PROSPECTS FOR THE TURKISH ECONOMY

DELIVERED BY

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Mr. Chairman,

Mr. Minister,

Distinguished Representatives of the European Carton Makers Association,

It is a great honour and privilege for me to address this select audience on behalf of the State Planning Organization in the presence of the Minister of Industry and Trade of our country as well as numerous distinguished members of the European Carton Makers Association.

I would like to take this opportunity to thank the European Carton Makers Association for the kind invitation to be with you today on this very important occasion.

I wish to commence my speech by briefly mentioning of the most important development of our times; globalization, an event that has been shaping all major developments all over the world for almost four decades. In the second part of my statement I will try to present to you a broad picture of the Turkish economy, Turkish economic reforms, the environment for foreign investment, the most dynamic industries and the future prospects of our country.

• Globalization

Today's international arena is characterized by trends which continue to bring the countries of the world further into alignment both politically, economically, and socially. The concept of 'global village', which describes the globalization of the world's capital markets and the universality of products shows the increasing interdependence of the countries upon one another. Those who tend to favour self-sufficiency or isolationism are being left behind in the post-industrial era. Economic, technological and even social activities are rapidly transcending regional and national boundaries. This
makes it imperative for each country to harmonize its interests with those of others and thus to have updated information in various fields such as economics, trade, investment, technology and even politics to be used and to be shared for critical decision making, and especially for strategic planning.

World trade has grown faster than GDP and foreign investment has increased rapidly in the last decades. International financial markets have expanded enormously in their scale and in diversity of their instruments. Global economic integration has accelerated. The liberalization of trade policies with the successful conclusion of the Uruguay Round has lowered tariffs and stimulated trade. The integration of the world economy through trade has been reinforced by increases in private capital flows, particularly in the 1990s. Technological advances in transport and communications have lowered the cost of operating globally and provided developing countries with new opportunities to benefit from the growing world economy.

It is difficult to forecast the full impact of the Uruguay Round on the global trading system, but several studies have estimated the global income gains at up to $200 billion a year.

Another crucial fact is that the global economy is undergoing an information revolution that will be as effective as the industrial revolution of the nineteenth century. The size of global information sector, estimated at $1.425 billion in 1994 is an important sign of this transformation.

We are living at a time when the world goes through rapid changes, making "today" very different from "yesterday".

It is also true that, increasing interdependence of the countries as a natural consequence of globalization, requires that "rules of game" be adopted by all parties, and the economic units be enlarged beyond national borders, overlapping with one another, while further competitiveness be achieved and resources be more rationally used. This new order necessitates that the transnational enterprises, banks as well as institutions assume new roles, and allows international relations to acquire new forms and move in new dimensions of development.
We realize that the word ‘cooperation’ is even more meaningful in today’s rapidly changing world towards globalization.

Turkish Economic Reform

Over the past few decades, Turkey has been going through a structural transformation in industry, trade and financial markets to adapt itself to the globalization. Since the early 1980s, Turkey’s economic development strategy has been based on moving the nation to become more information intensive to be more competitive in global markets.

Turkey is one of the most radically changing economies in the world since the beginning of the 1980s. The restructuring of the Turkish Economy were realised at the beginning of 1980 through a comprehensive economic stabilization and structural adjustment program based on free market principles and the introduction of outward orientation in economic policy.

Turkey has embarked on the difficult path to become an industrial goods’ exporter and improved its competitive position. The share of resource-intensive industries (mainly food and mining products) in manufacturing exports decreased drastically. Exports of industries requiring economies of scale (mainly steel, industrial chemicals and glass products) improved considerably. Turkey has also significantly expanded its exports for specialized products (mainly industrial and electrical machinery).

One of the major pillars of the new economic program introduced in 1980 was the adoption of an open and flexible foreign investment policy.

Turkey has initiated most of the policy measures required to open its economy to foreign investment and foreign participation in construction, industry and services. Traditional foreign investment by transnational companies and by the foreign partner of a joint venture as well as foreign investment in the framework of build-operate-transfer (BOT) and build-own-operate (BOO) models has also been encouraged especially in energy and transportation and the privatization of State Economic Enterprises.

Under the foreign investment legislation, enterprises with foreign capital could engage in all industrial, commercial, agricultural sectors on
equal footing with domestic capital. There is no restriction on the transfer of
profits, interests, loan repayments or repatriation of capital.

Within the context of the reform program a new regime was introduced
which enabled foreigners to deal in the Turkish Capital Market. Foreign
mutual funds were allowed to operate in this market. Equity participation is
regarded by government as an important way of benefiting from the spin-off
effects of foreign investment in the economy. Turkey provides a well secured
environment for foreign capital by participating in several international
agreements and organizations.

We are determined to accelerate the ongoing process of privatization
in order to attract foreign capital besides the other objectives. Foreign
investors are encouraged to participate in the privatization process,
especially in those enterprises where know-how and management are the
determining factors.

Privatization of Türk Telekom, Erdemir and Petkim will be the test
cases for success of the privatization program. Türk Telekom is the
telecommunications monopoly, Erdemir and Petkim are giants in iron and
steel and petrochemical industries, respectively.

As a result of the efforts aimed at reinforcing market mechanism,
improving capital markets, and preparing an appropriate regulatory
framework, an encouraging atmosphere for privatization exists in Turkey.

Turkey with its geographical location, skilled labor force, large and
energetic domestic market, natural resources, regional market potential,
improving infrastructure and communication network offers vast opportunities
for direct foreign investment.

Turkic Republics offer a rich potential for the joint ventures by foreign
and Turkish firms.

Although there are some problems to be solved without further delay
such as inflation, the Turkish Economy displays a great dynamism. As a
matter of fact Turkey offers the most diversified economy in the region. It
becomes more and more clear that the Turkish Economy has been strongly integrated with the international economic and financial system.

The World Bank refers Turkey among the 10 largest developing economies which it qualifies as 'the emerging potential giants' in the global economy. (World Development Indicators, The World Bank, 1997.)

Within this framework, Turkey's main challenge is to transport Turkey to the 21st century as a global state, with an increased efficiency in world dynamics. In fact the main objectives of the Seventh Five Year Development Plan, covering the period 1996-2000, were set as to serve this aim, and can be stated as follows;

- to provide a better education for the population,
- to ensure a liberal and democratic environment,
- to achieve macro-economic stability as a necessary environment for motivating private initiative,
- to improve standards of living and the income distribution,
- to offer all sorts of vocational training facilities to the people in working age for improving the skill level of labor force,
- to increase the labor market elasticity,
- to rely more heavily on the individual and private initiative.

The Plan envisages the introduction of a set of structural reform projects which are intended to bring about the necessary institutional as well as structural changes in the economy to enable Turkey to cope effectively with the changing conditions in the world. In the next few years, Turkey's efforts to fully integrate with the world economy in general and structural adjustment to the EU in particular will be strengthened. For this purpose, the firm establishment of a competitive industrial base will be extremely vital.

Turkey is one of the largest economies in her region with a GDP estimated at around $ 183.1 billion in 1996. On the purchasing power parity however, Turkey's GDP was around $ 336.4 billion in 1995. 82.9 percent of
Turkey's GDP is generated in industry and services, a figure similar to other OECD countries. The export driven policy that was launched in 1980s has been successful both in increasing export volume from $2.9 billion in 1980, to $12.9 billion in 1990, and to $23.5 billion in 1996, and in radically changing its commodity composition. The share of industrial products in total merchandise exports which was 35 percent in 1980 increased to 87.5 percent in 1995. The country has also been successful in penetrating different markets, with 51.2 percent of exports in 1995 destined to the European Union, followed by Islamic countries with 15.1 percent and the newly independent states of the former Soviet Union. The greatest portion of the country's foreign exchange earnings is generated by service industries, with tourism receipts, at around $5.7 billion in 1996, as the largest item.

In 1995, only 12.4 percent of Turkey's total imports were consumption goods. The great portion of the country's imports is intermediary goods (58.3 percent), followed by investment goods (29.4 percent). This structure of imports indicates that the liberalization of foreign trade has not changed consumption patterns radically towards imported consumer goods, but has contributed more through imported intermediaries for production.

In December 1994, Turkey adopted a competition policy based largely on the EU practice. As competition increases and economic units adjust to the new rules of competition, the structure of output will change over time by shifting resources away from less efficient sectors towards industries exposed to international competition. In this context, emphasis is placed on the textile and clothing, iron and steel, automotive, energy, tourism and contracting service sectors as the most dynamic sectors in the economy.

- The Most Promising Sectors

The textile and clothing industry is Turkey's largest single industrial sector, contributing some 15 percent to manufacturing value added and employing about one-third of all workers in manufacturing. Faced with competition from abroad, the industry has installed up-to-date machinery producing high quality products. The Turkish textile occupies a relatively high
position in the world. Turkish textile and clothing exports constitute 2 percent of world exports. In 1996, textile and clothing exports reached approximately $9.5 billion. The largest market for Turkish textile and clothing exports is the EU.

The Turkish iron and steel industry has grown significantly over the 1980s and 1990s, with crude iron production rising from 3.1 million tons in 1985 to 5.3 million tons in 1996, and that of steel from 9.4 million tons in 1991 to 13.4 million tons in 1996. Iron and steel products comprised 10.4 percent of all Turkish exports in 1995. Turkey has been exporting mainly billet and long products, and the main export market has been the Far East.

The Turkish automotive industry, since its establishment in the 1960s, has operated in close cooperation with the EU automotive sector. In recent years, joint-venture initiatives and license agreements with the Far East countries have increased. At the end of 1994, capacity in the automotive industry reached 495 thousand per year; with the completion of investments now underway by three Far Eastern firms, capacity will reach 800 thousand per year. In 1996, production in the automotive sector was 290 thousand units.

Electricity production which was 23.3 billion KWh in 1980 reached 95.4 billion KWh in 1996. When completed, electricity projects under the South Eastern Anatolia Project will contribute 27 billion KWh. Of these projects, those already in operation have been producing about 16 billion KWh electricity. Due to the continuously increasing demand for energy, Turkey expects a significant foreign capital inflow in the form of BOT (build-operate-transfer) and build-own-operate (BOO) models.

Recent exploration has identified the Caspian Sea as one of the world's major energy sources for both oil and gas. The challenge is how to get these land-locked reserves transported safely and efficiently to the West. Turkey has proposed construction of a major pipeline from Baku, Azerbaijan, to the Mediterranean port of Ceyhan. This would bypass the already overcrowded Bosporus, thereby reducing safety and environmental
concerns, and provide the West with its only secure oil terminal located in a stable country.

Tourism: As a country located in the Mediterranean region where 70 percent of world tourism activities take place, Turkey has emerged as an important tourism center. The number of tourists visiting Turkey from abroad reached 8.5 million in 1996 and tourism revenues increased to $5.7 billion. As a result of significant infrastructure investment, the number of touristic facilities in 1995 reached 2,181 and bed capacity 329,755. In 1996, 60 percent of tourists visited Turkey was from the OECD countries. In 1995 Turkey's share in world tourism revenues was 1.4 percent. On the basis of the 1995 data, Turkey ranks nineteenth in the world in the number of tourists visiting the country and twenty-first in tourism revenues.

Highway Transportation: Turkey has a significant highway transportation infrastructure, with a total highway network of 60,000 km including 1,374 km of motorways. As a part of the developing highway network, the section of the Trans-European Motorway (TEM) has been planned to be upgraded as motorways or high-standard divided lane highways in a great extent. Moreover the major airports and harbours are being linked with the main axes.

Telecommunications: During the 1980s there was a significant progress in the telecommunications industry in Turkey. Private sector requirements for sophisticated information services are the driving force for changes in technology. As an important indicator, telephone penetration rate has reached 25 percent.

Contracting Services: Turkish contractors have undertaken $27 billion worth of contraction works since the 1970s in North Africa, the Middle East, Germany and Pakistan, Malaysia and the newly independent states of the former Soviet Union. During the period of 1990-1996, the largest part of these services abroad took place in the newly independent states. Turkish contractors are involved in the construction of dams, irrigation facilities, infrastructure, sea ports, roads, bridges, tunnels, industrial and power plants,
housing, hotels and hospitals. Turkish contractors utilising high technology, have an excellent reputation in the international arena and are preferred partners especially for EU, US and Japanese firms doing business in Eurasia.

• Future Prospects

Turkey is an associate member of the EC, and realized the Customs Union with the EC. On the other hand, Turkey is among the founding members of the Organization for Economic Cooperation and Development (OECD) and the Economic Cooperation Organization (ECO), and also a member to Commercial Cooperation Organization of the Islamic Conference (COMCEC), and has fledgling accords under the Black Sea Economic Cooperation Zone (BSECZ). It should also be noted that Turkey has furthered trade relations with NAFTA and the Pacific Region. In this context Turkey is in an ideal position to play a key role in global integration.

Turkey, as a European, Balkan, Black Sea, Mediterranean and Middle Eastern country, occupies a unique geo-strategic position which confers the multidimensional character of its political and economic relations. She has a unique opportunity to play an active role in the Balkans, the Black Sea region, the Caucasus and Central Asia. In particular, Turkey’s geographical, historical and cultural ties with the newly independent Turkic Republics provide a good base to enhance economic relations.

Turkey has a well-established democracy, secular system, respect for the rule of law, human rights and fundamental freedoms, and a free market economy. This places Turkey in a position to act as a role model for many countries.

Turkey has foreseen the globalization process which has been intensifying since the beginning of the 1980s and has been taking the necessary steps to adapt herself to the new world order. In line with the global trends and in an attempt to integrate with the world economies, Turkey on the one hand, has taken her place within the globalization movement and on the other, has continued trade relations with the economic powers of NAFTA and the Pacific Region and declared her determination to fully take
part in the European Integration. Arising from these developments is the fact that, within the period of the Seventh Development Plan covering 1996-2000, Turkey must achieve radical improvements with regard to its economic and social structure, primarily in education, communications, the labor market and the state's role in the economy.

Since the crucial element of production in the 21st century will be knowledge, Turkey places the utmost importance on investment in human capital. Education Reform is the highest priority task in Turkey's Seventh Development Plan.

Turkey's young population is a definite source of strength. The dynamism and creativity which lie behind Turkey's economic dynamism surely have a lot to do with the fact that we are a nation of young people. Within this framework, our well-trained human resource will on the one hand increase our competitiveness, and on the other enable Turkey to obtain more share from global value added.

Turkey, a country rich in natural resources and with a suitable population structure, has the potential to be a significant player in the international arena. Realizing this requires utilizing the natural and human resources in the most productive manner in line with the latest technology.

In concluding Mr. Chairman, I would like to thank once again to the ECMA for organizing such an important meeting in Turkey.

I believe that this meeting, will lend fresh impetus and produce proposals for concrete activities and thereby fully achieve its objectives.