Turkey

<table>
<thead>
<tr>
<th>Status Index</th>
<th>Management Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.7</td>
<td>6.1</td>
</tr>
<tr>
<td>(Democracy: 3.4 / Market economy: 3.3)</td>
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<tr>
<td>System of government</td>
<td>Population</td>
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<tr>
<td>Parliamentary democracy</td>
<td>69.3 mill.</td>
</tr>
<tr>
<td>Voter turnout</td>
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</tr>
<tr>
<td>76.2 % (Parliamentary elections 2002)</td>
<td>5,890</td>
</tr>
<tr>
<td>Women in Parliament</td>
<td>Unemployment rate</td>
</tr>
<tr>
<td>4.36 % (2002)</td>
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</tr>
<tr>
<td>Population growth*</td>
<td>HDI</td>
</tr>
<tr>
<td>2.0 %</td>
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<tr>
<td>Largest ethnic minority</td>
<td>UN Education Index</td>
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<tr>
<td>20 % (Kurds)</td>
<td>0.77</td>
</tr>
<tr>
<td></td>
<td>Gini Index</td>
</tr>
<tr>
<td></td>
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1. Introduction

In February 1997, the Turkish military initiated the process of ousting the pro-Islamic government of Necmettin Erbakan. Following Erbakan’s resignation in mid-1997, a coalition led by Mesut Yılmaz took over the government, which in turn was followed by a minority government under Bulent Ecevit and then a coalition government, again under Ecevit, which remained in office until November 17, 2002. The period examined by this report was thus characterized by extremely short terms in office, limited political stability, and intervention in the political process by extra-political forces, such as the military. The country was nonetheless able to achieve groundbreaking advances toward more democracy and a market economy during the past five years.

The period ended less fortunately for its most influential political actors, however. None of the four parties that had participated in governing coalitions over the past five years received the 10 % of votes required to return to Parliament in the November 3, 2002, election. Transformation progress is therefore not the result of political or societal consensus, and its sustainability cannot be assumed.

The most recent transformations are less a result of management based on clear goals and visions than a consequence of pressures external to politics, primarily from the International Monetary Fund and the European Union, pressure the state elite could not counter because of serious political and economic weaknesses. The government of Abdullah Gul, which took office on November 18, 2002, is based on the absolute parliamentary majority of the conservative Islamic Justice and Development Party and therefore promises greater stability. The bureaucratic and
military elites view it with mistrust, however, which increases the probability of greater efficiency losses. The altered international situation also raises doubts about whether the future policies of the IMF and the EU, which have been the driving force behind the transformation in the recent period, will continue to mutually support and strengthen each other to the extent they have in the past five years.

2. History and characteristics of transformation

Since the establishment of modern Turkey, economic and political transformation have been closely intertwined. In 1929 the Republic chose what was then an original model, statism, in reaction to the worldwide depression. Pursuing government economic targets, state enterprises in heavy industry were supposed to form the economic foundation, while construction, light industry and food production were to remain primarily under private ownership. In the latter areas, government contracts and protectionism were supposed to guarantee the development of “domestic” Turkish (Islamic) entrepreneurship – as opposed to the entrepreneurship of non-Muslim minorities who were dominating in the Ottoman Empire.

The single-party state that existed until 1946 mandated political participation on the basis of Turkish nationalist ideology and non-religious orientation. It combined political and social mobilization to achieve the goals of the new nation-state with central planning and direction. The transition to a multiparty system after World War II expanded political liberties and strengthened young urban entrepreneurs and the Anatolian countryside against the elite of the state bureaucracy and the party that represented it.

The focus of economic policy shifted from the public sector to the private and from heavy industry to agriculture, whose basic and processed products provided Turkey’s first appreciable export goods. After the 1961 military coup, the bureaucratic elite ensured that priority would be given again to industry, which was then subject to long-term development plans and a strategy of import substitution.

To counter the political mobilization of a conservative rural population and the resulting erosion of the bureaucratic and institutional regulatory framework, the constitution of 1961 strengthened the relative independence of the bureaucracy and judiciary from the government on the one hand, while expanding political and social rights on the other. The notion of the rule of law entered into Turkish debate, and trade unions were given constitutional protection.

During the worldwide debt crisis at the end of the 1970s, Turkey, like other emerging nations, was no longer able to service its external debts and finance
necessary imports. In 1979 this led to abandoning the import substitution strategy aimed at the domestic market in favor of a deregulation program monitored by the IMF. Step by step the Turkish currency became convertible, prices were liberalized, exports encouraged, imports deregulated and state enterprises were streamlined with the goal of subsequent privatization. A capital markets law was enacted in 1981, in 1982 a capital markets authority was established, and in January 1986 the Istanbul stock market opened.

After preparatory constitutional revisions, which, inter alia, included provisions accepting international arbitration, in 1994 a privatization law and a law against restraint of competition were passed. A customs union entered into with the EU in 1995 contributed greatly to consolidating the new direction. In all, the private sector surpassed, if only slightly, the state sector, and the rate of protection of the Turkish economy decreased from 18.44% to 1.12% in trade with the EU and from 22.14% to 6.92% in trade with non-EU countries. These reforms resulted in considerable economic growth that averaged 8.5% annually between mid-1995 and mid-1998, until the Russian crisis and several strong earthquakes in 1999 shook the Turkish economy.

This economic deregulation came at the cost of the longest period of military rule in the history of the Republic. The military ruled directly from September 1980 to September 1983 and the 1982 Constitution foisted on the country by the army still presents one of the greatest obstacles to continuing democratization and liberalization. The authoritarian politics of the 1980s weakened trade unions, and between 1991 and 1995 employees had to face a drop in real wages of 58% in the private sector and 41% in the state sector.

Economic transformation to a market economy was quite advanced at the start of the reporting period, even though privatization projects still met with a great deal of resistance, the state was still the decisive economic actor, and the well-developed tendency in Turkey to use political power for individual and group self-aggrandizement remained unbroken.

The country faced still greater challenges in regard to democratic transformation, however. They included, in particular, restrictions on freedoms of speech, assembly, and organization; violations of human rights by systematic torture and during military actions as part of the war against the terrorist, separatist Workers Party of Kurdistan (PKK); and the commitment to Turkish nationalism enshrined in law and administrative dealings, which results in institutionalized discrimination against non-Turkish speakers and non-Sunni Islamic groups.
3. Examination of criteria for democracy and a market economy

3.1 Democracy

In regard to the political regime, the reforms in preparation for accession to the European Union have led to remarkable progress in Turkey’s political system. The picture is more contradictory for patterns of behavior and attitudes. The rift between authoritarian forces of the status quo and those in society calling for greater openness and democracy has become more entrenched.

3.1.1 Political organization

(1) Stateness: Even 80 years after it was established, the Republic still labors with its state identity. The state of emergency was only lifted at the end of 2002 in the last southeastern provinces, which are populated mainly by Kurds. Martial law had reigned in this part of the country since the end of 1978, and in 1987 it was followed by a state of emergency. The PKK’s armed actions only came to an end in 1999 with the arrest of its leader, Abdullah Ocalan. While citizenship is defined neutrally in Turkey, the actual exercise of political and cultural rights is widely identified with a kind of “Turkishness,” whose actual content is defined by the state and bureaucratic elite depending on the current political situation.

Contrary to Turkey’s self-representation, state and religion are not separate. The state organizes and finances an official (Sunni) version of Islam and religious instruction in that branch is mandatory. The state’s version of secularism does not extend beyond prohibiting religiously motivated politics and controlling religious activity. The state can both represent itself as an Islamic nation and yet disregard the political and cultural rights of those demanding political participation based on Islamic identity. In another vein, the Alevite minority, who are also Muslims, have been repeatedly exploited. Turkish administration is highly centralized and little oriented toward providing services. Its strength lies more in its political, cultural, and social control than in rational economic management and effective resource extraction.

(2) Political participation: Formal conditions for political participation are met, with the above-mentioned reservation regarding containment of political activity using the effective sanctions of a state ideology. However, as a consequence of historic developments and regulations created after the 1980 coup d’etat, elected representatives have only limited power to govern. Thus the General Staff is de facto beyond the reach of political control and de jure beyond that of the judiciary.

Conversely, there are a series of important domestic and foreign policy issues which the bureaucracy—with the military in its top echelons—has appropriated
as its prerogative, based on their importance for “national security.” Trade union activity is possible, but labor laws pose a greater hindrance than criminal codes. Today civic-minded activism is possible in realms that concern or even thwart the state ideology. There are sharp differences, however, in the degree of freedom of speech and organization actually granted depending upon class (elite vs. normal citizen) and region (decreasing from west to east).

(3) Rule of law: The judiciary is institutionally separate, historically anchored, and accessible to all. Government action is subject to judicial review. Consideration is being given to abolishing the national security courts that were introduced in 1980. The judiciary is not adequately supported, however. The length of proceedings and the incompatibility among conflicting provisions of different laws hamper legal certainty. Judicial corruption is widespread.

There is a complex relationship between the judiciary on the one hand and the executive and legislative branches on the other. It is characterized by the strength given to the bureaucracy and the judiciary by the 1961 Constitution, compared with the government in power, as well as by the fact that upper-level judges usually share the state ideology. This gives the Constitutional Court and the chief prosecutor a prominent position in relation to the executive branch and Parliament, especially in “ideological” questions, such as secularism and Turkish nationalism. The tendency is reflected, for example, in the high number of political parties that have been banned.

This politicization and ideological character of the judiciary, with or against the government depending on the situation, also results in political exploitation of corruption charges and normal criminal investigations. The diligence applied to prosecuting high elected officials for abuse of authority also depends upon the prevailing political constellation of executive and judiciary. Civil liberties are actionable, with the reservation that the law is shaped by the state ideology and basic rights are consequently relative.

3.1.2 Political patterns of behavior and attitudes

(1) Institutional stability: The intra- and inter-organizational stability of the executive and the legislative branches was low during the reporting period. Governments and Parliaments changed in rapid succession. The country’s de facto external dependency, based on its high indebtedness, and the determining influence of extrapoltitical forces, such as the General Staff and the Constitutional Court, forced all governments to make painful cuts in their programs, even to take actions contrary to their own goals.

Dissatisfaction with and within the political parties was accordingly great, and this, together with the deputies’ already weak party ties, was enough to lead to
several basic changes in parliamentary arithmetic. It also pushed the public’s trust in the current Parliament and government, if not in democracy as a whole, to a new low. In contrast, all opinion polls show that the military enjoys the greatest public confidence, and the armed forces are considered to be the institution that is most effectively organized and least motivated by self-interest.

(2) Political and social integration: Eighteen parties ran in the most recent parliamentary elections. Although it was clear from the beginning that almost all of them would fail to gain the 10% of voter support required for entry into Parliament, no joint lists or election coalitions were formed. As a rule, the leadership-driven voter associations have no real roots in specific milieus, and their poorly developed programs and widespread lack of principle prevent political collaboration even in the medium term. Voter volatility is therefore great; in the most recent parliamentary elections, fully 80% of representatives from the previous legislature, including the ruling parties, were not returned to Parliament.

This was the fourth election in a row in which a different party emerged from the elections as the strongest. As a consequence of the command of the bureaucracy and the military over politics, and the resulting limits on politically negotiable topics, political parties serve as channels for societal interests to only a limited extent, and essential sociopolitical issues remain beyond the scope of parliamentary debate.

This castration of political initiative contributes to the tendency of party disputes to focus primarily on the distribution of state and societal resources. Long-established occupational associations with mandatory membership quickly degenerate from representing material and status interests to reproducing culture wars between generally peripheral Islamic conservatives and generally elitist, modern secular social groups. A similar dictum applies more strongly to trade unions than to national and regional business associations, which have generally pursued more issue-oriented and rational politics since 1980.

More recent contemporary civic formations are also not free from ideological disputes, but provide the most promising approaches to overcoming the culture war and formulating common social interests.
3.2 Market economy

In the face of considerable resistance by populist parties and parts of the bureaucracy, privatization of the economy continued and free market regulatory systems were implemented against the backdrop of a serious economic crisis. The status of privatization is unsatisfactory, as are the continuing high state share of overall economic output, the inefficiency and cost of public administration, and the lack of transparency in the government tender process.

3.2.1 Level of socioeconomic development

According to the World Bank classification, Turkey is a middle-income emerging nation. United Nations development reports list it as one of the fastest-developing countries; its HDI rose from 0.438 to 0.732 between 1965 and 1997, albeit without achieving discernible progress in equalizing class-specific, regional, and gender-specific disparities. For example, the ten richest of the country’s 80 provinces were responsible for 57% of the 1998 GNP, while the ten poorest taken together contributed only 0.1%.

Per capita income was $7,096 in Izmit in western Anatolia in 1998 and only $654 in Muş in southeast Anatolia. The quality of government services follows the same differential. Illiteracy in southeast Anatolia is 40%, as high as in Cameroon, while in the Marmara region in the west, however, it is 11.8%, comparable to Portugal’s. The quality and density of health care delivery show the same pattern.

Turkey also exhibits an extremely lopsided income distribution. In 2001, the upper tenth of the population earned 32.2% of total income, the lower tenth only 2.3%. This gap continues to widen. Women’s status is also marked by a combination of strata-specific and regional imbalances. For example, while almost as many women as men attend college today, 70% of female jobs are still in agriculture.

3.2.2 Market structures and competition

With the limitations outlined in section 2, the foundations for free market competition have been laid, except in agriculture and strategic industries. However, a whole series of new, independent regulatory institutions, such as the central bank, cartel authority, privatization administration, and bank supervisory agency must still prove their free market orientation and efficiency. Foreign trade had been largely deregulated, even prior to the reporting period. The banking system’s lack of international experience is a disadvantage. After a long period of granting loans based initially on state and developmental political motives and
later often motivated by corruption, the banking system is now slowly beginning to operate according to international standards.

Foreign investors’ reticence—Turkey attracts less than $1 billion in foreign capital annually—is an indication of their skepticism regarding the bureaucratic over-regulation of years past and lingering doubts about unpredictable government intervention. Structural competitive distortions exist due to the large extent of the shadow economy (about 50%) on the one hand and the related possibility of official arbitrariness in tax collection. Additional distortions arise from state privileging large enterprises over small and medium-sized ones, and the developed regions of the west over central and eastern regions of Anatolia in government subsidy policies.

3.2.3 Stability of currency and prices

A low inflation rate has not been a priority of Turkish politics. High inflation rates, up to 80%, were viewed as a means of curbing the foreign trade deficit and were accepted as an unavoidable consequence of the government’s extremely high domestic indebtedness and related high effective interest rates. In addition to ushering in the end of Ecevit’s government, the sudden 40% decline in the value of the Turkish lira in the crisis of February 2001 showed that the government’s monetary policy lacked predictability. While the newly imposed eighteenth IMF program was strictly followed until the election in November 2002, hopes for its stringent continuation by the new single-party government have not been fulfilled to date. Baseline conditions are characterized by average budget deficits of 11.2% of GDP between 1998 and 2001 and a debt service ratio of 42% of the 2003 budget.

3.2.4 Private property

Property rights and transfer are well defined, even if the current situation of the judiciary and administration considerably complicates their enforcement. There are also a series of structural and political limitations. One structural problem is the unresolved matter of widespread unauthorized construction on government land—the state is still the largest landowner—in the course of urbanization, and its subsequent legalization or rejection for partisan political reasons.

One example of the marginalization of property rights for state political considerations are the approximately 820 villages that were evacuated and partially destroyed during the war in the southeast. Another instance of ignoring property rights for state political purposes is the politically motivated interpretation and selective application of tax law and capital supervisory regulations to the detriment of the so-called “green capital” enterprises suspected
of being Islamic initiatives, which have certainly to some extent accumulated legally defective capital.

Serious concentrations of market power exist in the politically sensitive areas of the press and television, notwithstanding legal regulations and the political will to privatize existing state monopolies in parts of the communications, transportation, and energy industries.

### 3.2.5 Welfare regime

In June 2000 Parliament raised the retirement age from 38 to 58 for women and from 43 to 60 for men, thus taking a first step to avoid the collapse of the social security system. As a consequence of the pervasive shadow economy, which was consciously viewed for many years as a strategy to increase the competitiveness of the Turkish economy, only 44\% of the workforce is covered by social security—and therefore taxed for it. Together with low collection rates for contributions (80\% for civil service, 50\% for the self-employed, and 32\% for farmers) and high unemployment (about 20\% unofficially), the social security system requires an annual government subsidy of 3\% of GNP.

The low quality of health care provision is matched by extreme segmentation by strata and region, with lopsided regional distribution of public medical services and spreading availability of private care for the middle and upper strata. The restructuring of the public social security system, in the planning stages since 1999, has not moved forward in the meantime. Workplace social security systems are not common, and urbanization and new social models have weakened the traditional familial networks. Some 18.7\% of the population lives below the poverty line; combating poverty and reducing regional disparities have not been a focus of state action.

The educational system is just as deeply segmented with fewer and fewer state schools and universities able to compete with private institutions. Strategies to overcome the deep west/east disparities, including within the educational field, do not exist. Vocational education has been expanded in recent years, but has low social esteem.

### 3.2.6 Strength of the economy

The Turkish economy presents a contradictory picture, with sharp sectoral, regional, and social differences. Modern industrial plants exist alongside labor-intensive and undercapitalized sectors, there is only minimal trade between developed and undeveloped regions, and a small, well-trained segment of the population contrasts with large groups with little or no vocational training.
Labor productivity in manufacturing stagnated during the 1990s and many large enterprises earned a significant portion of their income not from industrial production, but from equity investments, real estate earnings, and to a large extent from government bonds. On the other hand, large sections of Turkish industry have proven their competitiveness both within the customs union and within the European framework.

Average economic growth reached 8.5% per annum from mid-1995 to mid-1998. The effects of the Russian crisis and falling foreign demand began to be felt in August 1998. The crisis was exacerbated by cuts in state expenditures as part of an anti-inflation program and by two earthquakes, one of which hit the country’s industrial center. The fiscal crisis of 2001 not only put a halt to the recovery of 2000, but was also combined with a sharp loss in value of the Turkish lira, a decline in production, and a large increase in unemployment. On top of that, the state took over a series of insolvent banks. The result was an increase of state indebtedness from 55.6% of GDP in 1997 to 101.4% in 2001 and another increase in interest rates based on the Turkish lira.

3.2.7 Sustainability

Turkey established an environmental ministry in 1991 and in recent years the environmental bureaucracy and legislation have been expanded. However, the population’s rudimentary environmental consciousness and the state administration’s general insufficiency greatly impede implementation of reforms. Success has been achieved on a few central items, however, such as air pollution in the large cities in the west and wastewater management in tourist areas. Analysis of earthquake damage in 1999 showed the limited extent to which factors not directly relevant to profitability influence the planning and construction of private and public projects.

The Turkish educational system is chronically overburdened. Especially in light of the age structure of the population, allocation of only 4% of GDP (1997–2001) for educational spending is inadequate. The major deficiencies are ineffective organization of instruction, huge regional disparities, and institutionalized discrimination against girls from the lower social strata. Mandatory school attendance was extended to eight years in 1997; private activity is increasing steadily at the primary and secondary levels. Public investment in research and development is less than one-third of the EU average, and private activities in this area are neglected. At 0.3% to 0.4% of GDP, allocations for public health care are also inadequate and show sharp regional differentials.
Among its neighbors, Turkey has the highest rate of infant mortality, except for Iraq, at 4.8 %, varying from 3.8 % in the western part of the country to 7.6 % in the east.

4. Trend

(1) Democracy: The past five years have witnessed clear progress in regard to state identity, participation, and the rule of law. Not only has the armed conflict in the predominantly Kurdish southeast ended, political participation of pro-Kurdish parties is, despite all the restrictions, more feasible today than ever before in the history of the Republic. For the first time Turkey has retreated from a purely Turkish nationalist definition of its population. It has created at least the legal framework for instruction in Kurdish and other indigenous languages. Of course, the reform must still stand the test of practice. The state has also taken a more moderate tone in the secular aspect of its definition of the nation, which has excluded religion to date, and has tolerated the coming to office of Recep Tayyip Erdogan’s Justice and Development Party, which for years was branded a fundamentalist threat by the secular bureaucracy and the military.

These changes in Turkish politics occurred within the framework of the EU alignment process and took material form in a constitutional revision and three reform packages to make necessary changes to the civil code, the criminal code, the law concerning political parties, and the anti-terrorism law. Key points include gender equality, strengthening freedom of speech, making it more difficult to outlaw parties, abolition of the death penalty, liberalization of the law governing incorporated associations and foundations and provisions for foundations created by non-Islamic minorities.

(2) Market economy: In the most voluminous legislative procedure since the 1930s, Ecevit’s coalition government in particular improved conditions across the board for a market-oriented economy open to international participation. Constitutional revisions allowed for privatization of strategic sectors and acceptance of international arbitration. A law to protect competition was passed and an anti-cartel office established.

The legal framework for privatization and build-operate-transfer projects was expanded. Successful privatization was carried out in the energy and banking industries, even if proceeds from privatization remain low. The energy industry was deregulated and, in preparation for future privatization, prices charged by state enterprises were more closely aligned with actual costs. Regulations governing banking operations were made more precise, an independent banking supervisory body established, and the central bank was given greater independence. The closure of approximately 50 budgetary and non-budgetary
funds contributed to fiscal transparency, as did income tax reform and clarification and collection of tax arrears from state enterprises.

Although the state continues to play a key role in the banking industry and state manufacturing plants still account for one-quarter of value added—the prices of its products distort the entire national economy—the market today regulates much larger sections than at the start of the reporting period.

After the recessions of 1999 and 2001, the parameters for 2002 and 2003 indicate new confidence in the Turkish economy and consolidation of the upward trend.

Table: Development of socioeconomic indicators of modernization

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<tr>
<th>Year</th>
<th>Life expectancy</th>
<th>Literacy rate</th>
<th>GDP p.c. PPP</th>
<th>Life expectancy Index</th>
<th>Education Index</th>
<th>GDP Index</th>
<th>Human Development Index</th>
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<tr>
<td>1995</td>
<td>68.1</td>
<td>82.0</td>
<td>5,620</td>
<td>0.718</td>
<td>0.755</td>
<td>0.672</td>
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<td>1998</td>
<td>69.3</td>
<td>84.0</td>
<td>6,486</td>
<td>0.738</td>
<td>0.763</td>
<td>0.696</td>
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Table: Development of macroeconomic fundamentals (1998-2002)

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<th>2000</th>
<th>2001</th>
<th>2002</th>
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<tr>
<td>GDP growth (in %)</td>
<td>3.2</td>
<td>-4.7</td>
<td>7.3</td>
<td>-7.4</td>
<td>6.5</td>
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<tr>
<td>Export growth (in %)</td>
<td>2.7</td>
<td>-1.4</td>
<td>4.5</td>
<td>12.3</td>
<td>12</td>
</tr>
<tr>
<td>Import growth (in %)</td>
<td>5.3</td>
<td>-11.4</td>
<td>34.0</td>
<td>-25.7</td>
<td>22.8</td>
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<tr>
<td>Inflation (in %, CPI)</td>
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<td>64.2</td>
<td>57.3</td>
<td>57.6</td>
<td>29.7</td>
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<tr>
<td>Unemployment (in %, LFS definition)</td>
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<td>7.7</td>
<td>6.6</td>
<td>8.5</td>
<td>9.6</td>
</tr>
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1 = Third quarter; Sources: Greater Istanbul Municipality: Statistic; EU Commission Accession Report; News for External Trade

5. Transformation management

5.1 Level of difficulty

Despite Turkey’s mid-level ranking in terms of economic and social development, transformation management remains very difficult, due to the highly developed dual structures in all areas. The economic and social interests
that the political actors must successfully incorporate in their transformation management are too varied, even contradictory. Rapid and chaotic urbanization encourages politicization of identities rooted in linguistic and religious affiliations.

The transitional character of the political system, with its long tradition of combining formal political participation with exclusion of various groups from the state ideology, contributes to this cultural politicization of economic and social issues and complicates consensus-building. The rapid reorganization of the economic system occurred within a difficult global economic situation, with a far-reaching fiscal crisis, while disavowing the state’s ideologically grounded central position in the economy. In addition, the changes took place under conditions of a sacrosanct over-centralized administration, and against the backdrop of yes-or-no decisions with an existential quality to them, such as whether to join the EU.

What’s more, fiscal limitations on political actors’ scope for action are matched by political restrictions posed by established forces with veto powers, such as the military, and the structural impediment of a generally inefficient administration. The ideologically divergent, even contradictory, orientation of the three parties comprising the Ecevit coalition further complicated the task of transformation. Although at times confronted by the threat of over-politicization, the relatively young Turkish civic society functioned as a platform for a public culture of discussion of a new quality, and thus as an important catalyst for change.

5.2 Reliable pursuit of goals

In Turkey, the transformation to greater democracy and a market economy is closely tied to the process of European Union accession. At the Luxembourg summit in December 1997, Turkey was rejected as a candidate for full membership, which put a temporary freeze on relations with the EU. Economic reforms were therefore largely the result of pressure from the IMF, with which Turkey entered into stand-by arrangements in 1998 and, as a consequence of the financial crisis, in 1999. At that time, however, the government’s actions were not generally characterized by a grasp of the close connection between economic and democratic reforms, and there was no coherent concept for transformation.

The EU summit meeting in Helsinki in December 1999, where Turkey was finally granted candidate status, increased awareness of the interdependence of democratic and economic reforms, and the November 2000 accession partnership agreement with the EU specified the steps in that direction. The National Program that Turkey presented in March 2001 as a response to the accession partnership was again marked by the state’s fear of losing its hegemony over the political, cultural and economic life of the nation.
For that reason, democratization and market-economy deregulation were repeatedly blocked: by the military for the sake of “national security,” by Bulent Ecevit’s leftist-nationalist party in the name of “national independence,” by his nationalist coalition partner in the name of “national honor,” and even the liberal coalition partner thwarted democratic reforms in order to protect the economic interests of its powerful supporters and its own position in the political balance.

All parties’ eventual support for fiscal reform and economic deregulation was much more the result of an economic dead end reached in the 1999 and 2001 crises than of a commitment to positive goals. “Super minister” Kemal Dervis came to personify the IMF’s decisive role in the reform process. Dervis joined Ecevit’s cabinet under external pressure from the IMF and knew how to prevail against the coalition parties’ traditional politics of allocation. The reform policy was therefore marked by constant power struggles both in regard to democracy and a market economy; there was only limited reliability and predictability.

5.3 Effective use of resources

The various governments during the period were a long way from effectively using societal and organizational resources for transformation. Extreme state indebtedness has tied up funds for investment and development for 14 years. High domestic interest rates draw capital away from the productive sector, and the extreme burden on state banks for the reorganization of public debt played a critical role in the bankruptcy of a series of banks—the cost of their rehabilitation is estimated at $20 billion.

State companies, which employ 12% of workers in the manufacturing sector, are still overstaffed. The same is true of public administration, where hiring is still based more on political ties and common regional roots than on expertise. The tendency to deal with problems primarily by expanding the central state bureaucracy also persists. To date, efforts at decentralization have failed in the face of concerns for the unity of the state and fear of uncontrollable corruption at the local level.

Utilization of cultural resources for social development generally does not go further than appeals to strong national consciousness to accept economic belt-tightening. The mistrust and repeated criminal prosecutions of MUSIAD, the conservative Islamic business association, show how skeptical the state elite remains toward the population’s self-organization, even in the economic realm.
5.4 Governance capability

The manner in which reforms are implemented, such as the establishment of the bank supervisory agency and partial privatization of the energy industry, show that the decision to adopt free market reforms can be understood only to a limited extent as the result of a complex learning process, including a critical re-examination of the old policy and a rejection of the pursuit of short-term partisan or selfish interests. This lack of critical acumen on the part of government actors was a factor in their inability to “sell” their reforms, some of which were pioneering, and the voters sent a whole generation of politicians into retirement at the last parliamentary election.

Along the same lines, the popularity of Ecevit’s government was approaching zero by the end of the legislative term, which it induced. After winning in the 1999 election, Ecevit won only 1.2% of the votes in 2002. The voters’ rejection of the woman leading the opposition, who promoted similar old-style politics, completes the picture. One of the reasons for voters’ loss of confidence was the cautious reduction of unproductive allocations, in particular to the pension insurance system and agriculture, without an ability to convey the medium- and long-term utility of a new allocation strategy.

5.5 Consensus-building

All three governments and all parties in the governing coalitions during the reporting period professed their adherence to expanding the market economy and democracy. This did not automatically represent a willingness to create greater regional and social justice, nor a commitment to cultural tolerance, or to greater economic and political openness and globalization. To that extent, one can note fundamental disagreements over both the organization of a market economy (the place of the state and foreign investors in the economy) and the organization of democracy (national versus civil democracy).

Turkish distinguishes between the government and the state, pointing to the existence of actors with veto power, especially the Ankara bureaucracy and the military. Intermittent resistance by these groups delayed the economic reform process and constrained the breadth of democratic reform.

Turkish business associations pushed for free market and democratic reforms, but regularly excluded the rights of trade unions. Since the changing dance of parties in government coalitions during this period was itself a product of cultural fault lines, specifically the banning of the pro-Islamic Welfare Party, the various governments could not be expected to effectively reduce the cultural rifts. Several governments nonetheless attempted to reduce tensions between the military and the conservative religious section of the population.
The two Ecevit governments also used the opportunity to de-escalate the Kurdish conflict that was provided by the arrest of PKK leader Abdullah Ocalan and the end of the armed conflict in the southeast. It was not possible to begin to come to terms with these two conflicts, however, and in the debate over EU membership, the pro-Europe forces were powerless to deal with the exploitation of Kurdish issues by the forces of the status quo opposed to further democratization.

5.6 International cooperation

Cooperation with the IMF offered Turkish politics the financial framework, the program, and in a certain sense the leverage to achieve its free market reforms. Orientation toward the EU provided the motivation and content that gave direction to the development of greater democracy. Beginning especially at the end of 1999, the government abided relatively strictly by the IMF’s conditions, used IMF pressure to justify its policies, and put some of the responsibility for them on the IMF, which led to a decidedly negative image of the IMF in Turkish public opinion.

In its relation to the EU, parts of the government repeatedly mobilized nationalist sentiment against demands for more cultural tolerance and equal treatment. Despite these limitations, cooperation with both major international bodies was generally positive during the period. Turkey also continued its policy of diversifying its trading partners during the period, which began with the establishment in 1992 of the Organization for Black Sea Economic Cooperation for countries around the Black Sea (11 in all) and the founding of an organization for economic cooperation, including six states in Central Asia and the Caucasus and Afghanistan, that same year. In 1995, it entered into a customs union with the EU and in 1997 established the Developing Eight cooperation project, which includes seven other Islamic states in addition to Turkey, such as Malaysia, Indonesia and Nigeria.

In 1999 Turkey finally became a candidate for full membership in the European Union. Apart from a brief but intense aggravation of its relationship with Syria—Turkey threatened war if PKK leader Ocalan did not leave the country—Turkey has noticeably relaxed its relations with its neighbors and sought stability, especially with Greece. So long as its own domestic politics are not involved, Turkey is a reliable partner in international politics. The Turkish military’s performance in peacekeeping missions has met with general approval in Somalia, Bosnia-Herzegovina, Albania, Kosovo, Georgia and most recently in commanding the ISAF in Afghanistan.
6. Overall evaluation

In regard to baseline conditions of transformation, evolution, and the actors’ managerial achievement, this report comes to the following evaluation:

(1) Baseline conditions: Favorable prerequisites for free market and democratic transformation at the start of the period largely consisted of the economic deregulation begun by Turgut Ozal in the 1990s and the 1995 customs union with the EU. Turkey’s economy was still characterized by high state involvement, pronounced state regulation, and an extremely dualistic structure. The state itself was weighed down by a mountain of debt, and the pro-Islamic Erbakan government had only limited legitimacy. It was confronted by powerful forces with veto power and was neither willing nor able to initiate structural reforms.

The external economic situation was uncertain and, in foreign policy, Turkey felt that the EU was holding it at arm’s length. Domestically, the war in the southeastern part of the country blocked democratic development. There did not seem to be either internal or external momentum for successful transformation. So the three governments that succeeded Erbakan and whose time in office coincides with the reporting period took office under difficult circumstances.

(2) Status and evolution: Notwithstanding the unfavorable initial situation, Turkey has made great progress in the past five years toward more democratic freedoms and a free market economy on the judicial and organizational level. On the whole, democracy and freedom of speech have been enhanced by the individual constitutional revisions and reform laws, that indicate for the first time an approach to overcoming the intolerant nation-state paradigm of the 19th century that set narrow limits on political participation in Turkey. Of course, the reforms could have been much more magnanimous in many areas and efforts to keep a tight rein have not slackened. It is also true that the new regulations have yet to stand the test of implementation. That does not change the fact, however, that Turkey has surpassed itself and become one of the few countries that made steps toward democracy since September 11, 2001.

A similar tone dominates in regard to economic reforms. Here the state has been pushed back in favor of greater freedom for market actors and independent regulatory agencies, and here, too, the extent to which future governments respect these self-constraints on the state and the independence of new regulatory institutions, such as the anti-cartel office, bank supervisory agency, privatization administration and the newly independent central bank, remains to be proven in practice. Reduction of the public debt and further consolidation of the banking industry certainly require a great deal of action, and the largest privatization projects have yet to be tackled.
(3) Management. Success usually has many fathers, but Bulent Ecevit’s party was loath to acknowledge its reform accomplishments during the election campaign. Its nationalist coalition partner, the MHP of Devlet Bahcelis, even took the coalition government’s democratic reforms to the Constitutional Court. In fact, decisive reforms were made on the basis of naked economic necessity and external pressure from the IMF and the EU and were not primarily the product of either a political or a societal consensus. Great transformation progress thus contrasts with only modest managerial achievement. However much the results of transformation have contributed to consolidating democracy and a market economy, the contribution of transformation management has been small.

7. Outlook

The Justice and Development Party government of Abdullah Gul, which took office on November 18, 2002, is viewed as the representative of the Anatolian provinces and its export-oriented industry, in contrast to the satiated bureaucratic and business elite at the center in Ankara. So the government must find a balance between the sociopolitical expectations of its relatively impoverished constituency on the one hand and the liberal economic vision of small and medium-sized businesses on the other. The government has declared its commitment to democracy and close contact with the people, free competition and reduction of government restraints.

The development of an efficient administration is supposed to help reduce regional and social inequalities and align Turkey with Europe in order to take the offensive in meeting the challenges of globalization. This political orientation, while favorable for broadening the transformation, must still meet a number of serious challenges. Politically, the government faces the bureaucracy’s and the military’s mistrust—motivated to some extent by self-interest—of creeping Islamization, while also dealing with the nationalistic and populist reflexes of its own base.

In the sociopolitical realm, the IMF’s program restricts the government’s room for maneuver, and economically its hands are tied by the budget’s extremely low investment rate, due to high debt service. The only way out is greater efficiency in government and social organization, more streamlining of the tax system, greater fiscal transparency, and productive utilization of scarce resources. The biggest challenges are managing the continuing exodus from the countryside, as 38% of jobs are in agriculture, with all its social, cultural and political problems.

Turkey’s great potential, ranked by the World Bank among the ten most promising markets of the future, stands in contrast to these challenges.