

TURKEY AND THE EU: A NEW ERA

Turkey has passed a very critical threshold after the December 17 European Council Summit decision. Accordingly Turkey is promoted from a candidate country to an accession country status. The negotiations for full membership will start in October 2005. The Government's most important priority in the coming period will be ensuring and maintaining the convergence of Turkey to the European Union.

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Turkey has passed a very critical threshold after the December 17 European Council Summit decision. Accordingly Turkey is promoted from a candidate country to an accession country status. The negotiations for full membership will start in October 2005. This, clearly, is the beginning of a new era.

Turkey has done a lot in terms of both political and economic reforms during the last two years. Watershed changes have been introduced in the country and many observers have been surprised by the speed and quality of the changes. In the run up to opening of accession negotiations, we will keep the momentum and continue with right policies. The Government's most important priority in the coming period will be ensuring and maintaining the convergence of Turkey to the European Union.

Indeed, the EU accession represents the final stage of Turkey's almost 200 years old of modernization efforts. Turkey is now experiencing the second largest wave of modernization after the reforms carried out by the founding fathers of the Republic.

Democracy as a sine qua non

Portugal, Spain and Greece's accessions tell us the importance of the EU introducing many important reforms and consolidating the democratic process as well as the subsequent economic growth. As it has been stated by Linz and Stepan (1996), democratic consolidation sets the basis for economic growth. In fact, as they propose "Democracy in any given country entails understandings concerning decision-rules, the creation of institutional arrangements, the removal of barriers to participation, the indispensable element of elections... [and] socioeconomic policies are produced by and flow out of this [democratic] setting." The then European Economic Community was a very critical external factor in terms of the democratic and economic progress that these countries achieved. It is widely accepted and neatly put by Whitehead (1986) that "The community itself has set up a stable pattern of rewards and incentives, [and] the community had a deep and abiding concern with consolidating democracy in its immediate region and the prospect of membership in the European Community produced a substantial long term pressure for democratization." The EU still acts as a beacon for democracy for its surrounding region and a magnet for democratic transition and consolidation.

In that sense Turkey's experience with the EU resembles that of the Southern European countries. Democratic consolidation and economic reforms have gone hand in hand and consolidation of democracy has laid the basis for the success of current economic policies. In other words, Turkey's case also proves that democratic consolidation should accompany economic development and reforms.

The Economy: Miracle rather than Mirage

Having laid down our general principle of 'democracy first', it is time to turn to the prospects for full membership of Turkey from a broad perspective with particular emphasis on economic convergence in light of the Copenhagen and Maastricht economic criteria.

The broad guidelines that the government follows in making the economic policies can be summarized as four basic principles. The first principle is the belief in the merit of a fully functioning market economy and the role of the state as its guardian. The second principle is avoiding myopia in economic policies, i.e. not overriding the long run interests of the country

for short term political gains. In connection with this principle, we attach great importance to social consensus building and strong ownership of policies both at political and societal level, which underlines our emphasis on the issues of democratic governance, participation and transparency (see Babacan, 2003). The third pillar is to abide by the new set of rules for economic policy making in a global environment which leaves no room for complacency. The final principle is that only good economic policies are capable of delivering good results.

Economic policy making in 2005 and beyond faces a very important challenge: convergence. The current economic stance aims at achieving lasting stability in the economy and focusing more on social policies and thereby increasing the welfare of the Turkish society. Our pre-accession economic programme submitted to the Union in December of last year (PEP, 2004) gives a detailed description of policies to be followed in the next three years. The envisaged economic policies aim at achieving high and sustainable growth, lowering the inflation to single digit levels and ensuring convergence of the fiscal deficits and the public debt stock to that of EU averages. These efforts should culminate in reducing the regional disparities and thereby raise the per capita income level of Turkey towards the EU averages.

The fiscal policy will continue to be the main tool of economic policy making in the medium term. Prudent fiscal policies geared towards producing high primary surplus will be instrumental in this respect. On the other hand, the monetary policy framework will focus on price stability and reducing inflation to the targeted levels. The floating exchange rate policy will continue to be in place.

The macroeconomic framework envisages a 5 percent GNP growth for the next three years and decelerating single digit inflation reaching a level of 4 percent by the end of 2007. Structural reforms will play a crucial role in achieving above given macroeconomic targets. Improvement in the functioning of the competitive market economy is closely related to the implementation of structural reforms. Carrying forward the structural reforms will be the main instrument in the convergence process.

The public sector restructuring includes enhancing efficiency, enforcing the rule of law, respecting human rights, ensuring transparency and participation in the public administration. Moreover, local administrations' authorities will be increased through decentralization.

On the production side, privatization will speed up and the involvement of the public sector in the economy will be reduced. Thus, the role of the public sector will in principle be limited to regulation and supervision of key sectors. Implementing reforms in the financial sector and reforms regarding social security and taxing, strengthening the role of regulatory institutions, enhancing the role of the private sector in the economy, creating a favorable investment environment for both domestic and foreign investments, and developing a highly competitive agriculture sector are among the other important targets of the programme. All these efforts will help increase the efficiency and productivity in the economy.

Convergence prospects

Returning to the convergence issue, the dynamic nature of the process needs to be highlighted. Turkey will start the accession negotiations in October 2005. Adoption of the legislative workload, the *acquis communautaire*, will take at least several years to complete.

By the time the whole process is completed, Turkey's economic structure will be substantially changed.

Accession to the EU will, of course, bring along economic benefits as well as costs. The competitiveness will improve, anticipated increase in investment flows will provide capital, high technology and skills, and EU funds could help in improving infrastructure and reducing regional disparities. There might be some adjustment costs, which in Turkey's case could be felt more on complying with the environmental and other regulations rather than the costs associated with free movement of goods as we already have a customs union with the EU.

The lessons from Portugal's experience could offer some evidence for reducing the cost of adjustment during the accession negotiations (see for example De Macedo, 2000). The opportunity for sustained structural change should be seized during this negotiation period which allows for gradual adjustment. De Macedo also confirms that economic transformation to compete in the single market dictates a sound macroeconomic management supported by well functioning capital and labor markets. Political and financial stability will promote growth which will help alleviate the cost of adjustment and strengthen social solidarity and harmony in the accession process. The point that should not be missed here is that the accession strategy should not be defensive as in the case of Portugal but should be welcoming, counting on the country's capacity to transform. Turkey will draw from both southern European countries' and central and eastern European countries' experiences in her accession negotiations and will carefully examine these cases to reduce the cost of adjustment. It is encouraging to see that public opinion is overwhelmingly pro-EU and the policies in Turkey are expected to be receptive rather than defensive.

Marathon versus Sprint

As Turkey travels along the road to the full membership, both EU and Turkey will face many challenges that they need to overcome. It can be seen that the first two decades of the 21st century will witness the breathtaking changes in Turkey both in political and economic arena. This joint project of Turkey and the EU will help shape the new world order and gather more and more public support as the accession negotiations proceed.

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