



TURKISH INDUSTRIALISTS' AND BUSINESSMEN'S ASSOCIATION

**THE SPEECH DELIVERED BY
THE CHAIRMAN OF THE BOARD OF TÜSİAD
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“TURKEY IN THE EUROPEAN ECONOMY”**

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Mr. Deputy Prime Minister, Excellencies, Distinguished Guests,

On behalf of TÜSİAD, I would like to extend our heartfelt thanks to CEPİİ and BIAC for making this meeting possible.

I hope this meeting offers an opportunity to explore the prospects of Turkey's accession to EU. I believe that after this meeting, your views on Turkey's economic progress on the road towards the EU become more positive. I will be happy if I can contribute to this outcome with my introduction on Turkey's economic performance.

Turkey has been experiencing serious transformation over the past three years and this has important repercussions on its prospective membership to the EU. Turkey's accession, on the other hand, would potentially have much broader economic and political consequences for the EU than any of the past expansions.

The most recent enlargement of the European Union to include 10 countries of Central and Southern Europe, coupled with the already scheduled accession of Bulgaria and Romania, and the fast advancing negotiations with Croatia, have temporarily moved the focus of European public opinion away from future EU enlargements. On the other hand, various developments on the Turkish economic and political agenda has been undergoing over the past three years, focusing on the EU membership. Besides the progress on the lines of meeting Copenhagen political criteria for democratization and rule of law, a precondition for the beginning of membership negotiations, the economic fundamentals exhibit an outspoken improvement. Consequently, the improving macroeconomic framework and the progress in structural reforms changed the way that EU evaluated Turkish economy.

In its 1989 Opinion on Turkey's application for EC membership, the Commission of the European Communities concluded that:

"Turkey's economic and political situation, ... , does not convince it that the adjustment problems which would confront Turkey if it were to accede to the Community could be overcome in the medium term".

This statement differed totally in its 2004 Regular Report, when compared with previous ones. The Commission found that:

"Turkey has made further considerable progress towards being a functioning market economy, in particular by reducing its macroeconomic imbalances. Turkey should also be able to cope with competitive pressure and market forces within the Union, provided that it firmly maintains its stabilization policy and takes further decisive steps towards structural reforms."

The achievements acknowledged by the EU Commission have been attained with the decisive implementation of the economic program. A brief glance at Turkey's macroeconomic performance since the economic and financial crises of 2001 clearly illustrates the success in improving the economy's resilience:

Turkey succeeded in combating high and chronic inflation and brought it down from more than 70% at the beginning of 2002 to less than 10% within a time span of about two years. The economy grew strongly out of the slump. In 2002 and 2003, GDP grew by some 6.5% on average, well above Turkey's long-term growth average of 4.5%.

The positive economic environment having been sustained, improvement in all indicators and expectations continue. The present data regarding this year also justifies the continuation of “low inflation-high growth” path. The Turkish economy grew by 13.5% in the first half of this year, which puts Turkey one of the fastest growing countries of this year.

Distinguished Guests,

The EU accession process is an important part of Turkey’s journey. Today, the challenge is to start, the accession negotiations and to assure the progress on the basis of the common European values, principles, and interests. Next week on December 17, we believe that, the EU Council will decide that Turkey has met the political criteria in terms of both legislation and implementation. After that decision, the negotiations will start which will push further alignment with the EU. And we expect that improved stability and strong growth that Turkey has attained currently will accelerate after negotiations start.

We predict that economic performance of Turkey will improve further from 2004 onwards. The economy is expected to grow at least 5-6% in the coming years. Provided that the emphasis on public sector does not wane and the economic program continues unflinching, it is highly possible that from 2005 onwards inflation can take a single-digit form and real income per head in Dollar terms can rise rapidly. Turkey should proceed with further structural reforms and the continuation of sound economic policies. Apart from macroeconomic stability that Turkey achieved an outstanding performance, there should be more emphasis on micro reforms or reforms for improving the business environment. Turkey should increase governance standards and thus increase competition in the domestic markets and become more competitive in the international markets. The negotiation process will enhance Turkey’s capacity in strengthening market institutions. Thus we think that the EU and the IMF will be the two anchors of further macro and microeconomic reforms. The continuous improvement in the functioning of the market economy and in the capacity to cope with competitive pressure will bring Turkey closer to EU.

One argument that is voiced loudly with respect to Turkey’s membership is its level of economic development. There is a gap in GDP per capita in PPP (purchasing power parity) of around 25% between Turkey and the EU-15. This figure is comparable to Romania and Bulgaria. However, the revision of the Turkish national accounts with respect to European system of accounting (ESA 95) we are expecting that the per capita income will be augmented by at least 30% due to unclassified sectors and activities under the current UN System of National Accounts 1993. Hence, after statistical adjustment the position of Turkey in per capita GDP ranking will be ahead of Romania and Bulgaria.

Now in terms of long term growth dynamics, various studies point out that the income gap with respect to EU average will diminish, which means that per capita income will rise from 25% currently to somewhere between 40% - 55% in ten years time. Thus, the income gap around Turkey’s possible accession will be similar to the income gap of the 10 new members when they joined the EU in 2004. The convergence in the levels will depend on Turkey’s performance in productivity and contributions coming from additions to labor force.

The productivity is increasing around 9% annually. Private sector machinery and equipment investments in the first half of 2004 rose by 94% in real terms, which means that productivity gains will continue in the coming periods.

The other important source of growth in Turkey will be labor. Obviously, developments in labor force are determined by demographic trends. The population of Turkey is another concern among the skeptics. However, we know that demographic variables are the ones that move the slowest. And that, Turkey is undergoing a demographic transformation in which the population is heading for stagnation. In this period, while the EU population is aging fast, the labor force in Turkey is increasing within the overall population. Furthermore, the family sizes are coming down which implies that, consumption demand, especially on durables will continue its fast growth of 30% per annum on average. Again studies on immigration point out that, the population of the EU even taking immigration into account will decrease in the coming two decades. On the other hand, according to estimates from various studies, net immigration from Turkey to EU in the period 2004 – 2030 centers around 2 million. However, the figures might be much higher if Turkey's membership process is endangered and high growth cannot be sustained.

I know that we have distinguished speakers who will explore the growth prospects and the demographic trends, thus I just want to underline that Turkey from 10-15 years from now can contribute to global competitiveness of the EU.

Let's think of a Turkey that started accession negotiations with the EU, proceeded further on structural reforms and undertook a massive strike for improving the investment environment. With its population exceeding 70 million, achieving a minimum growth rate of 5-6% during the period, total foreign trade volume of 160 billion, will of course be an economic power that can not be neglected by the EU.

In accord with the Lisbon strategy, the production, consumption and employment structure of EU will experience a rapid transformation. Turkey has to attune with this transformation and wisely fill in the gaps emerging from it.

However, to make best use of this complementarity, Turkey should apply a pro-active growth and human resources management strategy.

We as the business community think that, Turkey does not have the luxury to proceed with timid steps any more. Turkey should put in practice a strategy that maximizes mutual benefits of Turkey's membership. We have to proceed decisively with great courage. This will make Turkey to cease to be a promising country forever, but to materialize its potential.

Thank you very much for your attention.