



SPEECH DELIVERED BY

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On behalf of TUSIAD, I would like to extend our sincere thanks for organizing this meeting.

I strongly believe that this conference offers an opportunity to explore the prospects of Turkey's accession to EU. I also assume that this meeting would have a positive effect on your attitude and beliefs on Turkey's political and economic progress on the road towards the EU. I hope that the framework I will try to draw on Turkey's economic performance will contribute to this positive outcome.

I would like to organize my speech around the assessment of Turkey's performance with regard to Copenhagen economic criteria. I would like to proceed in four parts; namely macroeconomic stability, structural reforms and the business environment. I will end with a brief evaluation of growth prospects in the coming years.

First, I would like to talk on the improvements towards a functioning market economy. In its 2003 Regular Report, the Commission states that: *"Turkey has significantly improved the functioning of its market economy, while macroeconomic imbalances remain. Further decisive steps towards macroeconomic stability and structural reforms will also enhance the Turkish capacity to cope with competitive pressure and market forces within the Union."*

After this statement, we know that there has been significant improvement on the areas suggested. The achievements have been attained mainly by the conditions set forth under the IMF Stand by Agreement. The economic program rests on two pillars:

1. macroeconomic stability
2. structural reforms

Concerning the **first pillar**, the program yields its positive results. Recently, Turkey both stabilized its economy and achieved substantially high growth rates. Now the inflation rate is reduced to 9% and the growth rate is expected to be over 5%, together with a budget deficit now reduced to below 10% and a current deficit of below 3%, which is sustainable without doubt. These achievements were the result of sound economic policies, namely tight monetary and fiscal policies.

The **second pillar**, namely, structural reforms are under way since 1999. The structural reforms that target the establishment of a market economy with its rules and institutions, included the following steps:

- In terms of rationalizing public resource management:
 - Comprehensive privatisation schemes were put into effect, involving leading public institutions.
 - New public procurement and financial management laws were instituted to enhance efficiency and minimise political interference into the resource management processes across the public sector.
 - Important measures to improve efficiency in both central and provincial administrations are on the agenda.

- Public employment schemes were studied and redundant employment was trimmed down.
 - The actions to simplify the tax system, to broaden the tax base and improve the tax administration system are underway. .
 - Independent regulatory bodies in areas such as banking, energy, telecommunication, public procurement, tobacco and sugar were established to carry on regulatory and supervisory activities without intervening in the functioning of the markets.
- Key structural measures were instituted in a way as to consolidate the market process at large. In this connection:
- Agricultural markets were de-regularised and agricultural price supports are replaced by direct income supports.
 - New legislation that would help encourage FDI inflows was introduced.
 - Important steps were taken to further liberalise energy markets.
 - A new bankruptcy act was enacted to enhance contract enforcement, which is a must for instituting an efficient market economy.
 - Restructuring in public banks to pave the way to their ultimate privatisation, which, will help reinforce a more competitive market structure in financial markets.

Notwithstanding these achievements, there are still certain steps to be taken:

- Effectiveness, transparency and accountability of the regulatory bodies should be further enhanced.
- The steps attained in the last two years for the restructuring of the banking sector should be advanced.
- More effort should be devoted to strengthen the regulation and supervision of the insurance companies and non-bank credit institutions.
- Despite visible improvement, capital adequacy still remains to be strengthened.
- A stronger and better-managed banking sector will no doubt contribute positively and significantly to Turkey's debt sustainability, growth and disinflation objectives. An improved regulatory environment, on the other hand, will help secure financial stability and contain potential distortions that might arise in due risk management processes. This will in turn add to financial and exchange rate stability.

- Another key area for a well functioning market economy is public governance and fiscal policy. The fiscal discipline should be maintained, and lending facilities are to be channeled for the real sector through the decreasing public sector financing requirements.

State aid constitutes an important agenda item for good governance. For the time being, there is no state aid monitoring authority and the absence of reporting reduces the transparency of financial transactions between the state and the undertakings. Absence of monitoring of state aids leads to questioning of fair distribution of public resources and thus questioning of proper implementation of competition rules. The operationally independent state aid supervision and monitoring body, in line with the EU policies, will take necessary measures in monitoring, coordinating and controlling of state aid practices in Turkey.

In terms of **increasing the capacity to cope with competitive pressures within the Union**, Customs Union constitutes a relevant proof of Turkey's competitiveness. The customs union with the EU started on January 1996, introducing the bilateral free circulation of industrial goods and processed agricultural products. With the agreement, the customs duties and charges have been abolished and the quantitative restrictions such as quotas were prohibited. Turkey also adopted the common tariff of the EU vis-à-vis third countries and faced with the global competitive pressures same as other EU countries. Moreover, Turkey has to adopt the EU's regulations on trade and competition, including free movement of goods, customs, free trade zones, competition policy and consumer rights. Customs union had also been a very unique device for the harmonization of economic legislation. A significant portion of Turkey's alignment with the Acquis has already been covered by customs union.

In addition to achievements towards macroeconomic stability and the progress on structural reforms, there were also improvements concerning legal and regulatory framework of the **business environment**. Since the unnecessary, time consuming and complex administrative procedures are among major setbacks of investments, and can discourage the investors despite other attractive features that a country may offer, a reform process to improve administrative cumbersome procedures has been launched. For this end, Improvement of the Investment Environment Coordination Council (IIECC) has been established with the participation of Government officials and private sector organizations at the end of 2001. The mission of the Council is to identify and then to remove regulatory and administrative barriers that impede both foreign and local investments.

This Reform Program already produced improvements that have a direct, significant and immediate impact. Among the achievements the most outstanding one is the liberal foreign investment environment that was introduced with the new Foreign Direct Investment Law. There have also been significant improvements in the accounting framework. Further to International Financial Reporting Standards, Hyperinflationary Accounting has also become effective. Cumbrous company establishment procedures are notably simplified. The new law decreases the number of steps for establishing a company from 19 to 3.

Turkey has greatly benefited from the expertise of the World Bank Group during this reform program. Recently, a twinning agreement for this reform program is signed between Turkey and Germany. Further steps for improving the business environment will become more parallel to EU standards under this twinning agreement.

We hope that, this reform program also produces satisfactory outcomes on intellectual property rights. Many standards in this field are set by international conventions and

agreements. Turkey fully harmonized its legislation on industrial property rights, prior to its Customs Union Agreement with EU countries. It has enacted important laws on protection of trademarks, industrial designs, patents/utility models and geographic indications. Proper implementation of intellectual property rights bears significant importance not just for Turkey's commitments concerning TRIPs and harmonization with the EU legislation, but for Turkey's growth prospects as well. Thus, the protection of patents, trademarks and copyrights should become more effective for Turkey to attract research intensive FDI and to increase its R&D investments and increase its productivity and growth. Piracy and counterfeiting creates unfair competition and should be eliminated. Turkey started to intensify its efforts towards effective implementation and enforcement of protected rights. And these efforts should continue.

Macroeconomic stability, structural reforms and improvements in the business environment, bring profound changes to the public and private sectors alike. This new setting by removing the political rent distribution mechanisms and creating a fair playing field for all economic actors, makes good corporate governance practices more and more important. In a shrinking world where borders are disappearing, the performance of a country is measured by the competitiveness and success of its institutions. Within this context, corporate governance practices constitute the cornerstones of this premise. Turkey has made an important step recently. Capital Markets Board published "The Principles of Corporate Governance" that set out to evaluate and improve the legal, institutional and regulatory framework for corporate governance in Turkey in line with OECD principles. I believe that corporate governance principles will play an important role in helping Turkish companies to reach a well-deserved place in the global markets

By all means, the ultimate improvement in competitiveness will be highly associated with the growth prospects of the economy.

We predict that economic performance of Turkey will improve further from 2004 onwards. In February, the core inflation rate, namely, the private manufacturing industry price increase was a mere 0.1%. The economy is expected to grow *with* least 5% in the coming years. Provided that the emphasis on public sector does not wane and the economic program continues unfailingly, it is highly possible that from 2005 onwards inflation can take a single-digit form and real income per head in US dollars terms can rise rapidly. This process will be accentuated by a favorable outcome in the EU-membership negotiations in 2004.

The positive climate increases the chances for further alignment with the EU. In a macroeconomic environment in which growth is accelerated, inflation and interest rates are dropping, the grounds for further harmonization with the EU *acquis* is strengthened and cost and difficulty of undertaking reforms is relatively diminished. We strongly believe that the EU decision to start the negotiations with Turkey will convincingly contribute to this positive outlook.

While the reform efforts aim to structure and strengthen the fundamentals of the market economy, there will be more room for entrepreneurs and the corporate sector to take initiative and boost competitiveness. We acknowledge that, EU membership creates a new environment which is more competitive and though one to survive. Considering that the Turkish private sector proved its competitive capacity with the Customs Union with the EU, it would not be erroneous to claim that Turkish private sector will manage to effectively operate within the EU competitive environment and also will contribute to the EU competitiveness and entrepreneurship.

I hope this brief summary on Turkish business environment and the facts and figures I provided on the current improvement we achieved will contribute to a fair and accurate evaluation of Turkey.

Thank you very much for your attention.