



**The Speech of Tuncay Özilhan
Chairman of the Board of TÜSİAD**

**“Entrepreneurship and Sustainable Development in Turkey:
Risks and Opportunities”**

**World Conference and Exhibition on Oil Seeds and Edible, Industrial
and Speciality Oils**

**12 August 2002
TS/SEK/02-27**

Military Museum

Dear Guests,

I would like to extend you the warmest welcome to Istanbul. It is a great pleasure for me to address such a distinguished audience. I hope your visit to Turkey and this important conference will be a fruitful occasion with many mutually beneficial exchanges in the oils and oilseeds processing industry. This is a significant opportunity to share some of Turkish business views with you on the economic developments in Turkey and their implications for entrepreneurs.

Turkey stands at a crossroads once again after 1980s. The recent reform movement should be seen as attempts to integrate the Turkish economy to changing global economic system. Although Turkey has done a lot to liberalize its economy in 1980s, the further liberalization of the markets and elimination of the remaining elements of political interference in economics are being materialized recently. Turkey once more tries to stabilize its economy while at the same time introducing a new growth strategy that will pave the way for fostering entrepreneurship and sustainable growth.

In an economy, where the ratio of public debt to GNP stands at around 100% and the sum of tax revenues just equal to interest payments, there is not a single viable policy to put the economy on a new growth path other than realizing the structural reforms. All the economic actors have seen that the Turkey's budget financing, high inflation and short-term capital inflow supported growth policies turned out to be unsustainable. This was also so at the end of 1999 but due to the lack of transparency of the public sector and the so-called hidden duty losses, no one was aware of a problem of this big. Therefore, the reforms introduced are required to integrate Turkish economy to the global economy and enhance its competitiveness and put the country back on sustainable growth track. On the other hand, these reforms are required in order to comply with the EU, the candidacy of which constitutes an important factor for Turkish economy.

As this fact is now well understood by the public and the politicians, the structural reforms, which will pave the way for a new economic order, are being realized in the last two years. After completing the legislation for the reform process mostly, the program addresses the implementation from 2002 onwards, rather than extending the list.

The quality of structural adjustment implementation is much more important than the structural policy setting itself because, the implementation weakness always decreases the credibility of the government and the potential benefit of the structural renovation. Therefore we advocate that the public at large must be vigilant and proactive in monitoring the implementation.

TÜSİAD believes that the core of the structural reforms lies at the public sector. The essence of the structural reforms is the establishment of a market economy with its rules and institutions, while removing the political rent distribution mechanisms to achieve more efficient resource allocation. This will end the structural public deficits and its financing pressure, which causes detrimental crowding-out for real sector in the economy. This desired reform framework requires a reengineering perspective, the lack of which is considered by TÜSİAD as the main drawback of the reform attempts in this area. If this perspective can be strengthened, the role of the private sector will enhance rapidly with the outcomes of the reform efforts are getting to be perceived.

Turkey has been generating increasing primary surpluses since 1994 due to the threats of bad public finances. However, the problematic public sector reform has not dealt with seriously since the recent crises. New revenues have been generated via increasing tax rates and introduction of new taxes. Consequently, the overall budget deficit deteriorated despite the primary surpluses. The main culprit of the distortion can be claimed as the lack of a general strategy and the harmony of the tools and aims. The reservation of the business community for the primary surpluses is the way they are generated. In many areas the tax burden has increased so much that it encourages transition to “unregistered economy” and erodes the tax base. As a few example, the taxes on labor is significantly high while we have structural problems in labor market (unemployment, unregistered labor etc.); tax burden on financial sector is high (in some areas there is double taxation like Banking Insurance and Transaction Tax and VAT) while we have problems to ignite the exit from recession and restructure banking sector; taxes in telecommunication sector is high while it’s presented as a sector that will attract FDI etc.

With the changing economic setting in Turkey, not only the public sector but also the corporate sector is facing a need to adapt itself to low inflation and more competitive environment. The privatization efforts, tax reform, abolishing the barriers to enter for network industries and natural monopolies, constructing regulatory authorities, agricultural reform etc. are all processes that change the face of Turkish economy. While these 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. However, this new environment will be a more competitive and though one to survive for the firms ignoring efficiency and technologic development.

With the changing growth strategy, its finance would also change form short term to long term. The finance of this new era is expected to switch from short-term capital inflows to long-term inflows, mainly FDI. The efforts to enhance the investment environment affect not only the international capital but also the domestic investors. TÜSİAD appreciates the studies undertaken both in the private and public sector.

While Turkey is trying hard to stabilize its macroeconomic environment, which is a prerequisite for significant amount of FDI inflows, the legislative and bureaucratic procedures are being simplified with an utmost priority on the other hand. Following the FIAS Studies, and the formation of the YOİKK (Coordination Committee for Enhancing the Investment Environment), the efforts get concentrated and there is much hope for a better investment environment. Another crucial thing for the prospective FDI performance will be to have a date to start accession negotiations with EU at the end of this year.

As you know, Turkish Grand National Assembly approved the “EU Reform Package” including very important amendments in several laws with the aim to fulfill the Copenhagen Criteria. TÜSİAD welcomes this package of reforms and believes that Turkey has proved its will to be a part of the European Union by fulfilling the most debated parts of the Copenhagen Criteria. It is now EU’s turn to support Turkey’s determination by issuing a date to start accession negotiations with Turkey.

The NGO’s in Turkey have decisively supported the approval of the “EU Reform Package” and have proved again that a liberal democracy is effective only if the civil society is a part of the decision making process by being an active actor in participatory democracy. By showing its

support to the fulfillment of the Copenhagen Criteria, the civil society is also waiting for a signal about the date to start accession negotiations with the EU.

This signal will not only encourage the foreign investors who would strongly contribute to overcome the economic crisis in Turkey but also would reinforce a more stable political environment in Turkey.

TÜSİAD believes that Turkey is strong enough politically and economically to become a full EU member. Some justifications for this argument can be stated. First, Turkey has the largest economy among the EU candidates and is the seventh largest among the member countries. Turkish economy has gained significant economic competency and efficiency as a result of the Customs Union with EU since 1996. Second, Turkey successfully offers young, entrepreneurial and culturally diverse population. Third, for all its faults and deficiencies Turkey is still the only Muslim country that has a functioning market economy, a democratic political order and a secular state. This attribute of Turkey is our country's greatest asset. Our society can play an important role in creating a common space of dialogue between different faiths and enriching the diversity of cultures within EU itself. Last but not least, Turkey's strategic importance is widely accepted by the global political/economical actors. Turkey's close relations with Turkic Republics in the Central Asia as well as increasing trade relations with Russia and Turkey's potential to be the ideal gate for the channeling of the Eurasian energy resources to the global markets are some repercussions of the Turkey's strategic power which would broaden European Union's vision on world politics and add important assets for the common foreign policy. Hence, Turkey's integration would be an asset for the EU, as it would contribute to the efforts of the Union to become a global player.

As a result, now undergoing a major restructuring period after a severe economic crisis, and with the perspective of EU membership, I firmly believe that Turkey is the candidate of a new leading economic power in the 21st century.

Thank you.