

From the Desk of the Editor

Turkey's EU odyssey has recently entered a new phase. As we celebrate the decision of the EU to start membership negotiations with Turkey on October 3rd, 2005, we are also aware of the challenges before us. Much of the harmonization to come is economic in nature and for many segments of society it will cause hardship. It is, therefore, important that people at all levels, both at home and abroad, are conscious of what lies ahead of us and the underlying rationale behind them, as well as expected long and short term outcomes. The current rate of support for EU membership in Turkey is likely to drop, as was the case with other EU candidates. Managing the shifting sentiments in a responsible manner and maintaining the motivation and discipline will be crucial. To ensure that the process is relatively smooth, communication with and participation by a wide spectrum of Turkish society will be key. The same goes for the EU. In order to steer Turkey effectively, the EU needs to balance its carrots and sticks sensibly, with an approach that reflects deep insight into the country. We appreciate our European friends who have set out to understand the Turkey of today, challenging presumptions rooted in the past. The decision makers of the EU and the leaders of EU member states need to communicate their concerns and vision regarding Turkey's membership to their constituencies clearly while they also relate messages to the Turkish society responsibly. This issue of Turkish Policy Quarterly addresses the economic difficulties and the rewards of the negotiation process and of eventual membership for both Turkey and the EU.

Turkey suffered from three economic crises in the past ten years, namely in 1994, 1997 and 2001. It is widely recognized that these crises were the result of an economic structure that allowed populist policies, clientalism, and corruption to dominate decision making. Leaders exploited the lack of checks and balances to their advantage with no accountability. In other words, the problem was essentially political. The economic program linked to the standby agreement with the IMF was launched in 2001 and the current government continued to implement this policy to significantly restructure the financial system and decouple it from politics. Parallel to this process, on the political front, efforts to comply with the Copenhagen Criteria were accelerated so as to be completed before the decision from the European Council. The combination of the two provided Turkey with unprecedented discipline, which we hope will be maintained in the future not only by the EU anchor but also by a Turkish society that is increasingly imbued with the tools to demand accountability. Already one can observe the effectiveness of reactions made by the market or civil society organizations in response to politicians publicly contemplating taking steps not in line with expectations.

2005 will be a test case for the AKP government regarding its willingness to press on with structural reforms. A new IMF program shall enter into force. The priority of this program lies in the area of structural reforms and more particularly in reforms related to the social security system where both the retirement age and the retirement wage are set to change. Another priority that is significant for the economy but must be addressed as a separate issue is judiciary reform. Though some of our articles touch upon it, this issue of TPQ does not cover the topic thoroughly. Judiciary reform is likely to be debated intensely in Turkey throughout 2005. Decentralization of municipality finances is also planned as an integral part of improving governance. Though there are many potential opportunities, this restructuring will pose new challenges with regard to economic management.

Eventually the EU should replace the IMF conditionality in terms of anchoring Turkey's economy, and the strive to fulfill the Maastricht Criteria should provide the framework of the

new economic governance. In terms of converging with the EU, Turkey's regional disparities and weak educational base may pose the deepest challenges.

The joint research project carried out by the Center for European Policy Studies (CEPS) and the Economics and Foreign Policy Forum (EDP) integrated political and economic aspects to analyze Turkey's pre-accession period. This project produced eight working papers on themes of an economic nature, three of which are included in this issue of TPQ. These reports point to the dual character of the Turkish economy, in which a small advanced, competitive "sector" co-exists with a larger "sector" that is relatively unproductive and largely informal. Naturally, this situation has profound political implications and is exacerbated by the fact that although there are impoverished "pockets" throughout the country, the eastern region of the country as a whole is decades behind the western region in terms of development. Unless the downward spiral of this area is ended, due to agglomeration effects, the advantages expected from such inputs as foreign direct investment will probably only serve to deepen the divide between eastern and western Turkey. Reducing the developmental divide in Turkey will have far reaching, positive social, political, and cultural implications as well. The strategies employed by Turkish authorities to date have not been substantially effective thus the European Union's experience in overcoming regional disparities is particularly critical. To date the EU has approached the eastern problem in Turkey as a political issue. With a view to convergence and cohesion, together with Turkish counterparts, the EU will tackle the tough problems which result from underdevelopment through institution building, policy reform and financial support.

One of the most significant concerns regarding Turkey's economic integration with the EU is the fact that 35 percent of the population works in the agricultural sector, with a relatively low level of productivity, and resides in more rural areas. Along with services, agriculture was also excluded from the scope of the Customs Union between Turkey and the EU which came into force on January 1st, 1996. Large land owners especially in the eastern regions of Turkey have long been catered to by high guaranteed prices, subsidies and protections. These benefits were offered by politicians in return for votes delivered by the clan leaders who were able to determine which politician those who live on their land will vote for. The socioeconomic structure in these regions will change drastically as the rule of law and efficient policies are reinstated. The recent reforms of agriculture policy have improved the incentive structure. Initiatives to improve productivity, develop alternative sectors or improve infrastructure and educational opportunities will require a collective commitment by Turkish and European experts and officials. In short a more ambitious rural development program needs to be engineered.

The EU is likely to be quite unpopular not only among the segments of the society that will lose their favored status, such as the big land owners in the east or industrialists who are said to be given public tenders in return for financial support, but also among those engaged in the unregistered, largely tax evading economy, which constitutes 55 percent of the total economy. However, there are winners too. One result of the large informal economy has been higher taxes on registered economic activities and law-abiding citizens, which should change now. In addition, the days of large land owners growing rich at the expense of smaller land owners will be over. Furthermore, though it is true that certain large industrialists may not be able to exploit their relations with governments to the same extent, neither will they or other industrialists suffer a loss in earnings each time an economic crisis hits as a result of cumulative mismanagement. If these truths are communicated effectively, a majority may remain convinced that the short term price of harmonization will pay off in the long run.

Turkey will no doubt require substantial pre-accession funds but also has the potential to constitute a significant added value for the EU economy. The fact that a larger part of Turkey's population is young is an advantage for the country's economy and an added value for the EU if it constitutes a qualified workforce. Moreover, to catch up and compete in a liberalized economy, the opportunities for technology, know how and information transfer need to be embraced by a young generation that has the educational capacity to absorb and utilize the advantages. Turkey is starting from a relatively low point in terms of educational standards. It is the next generation that will carry Turkey into the future and presumably contribute to shaping the future of the European Union. Increasing school enrollment and improving the quality of education is a priority.

In general, our authors do not rate the quality of Turkish bureaucracy highly. Some agencies and ministries appear to be significantly more efficient and effective than others. During negotiations with the EU, challenges can be expected to arise from the incompatibility of capabilities. 2005 will be a year for preparing all the ministries and state agencies for the negotiations that will take place. We no longer have the luxury of appointing officials on the basis of anything except for merit. This is one effect of the EU track that will finally break the decades-long cycle of politically driven appointments.

This is just a sampling of points that builds upon the arguments of TPQ authors and that we can expect will be on Turkey's reform agenda in the upcoming year. We hope you continue to follow TPQ in 2005...

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