

“Looking to the Future with Confidence”

Address by His Excellency Masum Türker, State Minister for Economy
(Turkey)

Distinguished Guests,
Ladies and Gentlemen,

It is a pleasure for me to address this select audience here at this prestigious Center. I would like to thank the organizers for arranging this meeting where I will have an opportunity to share my views with you. I will divide my presentation into two parts. First I will deal with the present international environment surrounding Turkey, then I shall try to explain what our Government has done in the economic sphere to carry Turkey forward in order to cope effectively with that environment.

Today the international system requires its subjects to be prepared for more complex challenges. Military power alone is not enough to counter these challenges and solve the problems of our world. The present model sets the stage for a new kind of power – one that rests on economic vitality and political knack. Therefore in this power game, the decisive factor for a country's success is its ability to make optimal use of its comparative advantages... Some countries are fortunate in this regard and some are not.

Let me share with you how I see Turkey's future unfold in light of the current global realities and challenges. To be able to make a fair judgment of Turkey's situation one should first understand and appreciate the political, military, socio/economic and geographic environment where Turkey finds itself. In this connection, one can easily see that Turkey has opportunities as well as challenges.

Today Turkey is looking to its future with confidence. As a matter of fact, it is in the nature of the Turkish people to look at the brighter side and not to lose hope whatever the circumstance may be. The history of the country is full of hardships and bitter experiences, but always a positive outcome at the end.

Before dealing with Turkey's future vision let us look at the current international environment.

Perhaps the biggest threat to our global system today is the organized terror phenomenon. Freedoms of the open society and technological progress can be easily exploited by underground crime networks with evil ambitions. The September 11 attacks painfully demonstrated that the threat is no longer confined to certain targets or groups but has taken on global dimensions. Therefore, the fight against this scourge must be a collective one. Turkey itself suffered heavily in the recent past from the scourge of terrorism and is still a target. That is why we could understand and share the emotions of our American friends following the attacks of September 11.

There are other problems and challenges facing our world today. The economic imbalances among nations should be considered as a great risk to global peace and stability. While globalization proceeds at a brisk pace, large areas of the world still suffer from poverty and underdevelopment. The ever-widening gap between the rich and the poor is not an issue that can be overlooked. Unless we take serious steps to address this problem today, we cannot look at our children's future with hope. Dissemination of democratic principles, human rights and the rule of law has been a welcome development. However we can not ignore such dark forces like racism, xenophobia and fundamentalism which sow the seeds of enmity among nations and try to break the social and political fabrics of states. Moreover, ongoing regional conflicts and the proliferation of weapons of mass destruction also pose a constant and serious threat to international peace and stability.

Turkey is in the midst of a region full of risks and challenges. The presence of uncertainties around Turkey does not only exhaust its political energy but also its economic resources.

In such a volatile neighborhood, Turkey has been actively using her diplomatic, political and economic assets to contain and try to help solve the conflicts that threaten peace. The armed conflicts in the Balkans, the Middle East and the Caucasus have broader political impact than a regional one.

We believe that economic cooperation can be an effective tool for enhancing regional dialogue and paving the way for long term resolution of political problems. It was this consideration that led Turkey to pioneer the formation of the "Black Sea Cooperation" organization. Our central position between Europe and Asia is a major asset enabling us to launch inter-regional initiatives. Despite our economic difficulties we are still among the leading donors of humanitarian and development assistance, with regard to percentage of the GNP.

Turkey has always been active in international peace keeping operations. When the international community initiated the efforts to rebuild Afghanistan, Turkey was at the forefront to help the process. In addition to contributing armed forces to the International Security Assistance Force, Turkey is helping to establish a national Afghan army and police force. All these efforts are geared towards eliminating the terrorist elements in the country and preparing and handing over a normal life to the Afghan people.

Turkey's unique political and social attributes also provide the opportunity for playing a mediating role. The "*Joint Forum*" held in Istanbul between the European Union and the Organization of Islamic Conference has been an important step in bringing together representatives of different cultures at a time when the East and West were looking at each other with implicit distrust. Indeed the experience was a very positive one, since it enhanced mutual understanding. We believe that engaging sides in such direct contacts is the best way to dispel doubts on of a common concern, thus serving the cause of peace.

Turkey's prospective membership to the European Union will also strengthen the process of dialogue and cooperation between the East and West. We hope that Turkey's bridging role is better appreciated by the European Union countries so that their evaluation of Turkey at this critical time would be a positive one.

We attach great importance to our strategic partnership with the United States. Without doubt, our mutual cooperation in political and security matters is exemplary. Nevertheless, we feel that our economic and trade relations are lagging behind, and that a joint effort is required to upgrade them in order to be consistent with the strategic partnership. In doing so, we shall achieve an overall balance in our relations as a whole. In fact, we have an efficient tool that, namely the Economic Partnership Commission, which can diversify and increase our economic and trade relations to the benefit of both parties. In this context, we would like to see more American private sector investments in Turkey. Furthermore, Turkish-US joint ventures directed at third parties will yield to political benefits as well as economic gains.

Despite the economic difficulties of today Turkey is entering the 21st century with strong aspirations. Changing circumstances following the Cold War have bestowed upon Turkey a special responsibility to make active contributions to the preservation of regional and global peace and stability. Turkey is doing its best to live up to this historic task with a clear vision for the future.

At the moment there are two major goals that lie in front of Turkey. The first one is to realize the economic transformation in the country so that the Turkish people can enjoy the prosperity that they deserve. This transformation will also help Turkey to cope efficiently with the current global economic system and compete with the world trade leaders. The second goal is to make Turkey a full member of the European Union. I will be talking about our Government's ambitious economic reform program in a moment. Now let me say few words about Turkey's relations with the European Union, without touching on the political ground.

Historically, geographically and economically Turkey is already a European country. It is therefore quite natural that it should become a full member of the European Union, sooner rather than later. The substantial progress Turkey has made in its relations with the Union since the Summit meetings in Helsinki and Laeken keeps us optimistic in that regard. Of course, we know that there are certain prejudiced forces in Europe who do not appreciate the contribution Turkey can make to the process and rather dwell on the cultural and religious differences. To these prejudiced people, one should direct the question; "is it not the variety of cultures that constitute the richness and strength of the United States". Or one may reverse the question and ask: "was it not the bigotry against other cultures that brought misery to the continent with the Second World War?"

Turkey will obviously benefit from becoming a member of the European Union. For us the greatest benefit of the membership will be the consolidation

of our place within the European family of nations on such common values as democracy, rule of law and human rights.

On the other hand, with its historical experience, cultural richness, young population, dynamic economy as well as strong defense capability, Turkey also has much to offer to the Union, not to mention its distinct geographic location. When Turkey becomes a full member, the Union will be transformed into a truly multi-cultural and multi-religious area. This may well herald a new era of mutual understanding, respect, tolerance and cooperation between different faiths and cultures. We believe that such an attitude is what the world exactly needs today at this critical juncture.

Transforming Turkey into a pivotal and prosperous country at the center of the vast geography we call Eurasia is the fundamental goal of Turkey. Turkey already possesses the most diversified industrial base, has the best trained and equipped army, and is one of the few deep-rooted democracies placed between the Balkans, Central Asia and the Middle East. The political, economic and security initiatives Turkey has launched, encompassing diverse regions, will also be instrumental in attaining this target. A much stronger Turkey contributing to peace and stability in this critical region is certainly in everyone's best interest.

Turkey was among the pioneers of the idea of transporting the Caspian oil to the West. There was strong opposition to this gigantic project until the last moment. However, Turkey stood firmly behind it and with support of the Presidents Heidar Aliyev and Eduard Shevardnadze and the political backing of the United States the project has now been brought to the implementation and construction phase. The legal framework for the Baku-Tbilisi-Erzurum Pipeline project has also been completed. Once these projects are operational Central Asia and the Caucasus region will be placed in the energy map of the world. The economic as well as political contribution of these projects to the region will be immense.

So far I have tried to give you an idea how Turkey is interacting with the outer world. In order to realize its vision for the future Turkey had to take decisive steps for effective management of the country's economic resources. To better understand what we are doing today in Turkey with regard to our economy one must look back to 1980's.

Starting in 1980 Turkey embarked on an ambitious program of stabilization and structural adjustment. The speed with which the macroeconomic stability was established and the rapid response of the private sector to the new regime, made Turkey a success story among adjusting countries. Turkey had succeeded in liberalizing its foreign trade, the financial sector, and the capital account and in transforming a protected, inward-oriented economy into an export oriented and private sector driven economy with a number of sectors that could compete internationally.

Nevertheless fourteen years later, in early 1994, Turkey was faced with a major macroeconomic crisis and had to adopt a new stabilization program as

a result of fiscal deficits. The overall public sector borrowing requirement clearly reached almost 12 percent of the GNP in 1993. Furthermore, the duty losses undertaken by the state banks have consequentially created veiled debts for the Treasury.

A strict stabilization program was introduced immediately in 1994. While the program was effective in addressing the short term problems in the economy, structural reform efforts could not be sustained. Some severe structural weaknesses of the economy became evident in the second half of the 1990's. An overextended public sector, persistent high inflation and huge disparities in income distribution were among them.

The 1997 Asian Crisis and the following Russian Crisis placed unbearable strains on the Turkish economy. In 1999 the GNP shrunk by 6.4%, one of the worst performance in the Republic's history.

The repercussions of the 1991 Gulf War also had deteriorating effect on Turkey's economy. The war caused Turkey to considerably loose its export potential directed to the Middle East. The economy of Turkey's Southeastern region was heavily hit and the consequential unemployment played a significant role in the increase of terrorism, thus boosting the Government's expenditures. During the same period, tourism revenues had significantly decreased. The overall loss of the economy so far amounted to 125 billion dollars.

Our Government, which came to power following the April 18 elections in 1999, has initiated an ambitious economic reform effort to tackle the long neglected but much needed structural reforms in the country. A stand-by arrangement was put in place at the end of 1999 to support Turkey's strides to establish economic stability and fight against inflation. Our economic program envisaged far reaching structural reforms and prudent fiscal policies along with a crawling exchange rate regime. Soon after taking office our coalition Government managed to pass an economic reform package encompassing the banking sector, to further streamline the tax system, and to introduce an amendment in the Constitution to accept international arbitration rules and the concept of privatization. In addition the reform package also provided for the restructuring of the social security system, which primarily included the raise of the retirement age, thus solving a long standing structural problem.

Turkey continued implementing this ambitious and comprehensive reform program with the support of both the IMF and the World Bank at the beginning of 2000. The green light given by the European Union for candidacy for full membership also contributed to the economic reform efforts by following a road map to comply with EU standards.

The 2000 program was successful for sometime. However, difficulties of surviving with a pegged exchange rate regime inevitably surfaced. Questions on the exchange rate system and some slippages in the reform agenda raised concerns about the soundness of the program and the dedication of the Government. Our Government's resolve was tested in markets in November

2000 and later in February 2001. The second attempt proved to be insurmountable and the exchange rate was floated in February 2001. Our Government had to revise the 2000 program to remove the uncertainties in the markets. While continuing to address the decades old inflation problem, new measures for growth were taken.

With the action taken within the revised reform process, we made a successful start in 2002. Turkish Economy proved to be more immune to external and domestic shocks. Up to the last days of the spring, the market indicators had improved and the economy recovered considerably. However, when suddenly rumors of ambiguity were floated at the beginning of summer, the resilience of the economic program was tested by an increase in the interest rates and depreciation of the foreign currency.

From July onwards, the economic indicators followed a stable course and even showed signs of improvement. A brief look at the developments of the last eight months clearly demonstrates the significance of the structural transformation achieved within the economy beginning with the latter half of 2001.

In contrast to the political developments in February 2001, the artificial political tension created in the early summer had a limited impact on the economy due to the broad based structural reform program and its inherent flexibility against shocks. This achievement was largely due to placing the structural reform measures of the program on strong foundations.

The current economic program targeted the elimination of the basic weaknesses of the economy by extensively using the experiences of 2000 and 2001. The revised program focuses on restructuring the finance sector and aims at removing the obstacles in front of the private-sector-driven economic growth.

The cost of the crisis and the transformation thereafter was enormous yet tolerable. During this operation, the veiled debts of the state banks emanating from duty losses were publicized. Public sector's net debt to GNP ratio amounted from 57.7% in 2000 to 92.8% in 2001 and the Turkish economy witnessed its worst contraction since World War II. The economic activities dwindled and the unemployment rate increased. Nevertheless, the outcome achieved was well worth the difficulties suffered.

Today the Turkish economy is stronger and climbing the stairs faster. Economic policy planning was institutionalized and the economic actors have become more aware of the importance of program execution and results. It is expected that this year the real GNP growth will be 3% and the CPI inflation should regress to the program target of 35%. The key factor here is the element of "confidence" for obtaining positive economic indicators. While the public sector was downsizing the expenditures and increasing the revenues through a number of measures to reach the ambitious primary surplus target of 6.5% of GNP in 2002, economic activities within the private sector have

recovered quickly and responded positively to Government's expenditure reducing policies thus challenging the logic of strict fiscal policy.

The Government is continuing to inject confidence in the markets by signaling that the program will be on track and there will be no deviation from its policies. Our Government is determined to execute the economic program and continue fulfilling its commitments towards completion of the program review process without any problems at a juncture where the elections are approaching.

It is anticipated that 2003 will entirely be a recovery year for Turkey. Real GNP growth will reach the 5% level and inflation will continue its slide down to 20%. New steps will be taken to reach a prosperous and stable economy. Public sector will keep the primary surplus at 6.5% of GNP during 2003 in order to reduce the net public debt to GNP ratio to 75.2% and to insure the smooth debt rollover.

It is expected that the economic recovery in 2003 will emanate from a rebounded domestic demand coupled with strong foreign demand. The present idle capacity within the economy and the sub-potential production level will keep the inflationary pressures under control. On the other hand, our independent Central Bank will do its best in order to fulfill its obligation to keep the price stability in case inflationary pressures do emerge. To follow the strict fiscal policy and to allow no diversion from the primary surplus target is of utmost importance.

Since the onset of the program our Government has placed a great importance to the structural reforms. The achievements so far within the program are largely due to the successful implementation of the structural reform process. Our Government has enacted reforms within the agricultural, social security, energy and communication sectors, with the finance sector being at the top.

These decisive and bold steps definitely strengthened the confidence among the public that the Government would keep the program on track. Our efforts are now concentrated on reforming the public sector within a wide spectrum of initiatives ranging from better public financial management to transparency and good governance.

All these measures will help carry Turkey closer to membership in the European Union. In parallel with our efforts to meet the economic criteria and together with the Parliament's ratification of the legislation to fulfill the Copenhagen Criteria, Turkey has now taken all the steps necessary to start membership negotiations and secured itself a justifiable position. Consequently, we hope that a precise date for the initiation of membership talks would be given to Turkey at the European Union Summit to be held in Copenhagen.

As the Government we know that Turkey's message to the world should be very clear. In this connection, decisive implementation of the program would

be the best alternative for those who might be in the position of making policy decisions in the future. Markets must be confident that the parties in the Government share a political consensus with the opposition on this very issue. Therefore, one must not expect the November 3rd elections to cause significant changes in the economic policy.

Without doubt, the next Government should be in a better position to attain the objectives and implement the policies of the program since it will have the advantage of reaping the benefits of the economic program.

Finally, I would like to stress the importance of the current program for Turkey's future. The program is an indispensable part of Turkey's agenda to transform the country into a modern and sound market economy which will carry Turkey to full membership in the European Union and strengthen its place within the International Community.

I hope you will agree that the political and economic contributions of a strong Turkey are needed in a region where age old conflicts are threatening the global peace and stability.

Thank you!