Economic Implications of Labor Market Integration Between the European Union and Turkey

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Abstract

This paper looks at long run and transitional economic implications of decreasing labor mobility costs between Turkey and the European Union (EU), for the region (the EU including Turkey) and both locations. The aim is to quantify economic effects of a bilateral arrangement facilitating labor mobility between these two locations by using a growth model with endogenous labor movements across locations having different productivity levels, developed in Klein and Ventura (2009). The model parameters are set so that the model economy is consistent with the EU and Turkish economies in 2010. Findings show that removing barriers to labor mobility, fully and partially, generates regional output growth in the long-run at range 6.2%-8% while growth in regional capital is between 6%-8%. Besides, welfare gains for young natives in Turkey are at range 1.06%-2.04%. Yet, young natives in the EU are exposed to welfare losses which changes between 0.08% and 0.13%.

Keywords: Labor mobility, Cross-country income differences, Turkey, EU

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