and Greece, which tries to prevent Turkey's EU membership on every occasion and takes place in Black Sea Economic Cooperation along with Turkey, appears in the group of Middle Innovators, while Turkey's is in the group of the Modest Innovators. The group members of Leading Innovators are Sweden, Denmark, Germany and Finland (European Commission [34]).

In Table 3 EU "2014 Innovation Union Scoreboard" enablers, which ensure firms to perform innovation, includes external factors and differentiates between three innovations. First of them is human resources that contain the current status of skilled labor, the second one is research systems which examine the international competitive power in a scientific manner, and the other one involves the finance and support systems. Firm activities gather the innovation performances at the firm level and underline three innovations. These are the investments of private sector for R&D and non-R&D innovations, cooperation with other firms and public sector through linkages and entrepreneurship, and lastly with intellectual rights, which firms gain as a result of their innovation performances, the intellectual assets are evaluated (European Commission [34]). In terms of these indicators it is obvious that Turkey

is very below the EU average. The ratio of SMEs, which make innovations in their own community, is close to the EU ratio. Finally, the outputs of the firm activities are shown as innovators and economic effects. Turkey's ratio of SMEs, which introduce marketing/organizational innovations to the ratio of all SMEs is above the EU average. The ratio of intermediate and advanced technological product exportation to the ratio of total exportation is -3.13; however the ratio of the incomes from licenses and patents within the GNP appears as zero (European Commission [34]).

According to the estimations of Hughes (2004) in Table 4, the influence of ten new members of EU on EU15 is between 0.1% and 0.5%. In 2015 GNP of EU for the new ten members is 4.6%, and when it is compared to Turkey, it's possibly around 3%. According to the low scenario in 2014 Turkey's contribution to GNP of the EU-25 is estimated to be around 47.8 billion Euros. The estimation expects that there will be a 128 billion Euro contribution for EU GNP between 2014 and 2020 according to the low scenario and 385 billion Euro contribution according to the high scenario (Hughes [35]; DPT [36]).

**Table 3. EU-27 and the current status of Turkey**

	EU-27 2014	Turkey 2014
<b>Enablers</b>		
<b>Human resources</b>		
• New doctorate graduates	1.7	0.4
• Population completed tertiary education	35.8	18,0
• Youth with upper secondary level education	80,2	58,3
<b>Research systems</b>		
• International scientific co-publications (mil)	343	85
• Scientific publications among top 10% most cited	11,0	7,0
• Non-EU doctorate students	24,2	3,2
<b>Finance and support</b>		
• R&D expenditure in the public sector (%GNP)	0,75	0,49
• Venture capital investments (%GNP)	0,277	-
<b>Firm activities</b>		
<b>-Firm Investments</b>		
• R&D expenditure in the business sector (%GNP)	1,31	0,37
• Non-R&D innovation expenditure	0,56	0,16
<b>- Linkages &amp; entrepreneurship</b>		
• SMEs innovating in-house (%)	31,8	28,2
• Innovative SMEs collaborating with others (%)	11,7	5,3
• Public-private co-publications (per million)	7,3	1,3
<b>- Intellectual assets</b>		
• PCT patent applications (GNP - billion)	1,98	0,76
• PCT patent applications (GNP)	0,92	0,44
• Community trademarks (GNP - billion)	5,91	0,38
• Community designs (GNP - billion)	4,75	0,23
<b>Outputs</b>		
<b>- Innovators</b>		
• SMEs introducing product or process innovations	38,4	29,5
• SMEs introducing marketing/organizational innovations	40,3	50,3
• Fast-growing innovative firms	16,2	13,3
<b>- Economic effects</b>		
• Employment in knowledge-intensive activities (%)	13,9	5,0
• Contribution MHT product exports to trade balance	1,27	-3,13
• Knowledge-intensive services exports	45,3	21,9
• Sales of new to market and new to firm innovations	14,4	15,8
• License and patent revenues from abroad (%GNP)	0,77	0,00

*Data belongs to 2013, before Croatia's membership; Source: (European Commission [34])*

It's been expected that the positive steps that EU and Turkey will take together will affect not only Turkey but also Europe positively. It can be stated that the Republic of Turkey can be an actor, which makes Europe more powerful, with its young population, growing market, geostrategic location and democratic structure (Akçay [37]). Besides, it's possible that Turkey has an important effect for EU's benefits for foreign policy; since Turkey has a wide geography reaches to Middle East, Caucasia, Black Sea and Mediterranean basins. It's been anticipated that Turkey's role will be big in terms of expansion of Union's borders in South-East and increasing its benefits in these rough areas (Hughes [35]). On the other hand, Turkey's EU membership would bring some costs to EU in mid- and long terms; because Turkey would become a receiver from the budget, when its development level is taken into account. However, parallel to the development trend of Turkish economy Turkey's growth, foreign trade and entrepreneurship contributions to European economy should not be ignored. In brief, Turkey would not be a country that only gets a share of the cake, but also a country that makes the cake bigger and richer.

##### **5. TURKEY'S SEARCH FOR ECONOMIC INTEGRATION: CAN SHANGHAI COOPERATION ORGANIZATION BE AN ALTERNATIVE?**

With the above stated explanations an evaluation about Turkey's global and regional integrations and its EU membership process is carried out. Since Turkey's EU membership process has been taking a long time and the here are hitches in the country's membership negotiations from time to time, the EU membership process of Turkey becomes uncertain. In this context, the Shanghai Cooperation Organization has been brought to agenda as an alternative to the European Union. The question whether Turkey should be in EU or SCO is evaluated in the democracy index scale. Democracy index, which pays attention to fair selections, pluralism, good governance, political participation, political culture and freedoms, has determinant attributes for achieving both political and economic goals for the countries which are members of integrations.

As an alternative to the EU, Shanghai Cooperation Organization is a common security organization established by Russia and China in

1996 with Kazakhstan, Kirghizstan and Tajikistan. At first the Organization was mentioned as "The Shanghai Five", when it's established by five countries in 1996 and as Shanghai Cooperation Organization (SCO) with the membership of Uzbekistan in 2001. As part of Organization's effort for expansion Afghanistan, India, Iran, Mongolia and Pakistan joined as observers; Belarus, Sri Lanka and Turkey are dialog partners of the organization and participate in the annual meetings of heads of states and annual meetings of prime ministers [38,39].

It draws attention that the first step for establishing the Shanghai Cooperation Organization took by China and the Organization covers the entire Central Asia except for Turkmenistan. While the first structuring of the organization was for the purpose of ensuring the regional security and solving the border security problems, in 1999 it developed a wider identity as regional security and economic cooperation organization. In this context, the organization takes an active role in solving problems between member countries, success of intergovernmental discussions, elimination of border conflicts, increasing interregional cooperation and most importantly in the fight with extreme religionists and terrorism (Yıldırım [40]; Uras [41]). By holding more than half of the petroleum production of the world the organization aims to turn this economic power to an effective power against the United States of America. This purpose was confirmed by Russian leader Putin in 2007 at Bishkek Summit as he states that a unipolar world cannot be acceptable. The organization, which tries to create an economic and in the final period a military cooperation model beside the fight with secessionism and border security, has very low scores in terms of democracy according to the EU Copenhagen Criteria (Zeyrek [42]). Because it is expected that the market economy and price mechanism operate better in democratically developed countries and this contributes more for economic development.

In this context, when we take a look at the Democracy Index (shown in Table 5), which is prepared by Economist Intelligence Unit – belongs to Economist magazine group- by taking the criteria like free and fair selections, pluralism, good governance, political participation, political culture and freedoms into account, democracy scores of SCO member countries seem to fail.

**Table 4. Turkey's effect to the EU GNP (Billion-Euro)\***

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Total</b>
EU-25 GNP	15.949.217	16.693.757	17.473.466	18.289.862	19.144.521	20.039.067	20.975.181	128.565.071
GNP (Lower Scenario)	15.949	16.693	17.473	18.289	19.144	20.975	20.975	128.565
GNP (Higher Scenario)	47.847	50.081	52.420	54.869	57.433	62.925	62.925	385.695

*\*Estimated data; Source: (DPT [30])*

**Table 5. Democracy index by economist intelligence unit**

<b>SCO</b>	<b>Russia</b>	<b>China</b>	<b>Tajikistan</b>	<b>Kazakhstan</b>	<b>Kirgizstan</b>	<b>Uzbekistan</b>
Democracy index	3,39	3,00	2,37	3,17	5,24	2,45
<b>EU*</b>	<b>Greece</b>	<b>Cyprus</b>	<b>Slovakia</b>	<b>Bulgaria</b>	<b>Romania</b>	<b>Turkey**</b>
Democracy index	7,45	7,40	7,35	6,73	6,68	5,12

*\*5 EU countries with the lowest Democracy Index; \*\*Candidate Country for EU membership; Source: (The Economist [37])*

It's an expected case that developed democracies make positive contributions for countries' development and growth performances. In literature it's possible to come across with works which confirm this expectation. These works show that democracies contribute to economic development more than autocracies, since they are more successful at managing social conflicts, maintaining political stability and preventing social disasters. In this regard, it draws attention that advanced democracies increase capital accumulation and enhance growth rate by decreasing income inequalities. (Barro [43]; Bhagwati [44]; Bourguignon and Verdier [45]; Bardhan [46]; Arslan and Doğan [47]; Çukurçayır and Tezcan [48]; Beşkaya and Manan [49]).

According to the Table 5 Democracy Index of five EU member countries with the lowest indexes have higher scores than the country (Kirgizstan 5,24) with the highest score among the SCO countries. As for Turkey, it has a higher score than SCO countries (except for Kirgizstan) (The Economist [1]). According to that, Turkey will have the same low standards with SCO if it sacrifices from democracy. But if it develops its democracy a little more it will then reach the same standards with EU. Another case to be stated about Turkey's membership for Shanghai Cooperation Organization is that Turkey takes EU democracies as references in terms of democracy, human rights, supremacy of law and fundamental freedoms. While Turkey constructs the process, which it initiated with EU, on "values and principles", it makes necessary to evaluate other organizations equally, since Turkey considers them as alternatives. Seeking for common interest from the countries lack of principles like democracy and supremacy of law and constructing its future on these countries would not serve for the targets of Turkey. When we look at the Middle East and Eurasia, it can be observed that the peace in domestic and foreign policies of these regions could not have been established (Demirtaş [50]).

When Shanghai Cooperation Organization's leading countries Russia and China's targets to have a say in Central Asia are paired with their efforts to isolate the area from western effects, it's necessary to think that this organization is a security system to protect their territorial integrity. On the other hand, Russia and China with dominant role in the organization caused organization political view to be dependent on these countries, too. Besides, the fact that China

and Russia are members of United Nations' Security Council enhanced organization prestige, and this is evaluated as a tool to balance the interest of the United States of America in the area. The United States of America gaining more domination in Central Asia would cause the countries outside of SCO to serve for the USA's interest in return for the help from the States and to become distant to the SCO, which is identified by the policies of China and Russia. This would possibly weaken the thoughts of SCO as a successful integration. Also different life styles and different understandings, which are shaped because of the fact that Central Asia has different ethnical and religious structures, will increase the concerns about SCO's future, and with the support of experiences from area's historical process the belief that SCO is not a successful integration initiative will become stronger (Yıldırım [40]). This is also supported by the fact that EU consists of the nations which share the same religion and similar life styles.

The relations between Turkey and Shanghai Cooperation Organization start with Turkey's application to the organization for the observer status and being rejected. Although the Russia supported Turkey, China was not enthusiastic about Turkey's membership with the reason that Turkey can play role on the subjects of Central Asia and East Turkistan, and with that it can harm China's interests in the area. Even though the president of Kazakhstan Nazarboyev stated at the leaders meeting in St. Petersburg in June 2002 that they opened their doors for the countries want to cooperate, in 7 January 2002 at organization's meeting for foreign ministers in Beijing China declared that the task of the organization is institutionalization and it has negative thoughts on the acceptance of memberships, which creates the impression that the expansion of the organization is under the initiative of Russia and China (Yıldırım [40]).

The prime minister's presentation of SCO as an alternative to the membership process of EU and his lobbying efforts to make Turkey a member of Shanghai Cooperation Organization in 2013 can be seen as Turkey's efforts to keep its objectives for the membership of SCO alive with also the help of good relations with Russia (Zeyrek [42]).

This move of Turkey shows its intention to steer from the Western Market to the Eastern Market. However, the facts that the Customs Union Agreement between Turkey and EU, many employers and employees live in EU, the

absence of economy within the recent cooperation policies of SCO<sup>3</sup> and having the security as priority can be described as a condition to fail Turkey's intentions in this field. On the other hand, there are also reasons make it hard for SCO as being an alternative for EU, since SCO is lack of having the desired standards like sharing the rich qualities of Western civilization and its culture, democracy, freedom of thought and conscience, human rights, supremacy of law that They has set as target for many years; and it seems that SCO will not have these standards for a long time (Uras [41]).

Besides, after the events of "warplane shot down crisis" and others according to the border breach, the uncompromising attitudes shut all the doors. When considered from this point of view, it's a step with big importance that Turkey's first act after shooting down the Russian warplane was to call a meeting immediately with NATO Council and to ask for support and solidarity from its allies. Besides that, with the appearance of the crisis the diversification of energy resources and the cancelation of the Turkish Energy Project can be reviewed as important developments. Turkish Energy Project constitutes two kinds of problem. First of all this project is contrary to the trade policies that Turkey has been developing since the early 1990 for marketing the underground sources of Caspian Basin to the world market through its own land. If the project is put into practice then the thought of carrying Azerbaijani, Turkmenistani, Iranian and in the future Iraqi natural gas to the Europe will become difficult. Another problem is the continuance of Turkey's need on Russian natural gas and the possibility of making Turkish policies weaker against Russia (Demirtaş [50]).

## 6. CONCLUSION

The goal of the integrations that has come to the fore after the World War II is to develop the world trade. Universal goal is to end the practices which limit the trade between the countries, and the liberalization of the world trade has been achieved with GATT. This also started the globalization movement. While the globalization phenomenon was in progress during the 1970s,

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<sup>3</sup> In 2003 an idea was brought forward to sign a free trade agreement between the SCO countries, but they couldn't achieve any success. In 2005 the idea of building common policies on petroleum and gas, but there was obtained no result either. In 2007 the offer to establish the "Energy Club" was not accepted [41].

regionalization movements gathered pace. Even though globalization and regionalization look like they are by the ears, they actually complete each other.

Turkey gives importance to a well-rounded integration policy. Since it's a member of World Trade Organization, Turkey has to apply organization's decisions regarding marketization in a global level. Turkey makes its choices about the regionalization movements around the world on EU's side. European Union adventure of Turkey which continues since 1959 and got faster after the negotiations started. However, a difficult marathon is waiting for Turkey, which will start to reformative changes. When Turkey, which was accepted as a member of the Customs Union without being a member of the EU, is compared to the countries that became member of the Customs Union after being a member of EU, it's a fact that they are benefiting from the EU more. We can also see that there are many countries that do not comply with Maastricht Criteria. EU looks for tactics to delay the process by evaluating Turkey according to different socio-political and cultural values.

It's obvious that the integrations, like BSEC, ECO and D-8 could not have made much progress, since they could not provide the economic success conditions. With BSEC the social substructure of the countries could not recognize each other. Although ECO's expansion is a breakthrough, the countries establishing the zone are potentially tension factors. The countries at D-8 have problems with different industrial development levels, different economic systems and different political systems. Being a member of OECD and being in the chair of this organization is very positive for Turkey. Turning its face to the West during the search of economic integration may be a regional handicap for Turkey. It should take important steps to be able to develop its regional relations.

Since the expected result of Turkey's steps in the name of strengthening regional relations is not given, this brought other searches with it. One of these searches is the Shanghai Cooperation Organization. When we look at this organization's structure and purposes, Turkey takes EU criteria as reference in terms of democracy, human rights, supremacy of law and fundamental rights. In this context, other formations (Shanghai Cooperation Organization – SCO) that Turkey takes as alternatives also need to be studied with similar criteria, in

connection with restructuring the process, which has been started with EU, in terms of “values and principles”. The member countries of SCO are lack of values like democracy and supremacy of law and they cannot bring peace to the domestic and foreign policies in Middle East and Eurasia, which is a sign which shows that this integration cannot help Turkey to find an answer for its needs.

As a result, in short term it does not seem possible for a cooperation organization to be a key actor at international relations, when it's an organization with low democratic criteria for free and fair elections, pluralism, well managing, political participation, political culture and freedoms; and an organization without concurrent interests and mutual respect to member countries' rights and characteristics. The fact that dominant powers like Russia and China has more say for SCO's policies causes Turkey to fail to get an important role in this organization. Besides, the recent “warplane shot down crisis” and unyielding behaviors became a progress which makes Turkey's membership to SCO nearly impossible.

When the existing integrations that Turkey already participated is taken into consideration, according to political, social, economic and military arguments an integration with EU is seen as the most appropriate integration for Turkey. The arguments, which show that Turkey's EU integration is reasonable, are that Turkey's governance is based on the Western democracy, European countries are taken as references for shaping the social structure, in market economy EU has around 50% share in Turkey's export, for military cooperation Turkey is a member of NATO (North Atlantic Treaty Organization) which includes EU member countries.

In this context, it needs to be stressed that Turkey should proceed with the EU membership negotiations rather than fulfilling SCO criteria during its search for new integrations. EU membership process should be supported with adjustment laws and practices for the Copenhagen political criteria, which form EU's political criteria, and the Maastricht economic criteria, which form EU's economic criteria. Additionally, Turkey must meet the standards, which had been adopted during the establishment of the Republic of Turkey, in all areas by developing the criteria like free and fair elections, pluralism, good governance, political participation, political culture and freedom.

## COMPETING INTERESTS

Authors have declared that no competing interests exist.

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