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Transcript

Turkey's Economy: An Example for the Middle East and North Africa?

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Numan Kurtulmus:

Dear participants,

First of all, I would like to thank you for your kind invitation to speak at this meeting.

In my speech, I would like to focus on Turkey's current experience of economic progress and its strong tie to democratic developments. I will then share our future agenda on economic and political transformation. Finally, I would like to discuss the influence of Turkish experience on developing and transitional countries, including the MENA region.

We believe that the experience of each country is unique to herself. Turkey's current policies are the result of its own-situation (peculiarities) and they may not be exactly adopted by other countries. However, the success of Turkey might be a source of inspiration for the countries in our region and for the rest of the developing world. While the Turkish experience of democratic and economic development attracts global interest, this attention also encourages and motivates our efforts on these very issues.

Basically, there are two key approaches that explain the link between economic development and democracy. According to the first view; in parallel to the enhancement of income levels and living conditions of the people, society will start to demand additional freedoms and more democracy. In other terms; to achieve a democratic form of government or regime, countries should strive for sound economic development first.

Based on the second view, poor economic conditions will lead people to demand better living conditions, and make them criticize their governments. In democratic countries, the citizens will seek to change their government at the next elections. Unlike democratic countries, people will start to blame their leaders and seek for regime changes within non-democratic countries.

In fact, when we analyze the Arab Spring, it is possible to identify the causes of the revolutions as widespread pillage, self-interest, injustice, dishonour and poverty. These factors triggered rage and hate against the old oppressive regimes which lead to change.

Under the light of different country experiences, it could be asserted that there is always a strong link between democracy and the economy. Regarding the Turkish experience, it is seen that Turkey has managed to introduce economic and political reforms simultaneously.

The fundamental reason behind the Justice and Development Party's (JDP) success was its ability to prioritize and immediately take necessary steps to facilitate the country's economic, political, legal and institutional democratization. This process provided an upward social mobility to the country's underprivileged masses. Hence the masses –previously seen as backward- had the opportunity to move toward the economic and political center.

For the Turkish political experience, the last decade could be marked as a period of change. As such, the following decade, 2013-2023, will witness a process to complete democratic transformation. The coming decade must focus on systematic transformation in the political and economic realms.

The tutelary mechanisms, anti-democratic practices and the coup d'états Turkey witnessed for several decades have limited real participation of people in politics while restricting the freedom of political parties. And this resulted in political instability in the country.

We can highlight some of the consequences of anti-democratic implications the Turkish political system has experienced;

- The greatest impact of political instability was on the Turkish economy. Since Turkey was assessed as a politically risky country for years, we could not have obtained sufficient amounts of international investments. And the borrowing cost of the Turkish Treasury increased dramatically.
- Due to the lack of political stability, Turkey also suffered inefficiencies in resource allocation, increased interest payments, low social expenditure, low employment and less social welfare.
- Consequently, all public and private stakeholders lost their confidence in political actors. People's and institutions' priorities moved away from long term economic and social development projects while focusing on short term needs.

After rising to power in 2002, the JDP took important steps in terms of democracy by eliminating military, civilian, political and economic tutelage in the country. Such democratic developments were welcome by the people empowering them in ensuring consolidation of participatory democracy from smallest social units to highest levels of administration.

At this point, we may provide some specific examples of achievements in terms of political reforms after 2002:

- The structures of the National Security Council and the National Security Policy Document, seen as the source of military interventions, have been changed.
- The military and civic codes of jurisdiction procedures have been restructured using democratic means.
- Recent coup d'état attempts, including 1980 military intervention, have been put under civil courts trial.
- In order to strengthen freedom in political and social areas, two major constitutional referendums have been held.
- Constitutional article pertaining to Presidential election has been amended in the 2007 referendum allowing the people to elect their president.

After these reforms, Turkey has become a more stable country with better governance structures. This progress has also been noticed by the World Bank acknowledging Turkey's success on the area of regulatory quality, government effectiveness, control of corruption and the rule of law.¹

In regard to these reforms; the last decade could be marked as a period of change for Turkish political life. In order to maintain and make all those achievements sustainable, we need to continue introducing new reforms in the future. We believe that the coming decade, 2013-2023 will be a period of systematic transformation both in the political and economic realms.

The political transformation (Constitutional, legal and institutional) should eliminate all tutelary mechanisms, imposed by the 1980 coup d'état. In this regard, the future reform steps must include changes in the Constitution, the Law on Political Parties, the Electoral System, strong implementation of the "Subsidiarity Principle" and the Charter of the Parliament. These steps can be explained briefly as follows.

In order to achieve 'Social Coherence' the new constitution will ensure the stability of institutions guaranteeing democracy, the rule of law, human rights, protection of minorities as well as addressing longstanding problems.

The main philosophy of the new Constitution, based on pluralism and freedom, would not be exclusive but inclusive, not discriminating but

embracing, not dividing but uniting, as well as based on no uniformity but diversity.

By respecting social unity and cohesiveness, we will improve all rights and freedoms in order to maintain fairness and justice, and establish social solidarity in our society.

In our future agenda, the election system is another critical area that we should focus on. In the new period, we will remove all anti-democratic barriers and limitations in terms of the right to elect and to be elected. Legal amendments that facilitate better democratic representation and increase democratic standards will be introduced.

Last but not least another reform area is the subsidiarity principle. Our policy of local governance is human-based and service-oriented. In this context our objective is to enhance the participation of our people, direct representation and supervision in local governments. We will continue to decentralize administrative system and delegate power from centre to local agencies that provide direct services to the people.

As explained above, the years between 2002 and 2012 were a period of the elimination of three factors, which prevented Turkey from growing and developing.

These three factors were;

- Military tutelage
- Political and legal tutelage
- Economic tutelage.

The main rationale behind JDP's success was a mindset shift and its ability to mobilize masses in the direction of democratic and economic participation. For the first time in the history of Turkish Republic; demands, priorities and faiths of people have been reflected so powerfully on the government by means of politics.

The JDP's leadership has introduced the transition and reforms requested by people. This process created a strong dynamism and social transformation in Turkey. The vision of 2013-2023 is a strong indicator that reflects JDP's philosophy and objectives on politics and economy.

We strongly believe that 'Stability' and 'Negotiation' are the key terms for a peaceful future in our region and the world.

The past experiences in regions with conflicts and problems have proven that the stability attempts without consideration of the will of people would not be sustainable. Therefore, stability must be re-established by taking regional initiatives into consideration.

Turkey also faces critical challenges arising from the global financial crisis and recent developments in the Middle East and North Africa. Turkey's primary regional interest lies in the regional stability. It is impossible for Turkey to establish and maintain internal stability, welfare and security apart from the region. Turkey has very close links with this region, and it is a critical requirement for Turkey to be a stakeholder in transition and stability efforts. Our relations with the region and even with the European Union depend on this idea.

Due to the wrong policies set by global powers in Iraq, Afghanistan, greater parts of the Middle East and Africa, our region and the world is now in a row. On the contrary, what we mean by an approach of negotiation and agreement is a transformation to establish stability, redistribute welfare and ensure security, which must occur in a way that relies on negotiation and mutual consent. And those negotiations should develop into regional and even global agreements respecting mutual benefits. By this way, the formation of organizations that maintain and guarantee stability will become possible. Global stability can only be achieved by following this path.

Post War institutions including the United Nations, are the results of policies that were bipolar, confrontational and enforcing. The suggested new global order, depending on stability and negotiations cannot be reached with the current structure of these institutions. The scope of this transformation must cover not only some regional countries but also include international institutions. The hegemonic countries should therefore encourage and promote the regionalization efforts based on negotiations.

Economic transformation represents another key area for Turkey's transformation story. I believe that the most important factors behind Turkey's economic success are the steps taken towards democracy and political stability, and I think the economic performance of Turkey during the last decade has already proven this.

However, the economic reforms introduced during the last decade are another important factor in this successful period in Turkey's economic history. In the economic area the main principle of JDP is the approach which states that;

“We all will earn our bread with our own efforts, make it bigger and distribute it fairly.”

In this context, Turkey’s success in ensuring macroeconomic balances in the last decade reduced the influence of the monopoly of capital holders, who flourished under the protection of the tutelage system, dominating the economy. In this sense, as the last decade represents a period of significant change, the next decade must bring about a notable transformation in economic structures while securing a sustainable stability.

Now I want to talk about some changes in the structure of Turkish economy during the last decade.

The first point is the new role assigned to the state. In the new model, the state stopped functioning as a normal agent in the economy by giving up most of its daily activities in both the manufacturing and service sectors; and instead it started to play solely the role of regulator in those sectors.

In parallel with this, crucial privatization steps have been taken in Turkey and both large and small sized governmental production and service facilities have been privatized.

In this way; instead of playing the role of a producer or service provider in a sector like energy or telecommunication, state became the regulator and started only monitoring and supervising the sector.

One other structural change in the Turkish economy is about the private sector’s entrepreneurship efficiency. In order to enhance the private sector’s entrepreneurship efficiency and shift to an economy based on innovation, numerous programs and projects have been activated in the areas of increasing effectiveness of the labour force, supporting the R&D projects of companies and enhancing the quality of education.

In parallel with this idea, the Turkish state has produced and implemented many projects in order to make the Turkish economy more competitive. As a result of these efforts, Turkey has improved its rating in the Global Competitiveness Report of World Economic Forum to rank 43rd among 144 countries in the last report, by improving its rank by 16 places compared to its position in the previous Report.

One other critical change in the Turkish economy was the transformation of the general approach in the international trade strategy of the country. Moving on from the fact that an international trade strategy based on “comparative advantage theory” can lead to a country specializing solely on exporting primary goods and raw materials while importing final high technology goods

and services, thus making the country a low wage economy; Turkey has changed its international trade strategy by adopting the “theory of competitive advantage.”

In this context, the Turkish government started to encourage private companies to become capable of competing with their international rivals by building up strategies which aim operational effectiveness, producing technology based innovative products and differentiating their products from their competitor’s products.

The Turkish government tries to achieve these objectives by giving direct funds, credit and tax incentives to companies working in this direction; and also supporting them with governmental organizations like the “Development Agencies and Regional Development Managements” helping those companies to become more competitive.

Moreover; in addition to its neighbouring countries Turkey started to establish relations with countries in far geographic locations. This new approach has benefited the Turkish non-governmental organizations and the business world by enhancing their dynamism.

Due to this policy, the Turkish government supported exporters by providing them the opportunity of market diversification, which in turn allows Turkish companies to carry out businesses in different regions like Europe, Africa and far Asia. As a result of this diversification policy in international trade, the share of the European Union countries in Turkey’s total exports diminished from 56.6 per cent in 2002 to 38.8 per cent in 2012 while the share of exports to North Africa and Near and Middle East increased from 13 per cent to 34 per cent in the same period. We can easily see the positive outcomes of this policy in Turkey’s position in terms of the Herfindahl-Hirschman index which decreased from 570 in 2002 to 351 in 2012. The decrease in this index represents a reduction in the country dependency of Turkey in terms of export.

One additional benefit of this policy has been seen during the last financial crisis and the decrease in Turkey’s exports to EU countries has been compensated by the increase in exports to the African, Near Eastern and Middle Eastern countries, which in turn support the development of the Turkish economy.

Coming from 2002 to 2013 Turkey has reached and maintained stability in its economy.

In this context, I want to give you some figures of Turkey’s economy:

- One of the most important changes in the Turkish macro-economy was the transition in the debt structure and budget policies of the government. The main aim of those new policies was to achieve balance and maintain the stability in the macro economy. As a result of these critical changes, the ratio of budget deficit to GDP dropped to 1.3 per cent; the ratio of the central government's debt stock to the GDP dropped to 40 per cent in 2011.
- Turkey's GDP increased on average at a ratio of 5.3 per cent yearly between 2002 and 2011 and raised from 232.5 billion US dollars to 775 billion US dollars.
- In parallel with this, GDP per capita increased from 3.500 US dollars in 2002 to 10.500 US dollars in 2011.
- Despite the financial crisis, unemployment rate decreased from 10.3 per cent in 2002 to 9 per cent in 2012.
- Inflation rate decreased from 29.7 per cent in 2002 to 6.2 per cent in 2012.
- Average interest rate of the Government Bonds decreased from 62.7 per cent in 2002 to 8.8 per cent in 2012.
- Turkish exports increased from 36 billion US dollars in 2002 to 152.5 billion US dollars in 2012.

When we analyse the economic performance of Turkey during the last financial crisis, we can easily see the positive decoupling of Turkish economy from the developed countries.

While improving its macro-economic indicators, Turkey has also taken measures regarding the social policies. We have increased the ratio of public social spending including education, healthcare and social protection from 13.5 per cent of the GDP in 2002 to 16.7 per cent of the GDP in 2011. While only 1.3 billion TL was allocated to social assistance spending previously, we now allocate almost ten times that number.

Until now the main economic policies have focused on the macro level objectives and Turkey has achieved great successes in the macro level. However, in order to continue moving forward and achieve 2023 vision, Turkey should concentrate further on the micro level policies.

Now, I want to talk about the 2023 vision of JDP briefly. The 2023 vision includes:

- To be among the top ten economies of the world in terms of the GDP.
- To maintain a stable reduction in inflation and keep interest rates to a single digit.
- To increase exports to 500 billion dollars per year.
- To increase per capita income to \$25.000.
- To reach annual GDP of 2 trillion dollar.
- To reduce unemployment rate to 5 per cent and to increase the present employment rate to at least 50 per cent.

Within this context, we must design specific policies for each segment of our society and Turkish economy still needs to make significant changes in the areas outlined below.

Firstly, the country must boost Research & Development (R&D) investments, develop high-tech industries and achieve international competitiveness, via trademarks and patents improve business environment and develop physical infrastructure.

For the middle classes, key projects should include policies enhancing entrepreneurship, efficient social security policies, investment incentives, training and professional education and human resource development.

Moreover, I believe that continued support for the young middle class, the most vibrant and highly-motivated social group, serves as the basic element of continuing economic dynamism. This will not only increase the economic productivity but also ensure a more fair distribution of income.

For the lower classes (workers and wage-earners) and lowest income groups, we should take necessary steps including social security policies, security nets, social supports, provision of basic and vocational education, and of course poverty reduction and prevention policies.

At this point I want to briefly talk about "income distribution". A wildly unequal distribution of income may lead to political and social instability, which are indispensable factors of sound and efficient economic development. Hence, improved income equality achieved through well-designed income transfers (including social safety nets) is very crucial for the permanency of economic development in Turkey.

As JDP we are aware of this reality and we will implement two types of social service policies. The first types of policies are those that provide for better

living standards for our citizens parallel to the progress and development in the country. The second type of policies will aim to raise those who are in need of social assistance from their current situation to conditions where they are more productive and self-sufficient.

The final point regarding our future projects is urban economies. Urban economy approach is another aspect that Turkey should focus on in the near future. Local dynamics which include non-governmental organizations, universities, local authorities, etc. will cooperate with each other in order to determine local economic potential and problems obstructing this potential to realize. After that analysis, necessary projects will be designed and implemented in order to realize the economic potential.

Distinguished participants,

To conclude my speech, once again I want to stress the points regarding the relation between democracy, political stability and economic development.

The fundamental reason behind JDP's success is its ability to prioritize and immediately take necessary steps to facilitate the country's economic, political, legal and institutional democratization.

Political stability is one of the most important prerequisites for economic development. Moreover, we have seen many examples which show that poor economic performance may lead to political instability during periods of financial crisis. When we take into consideration that there is a strong and two-sided link between economy and democracy; stability both in economy and democracy becomes very important for the smooth functioning of a country's democracy and economy reciprocally.

In this context I believe that, as Turkey gets further away from the anti-democratic implementations of the past decades, Turkey's political environment will maintain its stability and its economy will become increasingly stronger, which in turn will continue to contribute to its political stability.

Once again I appreciate your kind invitation and thank you very much for your attention.