



**TURKISH INDUSTRIALISTS' AND BUSINESSMEN'S ASSOCIATION**  
WASHINGTON OFFICE

**REFORM EFFORTS OF  
DSP-MHP-ANAP COALITION IN TURKEY:  
SIGNS OF CHANGE AMID CRISES**

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TUSIAD-US  
Staff Working Paper

October 31, 2001  
TS/WSH/01-039

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## 1. INTRODUCTION

It has been almost two and a half years since the current three-party coalition government came to power in Turkey. This is a long period compared to tenures of the previous governments. For the past decade, Turkey has suffered from short-lived coalition governments that have delayed the implementation of new reform policies, and undermined each government's ability to cope with the political and economic difficulties of the country.

When the 1999 election results were first publicized, many people were amazed with the degree of support enjoyed by the Nationalist Action Party (MHP), which in turn presented the most popular party, Democratic Leftist Party (DSP), with the distasteful, yet unavoidable choice of forming a new government with the MHP, its longtime rival.

In the late seventies, ultra-nationalists became involved in bloody street battles with leftists, which in turn caused chaos in the country and eventually led to the 1980 military coup. Such a history of antagonism between the two parties raised suspicion within the Turkish public about the durability of the government coalition. Nevertheless, the inclusion of the Motherland Party (ANAP) in the DSP-MHP coalition provided them with a majority in the Parliament, an advantage enjoyed for the first time by a government since early 1990s.

Events such as the capture of Abdullah Ocalan, leader of separatist Kurdistan Workers' Party (PKK), the Kosovo crisis, and the EU's exclusionary attitudes towards Turkey (especially pronounced in the decisions of the Luxembourg Summit of the EU) succeeded in stimulating public support for the DSP and MHP, and cultivated increased nationalist rhetoric on the part of both parties. This nationalist environment threatened to undermine the government's commitment to political and economic reform, necessary for Turkey's integration into the EU.

In addition to suspicions about the durability of the government and its commitment to reforms, the historically burdensome economic and political turmoil in Turkey remained a raw and divisive issue. Within this context, the coalition government found itself under heavy internal pressure, especially from non-governmental organizations, to undertake essential democratic, political, economic, and social reforms. The reform process took on added urgency as a result of increased external stimuli, mainly in the form of a stabilization program signed with the IMF, and the EU's decision to consider Turkey as one of the candidate countries for membership during the Helsinki Summit in December 1999.

Amidst this political climate, the new coalition government and the Parliament began work in June of 1999 on numerous reform actions and legislations contradicting what many political analysts had predicted. In addition to internal and external pressures, the three parties also felt the need to refresh their public images, namely; the DSP's "anti-European image", the MHP's "ultra-nationalist image" and the ANAP's "corrupt image".

This common concern among three parties, despite differing fundamental politics, revealed an important factor for their combined efforts to incorporate a radical reform agenda into their overall government program.

However, the chaos borne in the aftermath of the two major earthquakes, of August and November 1999, revitalized doubt in the government's ability to maintain internal structural unity and political harmony. Further, the absence of alternatives to the ruling government and weak opposition in the Parliament allowed attention to be shifted away from urgently needed economic and political reforms. Because these reforms addressed controversial issues, such as privatization of key state enterprises and the further restructuring of the banking sector, signs of disagreements among the coalition leaders and their reluctance to enact economic and political change on such issues became more apparent. Eventually, deceleration in the reform process, combined with the failure of the coalition government to complete the IMF-backed Stand-by arrangement in addition to the unfolding burden on the financial markets resulted in a severely undermined confidence in the government. A series of political and economic failures touched off two subsequent economic crises, in November 2000 and February 2001.

Today, most analysts criticize Turkey for its unwillingness and inability to adequately reform its political and economic structure. They underline severe flaws in the political system, which had long been based upon unstable and populist policies. For example, the Turkish Industrialists' and Businessmen's Association (TUSIAD) had been a major dissenter and had demanded stronger and more responsive actions from the government. Indeed, Turkey's new economic program, which was put into effect in May 2001 to replace the failed economic program of December 1999, acknowledges the deficiencies in the economy, and accepts the role of political institutions and preceding governments in exacerbating that situation.

This paper, however, aims to focus on what has of late been underestimated and forgotten, as Turkey has been suffering from the most serious economic crises in recent history. Reforms initiated by the Ecevit government, although enacted under internal and external pressures, are of crucial importance if Turkey's structural problems are to be remedied. For our purposes, it is necessary to return to the beginning of the coalition government in 1999 to fully and adequately assess its successes and failures. Understanding the conditions that resulted in the formation of this government, and analyzing its transformation should prove useful for understanding Turkey's current situation.

## **2. FORMATION OF THE COALITION: DOMESTIC AND INTERNATIONAL CONTEXT**

Following a brief interregnum of the minority DSP government until the April 1999 elections, ANAP leader Mesut Yilmaz, DSP leader Bulent Ecevit and MHP leader Devlet Bahçeli resumed their partnership in government. The three parties forged a coalition with a strong majority of approximately 360 of the 550 seats in Parliament and won a vote of confidence on June 9. The new government's program and endeavors, and its

general approach to the problems of the country, were formulated within three main contexts; political, economic and international.

- **Political context**

Despite some major shifts in the showings of the political parties, fragmentation in the Turkish party system continued in large part due to existing electoral laws. Such a situation during 1990s often ended up in weak coalition governments unable to cope with structural problems in the economy and politics. In this way, none of the parties could gain more than 22% of the total votes in the 1999 elections. Reflecting this situation, the DSP captured 22% of the vote, followed closely by MHP, which garnered 18% in the April 1999 elections. Furthermore, the decline in the votes for the former Islamic Virtue Party (FP), whose predecessor, the Welfare Party, came out ahead in the 1995 elections, proved that the rise of political Islam in Turkey was not inevitable or irreversible. On the contrary, HADEP, the political party with regional sensitivities for southeastern Turkey has shown a remarkable success in recent years. It has obtained the majority of the votes in eleven districts in general elections and gained control of the municipalities of 7 cities. Despite this success, HADEP was not represented in the Parliament due to its inability to gain the required 10% of national votes.

Although the success of DSP was expected, the impressive showing of MHP as the second party, doubling its votes compared to the 1995 election results, was unforeseen by most observers. This surprising result was mostly triggered by the capture of Abdullah Ocalan, the leader of the PKK terrorist organization, on February 16, 1999 following a bloody 15-year-long war against terrorism. Ocalan's arrest was one of the most critical incidents that prepared the political environment for the early 1999 elections, nourishing the nationalist saga of certain political parties such as MHP as well as DSP.

Moreover, the failure of the center-right parties, ANAP and the True Path Party (DYP) as well as the traditional center-left party, the Republican People's Party (CHP), to put forth their specific agendas and address the priorities of the country definitely contributed to the success of DSP and MHP. These three aforementioned parties lost considerable volumes of their constituency in the elections.

Each party leader in the new government had a different rationale in coming together to initiate political and economic reforms, and agree on EU and IMF demands. For example, lingering suspicions of MHP's past ultra-nationalist activism certainly had an impact on Deputy Prime Minister Bahçeli's unexpected and surprising effort to underline MHP's moderation and pragmatism. Since he joined the government, Bahçeli felt necessary to compromise on many issues, including postponement of the execution of PKK leader Abdullah Ocalan. Bahçeli's desire to move MHP to the center right was an important factor in MHP's moderation efforts. Similarly, Ecevit's infamous hesitant European and IMF stance in Turkish politics, especially during his previous partnership in governments in 1970s, visibly softened during this tenure in power. In fact, one of the most important stages in Turkey's EU membership process was finalized with the recognition of Turkey's candidacy status, and the signing of the comprehensive Stand-by Arrangement

with the IMF. ANAP leader, Mesut Yilmaz, on the other hand had to replenish the image of his party in the eyes of its constituency. ANAP's decline in the 1999 polls clearly showed a public discontent with party politics for the last couple of years. The party was faced with serious corruption charges and alleged neglect of urgently needed reforms. In this way, Ecevit, Bahçeli and Yilmaz have been able to systematically eradicate intra-coalition glitches through regular "leaders' summits".

Despite a nationalist, anti-European political environment, Ecevit's government was pressured to undertake necessary democratic, political, economic and social reforms mainly by non-governmental organizations, media, and the bureaucracy (bureaucrats were certainly more reform-minded than politicians). Bolstered by its strong parliamentary majority, the 57th government embarked on an ambitious reform program, containing legislative proposals that had been attempted by several previous governments but had never succeeded.

- **Economic context**

The Turkish economy has faced frequent economic crises during 1990s. Turkey's new economic program highlights two main reasons behind these crises: the increasingly unsustainable nature of debt burden; and structural flaws in the financial sector, stemming particularly from the mismanagement of state banks and the weakness of the banking system as a whole.

By 1999, the debt burden had reached 42% of Turkey's GNP compared to 6% in 1990. This change was a result of high primary deficits in the public sector in addition to high real interest rates. The situation had in turn resulted in massive operational public deficit, averaging 5.8% of GNP between 1995 and 2000. The aggravated effects of the growing debt burden undeniably put an extreme pressure on already weak financial markets in Turkey. High real interest rates on domestic debts, reaching 32% on average, contributed to this pressure, while annual growth rates averaged less than 4% between 1995-2000. The vicious circle of debt and interest payments led to a problematic financial situation. Duty losses, incurred by the state banks because of their assigned financial support to groups such as farmers and artisans; loss of confidence in the Turkish Lira and high and volatile inflation rates, coupled with the effects of increasing debt stock, created a vulnerable economic environment in Turkey. One significant element of this situation has been the limited volume of foreign investments channeled to Turkey. Particularly, foreign direct investments (FDI) have been a critical but missing ingredient for a country suffering from lack of savings and seeking to finance its ambitious growth rate targets.

In addition to the Turkish government's failure to complete the liberalization efforts that was initiated in the early 1980s, political instability and short-lived coalition governments prevailed during 1990s, thereby exacerbating Turkey's economic problems. Furthermore, such macroeconomic and political instability have been coupled with a high and prolonged inflation over the past 25 years. Failure to address structural deficiencies and the mismanagement of state banks, often a result of conflicting political considerations, was regarded as the primary impetus for the latest crises of November 2000 and February

2001. The Ecevit government was forced to deal with their lingering and aggravating effects.

The Ecevit Government took office at a time when Turkey was suffering from a deep economic recession triggered by the world financial crisis, the collapse of trade with Russia, and a sizable outflow of funds earmarked for emerging markets. Moreover, political instability and stringent domestic economic policies adversely affected the perceived risk premiums for the country, and at the same time real interest rates rose up to 30%, slowing down consumption and investment spending.

On the other hand, inflation rates had dropped to an eight-year low (48.2% in wholesale prices and 63.5% in consumer prices annually as of May 1999; compared to 55.4% and 63.8% at the end of 1991, and 106.3% and 120.6% at the end of 1994, respectively) as a result of falling of raw material prices, the contraction of domestic and foreign demand, and low public pricing policy. The current account had shown remarkable surplus due to an improvement in the trade deficit and the rapid growth recorded by invisible revenues.

Besides, achievements regarding structural reforms had created a very positive outlook for the year 2000. Indicators were pointing to a 1-1.5% GNP growth for the year, after recording a -3% negative growth in the first half. However, the devastating effects of two major earthquakes of August and November 1999, which resulted in a yearly 1.5% drop in GNP, toppled all optimistic estimates for the recent future.

However, despite the positive results of an IMF staff-monitoring program signed in 1998, structural problems in the economy had mounted to a level that compelled the drafting of a comprehensive economic measures package.

- **International context**

The nationalist environment within Turkey at the time, cultivated in large part by the capture of Abdullah Ocalan, was further reinforced by three main developments in the international context: the Kosovo crisis, Turkey's EU membership process, and relations with the IMF. Developments related to Kosovo crisis, due to the existence of a considerable amount of Albanian population in Turkey and Ottoman heritage in the Balkans, increased demand for more activist foreign policy in the Balkans. Furthermore, the Luxemburg Summit of June 1997 excluded Turkey from the EU enlargement process and criticized Turkey's policy on Cyprus, as well as its treatment of minorities within the country. Both of these events gave rise to anti-European, nationalist sentiments amongst the general Turkish population.

The EU integration process, and more specifically, the possibility of full EU membership for Turkey has always been a catalyst for democratization process and economic restructuring in Turkey. In this context, the recognition of Turkey's candidate status for full-membership by the EU, at the Helsinki European Council in December 1999, provided a strong impetus for domestic political and economic reforms. This development was in contrast to the impact of Luxemburg Summit decisions in June 1997.

The clear message delivered in the Presidential Conclusions, that Turkey would be treated on an equal footing with the other candidates, was encouraging for the new government's ongoing reform process.

The second factor shaping Turkey's economic future was its relationship with the IMF. A Stand-by Arrangement was signed with the IMF in December 1999 as an extension of the Staff Monitoring Program initiated in July 1998. Within the context of the new arrangement, which was set to last for three years, the Turkish government launched a program, aimed at achieving disinflation and growth at the same time. The main precondition of both arrangements provided a catalyst for the Turkey's reform process.

### **3. INITIAL PERFORMANCE: A PERIOD OF SUCCESS (JUNE 1999-SEPTEMBER 2000)**

The current coalition government gave a good effort, at least initially, to get rid of the structural problems accumulated throughout the 1990s. Between June and September 1999, the 57th government successfully enacted legislation that included reform of the country's banking sector and social security system; codified procedures for the submission of foreign investment contracts to international arbitration; removed military officers as judges in State Security Courts; and amended the political parties law to make judicial closure of parties more difficult.

As stated in the previous section, Turkey's economic and political prospects were shaped by two major inter-related international factors during the period between June 1999 and September 2000: the membership process for the EU; and relations with the IMF. Signing a new Stand-by Arrangement with the IMF and positive developments on the EU front, such as recognition of Turkey's candidacy and adoption of Accession Partnership Document by the EU, further stimulated domestic pressure on the government to undertake structural reforms in Turkey.

As set forth in the Copenhagen Criteria and the European Monetary Union (EMU), Turkey was required to harmonize its political and economic standards with that of EU countries in order to become a full member of the EU. The IMF Stand-by Arrangement, on the other hand, was designed to include implementation of structural reforms as a crucial component.

The EU Copenhagen and EMU criteria focused on two areas: the existence of a functioning market economy, and the capacity to cope with competitive pressure and market forces within the EU. More specifically, they included the following four headings: Prohibition of direct public sector financing by the Central Bank; Prohibition of privileged access of the public sector to financial institutions; Independence of the national Central Bank; Liberalization of capital movements. Turkey has made remarkable progress in some of these areas since the enacting of the Customs Union Decision in January 1996.

The basic characteristic of the Stabilization Program was its pegged exchange rate regime, accompanied by a tight fiscal and monetary policy. The program envisaged a comprehensive set of structural reforms, including a reorganization of the social security system, agriculture, and banking sectors, as well as the privatization of certain public enterprises. Thus, a strong political commitment to implementation of the program was necessary for its success.

At the end of 1999, the Central Bank of Turkey announced its monetary and exchange rate policy principles for the following three years. According to the program, the exchange rate basket would be announced on a daily basis over the first one-year period. A pro-active role was assigned to monetary policy based on reduced exchange rate depreciation in line with the targeted inflation, thus providing a nominal anchor for inflationary expectations.

During this period, the IMF and the EU officials had been fairly complimentary regarding achievements in the Turkish reform process, with the Central Bank being singled out for special praise for imposition of a tight and credible monetary policy.

There has been impressive progress on the fiscal front as well. During the first ten months of the year, revenues increased beyond projections while discipline on spending was maintained. A significant amount of primary surplus was achieved which would help to reduce the interest burden on the budget in the long term and stabilize the debt to GNP ratio.

The most pronounced outcome of the Stabilization Program has been the dramatic decline in interest rates. The average interest rates during the first ten months of the year fell to % 35 percent, down from % 100 percent of the previous year, leading to a substantial interest savings for the coming period.

The privatization program has had a strong start. In the first ten months of 2000, a total of 5.2 billion US dollars (2/3 of the targeted value of 7.6 billion US dollars for 2000) was realized from sale of the POAS (Petroleum retailer), TUPRAS (Oil refinery), and GSM license (Mobile telephone). This amount was higher than the total privatization revenues of preceding 15 years.

The external borrowing target for 2000 had already been reached. With increased investor confidence as a result of EU candidacy, a credible program backed by the IMF Stand-by Arrangement, and the positive assessment of rating agencies, the Treasury was able to not only borrow successfully from the international markets but also extend the average maturity of its outstanding debt. For the first time ever, the Treasury borrowed with a maturity of 30 years in international capital markets at the beginning of 2000. 1.5 billion US dollars of 30-year bond issue was the largest bond deal to date.

The program has produced a very high economic growth rate. In 1999, due to the political instability, high real interest rates, and the negative effects of the earthquakes, the economy contracted by 6.4 percent. By the end of year 2000, the economy expanded by 6.1 percent, primarily as a result of an increase in domestic demand.

It is crucial to note the significance and the implications of the structural economic reforms that have been passed at the end of the summer in 2000:

1. The government passed a new **Banking Law** in June 1999, establishing an independent banking regulatory and supervisory institution. The purpose of this Act was to set up rules in governing incorporation, management, operations, acquisition, merger, liquidation and supervision of banks. Such a law was believed to protect rights and interests of depositors and to ensure an efficient functioning of the credit system by also giving due consideration to confidence and stability on financial markets and requirements for economic development.

In the following months, certain amendments have been made to this Act in order to strengthen key regulations and to place the banking supervision framework on a proper foundation by increasing transparency and independence in the operation of the Banking Regulatory and Supervisory Board (BRSB). These amendments would conceivably provide all the conditions needed to improve otherwise problematic banks. The Board members were appointed at the end of March 2000, and became fully active by the end of August 2000.

In August 2000 the Savings Deposit Insurance Fund was given the authority to restructure a troubled bank in order to facilitate its sale in full or in part or to liquidate the remainder based on existing laws. The fund is no longer permitted to lend or otherwise provide liquidity support to banks other than those under its full control.

2. The **capital markets law** and regulations were revised in October 1999 and created a larger domain for the participation of domestic and international investors. The amendments to the Capital Market Law aimed at improving transparency, corporate governance, and minority shareholder rights through strengthening of the Capital Market Board's regulatory and supervisory powers.
3. A new **social security law** has been passed, increasing the retirement age from 38 to 58 for women and from 43 to 60 for men. For the first time in a decade the government would be able to cap the growing deficit, and with the support of the World Bank, could refinance the projected deficit without jeopardizing high GNP growth targets. Institutional reforms in this sector, and private health and retirement insurance schemes were introduced by a new legislation in 1999, which precipitated the growth of capital market activities in the year 2000.
4. **Customs laws**-- "anti-dumping" regulations-- and related legislation were enacted to garner further benefits of the EU Customs Union Decision and to harmonize with the EU laws.
5. On the fiscal front, the main developments were the introduction of a better accounting system, further strengthening of **tax administration**, and the **closure of extra-budgetary funds**.

6. A realistic program for **privatization** was prepared, although it was delayed due to the earthquake disasters. Within the context of the privatization program, the government has tried to undertake necessary legal measures including those that would allow for international arbitration, to permit an acceleration of privatization initiatives in the energy and telecommunication sector.

In August 1999 Turkey completed the comprehensive Constitutional amendments allowing for **international arbitration** and paving the way for “project finance” funds to flow into privatization, for increases in foreign investment, and for the private sector to pursue investments in energy, telecommunications, transportation and other infrastructure projects.

In addition to the law on international arbitration, passage of the **Telecom Law** was an important step towards a successful privatization program. The privatization of Turk Telekom started when an amendment was made to the Turkish Telegram and Telephony Act, enabling the split of the Turkish Post, Telegram and Telephony (PTT) into two separate bodies. The new Telecom Law in January 2000 established the commercial independence of the Company, as well as a clear and transparent regulatory regime in accordance with European Union standards.

Parallel to the Council of Ministers' decision regarding the strategy, a tender was issued on June 13, 2000 for the block sale of 20% of Turk Telekom shares to a strategic core investor consortia, which will include at least one international fixed line telecom operator holding the majority of the bidding consortium. Within the scope of this tender, the government had decided to give appropriate management rights to the investor. Although a number of parties have shown interest from domestic markets, the tender for 20% stake could not be completed.

Finally, the government managed to complete the block sale of 51% of the shares of **POAS** (Turkish Petroleum Company) and 31.5 % of the shares of **TUPRAS** (Major Refinery) by public offering.

7. Some key structural changes have already taken place in the area of **agricultural reform**, the most important one being the removal of agricultural credit subsidies. In this line, in June of 2000, the support prices of major agricultural crops were began to be determined in line with targeted inflation, which is important in regards to elimination of the populist economic policy-making in Turkey.

Seeking to achieve agricultural reforms in Turkey, the Council of Ministers established the "Agricultural Restructuring and Support Council" on December 22, 1999. Besides, initial measures were taken to move to a system of direct income support. Agricultural loan interests were determined in line with funding costs. New projects were initiated to increase and diversify production in agriculture and livestock sectors.

8. The **sale of GSM licenses** provided substantial revenue for the Treasury. The Ministry of Transportation increased the number of additional GSM licenses to be issued in 1800 MHZ to three, one to be awarded directly to Turk Telecom while the other two were to be auctioned off to capital firms. Tender for the sale of these two GSM 1800 licenses was opened in April 2000. The award winner of the first tender was a consortium of Turkiye Is Bankasi-Telekom Italia, which paid a license fee of 2.5 billion USD. There were no bidders for a second license.
9. A new legislation took effect on December 22, 1999 to permit the use of the **Build-Operate- Transfer system** in energy sector investments

#### **4. CRISES STAGE (OCTOBER 2000-MARCH 2001)**

Discouraging developments in September 2000, coupled with unwillingness within the government and resistance to several reforms, undermined the positive effects to date of the implemented reforms and resulted in two serious economic crises.

In spite of some unfavorable external developments, such as the sharp rise in oil prices, the Euro's unexpected deterioration against the dollar, and the decline in international financial flows to emerging markets, significant progress has been made towards achieving the Stabilization Program's goals. Inflation, although remaining higher than projected, fell to the lowest level since 1986 as of the end of October 2000.

The main negative development related to the December 1999 Stand-by Arrangement and Stabilization Program has been the widening of the current account deficit. As of August 2000, the current account deficit reached 6.8 billion US dollars, a significant increase compared to the same period previous year. A surge in imports was the main reason for the deficit. This was mostly due to increasing domestic demand deferred from 1999 with the sharp decline in interest rates, the unanticipated rise in oil prices, and the accelerated restocking of raw materials and unfinished products.

The Stabilization Program depended on capital inflows in the form of loans from the international markets, foreign portfolio investments, and FDI flows. Despite a surge in borrowing from international markets, the volumes of foreign portfolio investments, and FDI inflows were disappointing.

The "frictions" between the coalition members have also frequently challenged the reform process and implementation of the Stabilization Program. The resistance of some cabinet members to structural changes has, at times, caused long delays in the implementation of the structural reforms. For instance, the laws regulating the privatization of the four state-owned banks have been approved only at the last minute. Although the commitment of the coalition parties to the program continued, the lack of a strong "political ownership" of the program remained as a major deficiency.

As of November 22, 2000, the financial markets entered a period of turmoil due to an extreme liquidity squeeze. The liquidity problem was mainly related to the changes in the

market behavior of the banking sector. Anticipating a decline in the profitability of the Treasury bill operations, banks switched to the credit market, which is by definition, less liquid.

As a response to the liquidity squeeze in Turkish Lira and foreign exchange markets, the Banking Regulation and Supervision Agency (BRSA) announced its action plan for the banks under the SDIF, related to sale of shares of banks, management and control of which were transferred to the Savings Deposit Insurance Fund (SDIF) on November 17, 2000.

In addition, the parliament passed a new law concerning the T.C. Ziraat Bank, T. Halk Bank, T. Emlak Bank, that aims to ensure the effective working of these banks in adherence with the SDIF principles of international competition, strengthen their financial and administrative structure, and make necessary preparations and arrangements for their privatization process. The law envisages a restructuring and privatization period of three years for these banks and also authorizes the Council of Ministers to prolong this period by up to one-and-a-half years. Under the law, the state may not assign duties to any of the three banks before physically providing the necessary funds. It further states that the Treasury, within the schedule outlined in the restructuring program, would meet duty losses of banks.

Financial markets could only calm down, however temporarily, after Ecevit announced December 6, 2000 a package of measures to counter the fluctuations in the financial sector. The package included the following:

- The announcement of the tender of 33.5% of Turk Telekom by December 14, 2000. With the new tender, it was intended to grant the strategic investor remarkable management rights. However, the second tender was challenged on several legal grounds and the 6th Administrative Court declined this tender process.
- The announcement for a tender for the privatization of a 51% stake of Turkish Airlines by December 14, 2000.
- The government drafted a new electricity law to liberalize the market by December 14, 2000.
- Realizing the requirements for the year 2001 inflation target and expected improvement in the balance of payments.
- The continuation of the existent foreign exchange policy (pegged exchange rate policy).
- The continuation of wage increase at the targeted rate of inflation.
- The establishment of a stable macroeconomic environment.
- Maintaining guarantees on deposits.
- Introduction of guarantees on loans extended to the banking sector.

However, the dramatic dispute between Bulent Ecevit, and Ahmet Necdet Sezer, the newly-elected President, in the meeting of National Security Council on February 19, 2001, increased tension in the financial markets and the subsequent developments caused the government to decide to float Turkish Lira, abandoning the existing crawling peg

exchange rate regime. Ecevit stormed out of the National Security Council meeting, followed by his cabinet colleagues, barely 30 minutes after the meeting started and before the Council began to discuss its agenda.

Turkish markets plunged with the crisis and commercial banks rushed to buy dollars. However, the Central Bank did not sustain the liquidity to the banks and broke a pledge to stick to a tight monetary policy aimed at the stabilization program. A severe liquidity shortage shocked the banking system. On February 21, 2001, overnight repo rates hit 3000 percent levels. The Istanbul Stock Exchange index recorded its biggest fall with 18.11 percent and in the bond market yield on the most heavily traded March 21 paper soared to 154.6 % at the end of day.

The financial turmoil that paralyzed the banking sector culminated in currency devaluation. On February 22, the government announced that it would allow the price of Turkish lira to be determined in the free market in contrast with its earlier foreign exchange regime that had allowed a gradual depreciation of lira. Meanwhile, the Central Bank governor Gazi Ercel and head of Treasury, Selcuk Demiralp, submitted their resignations.

The Turkish lira dropped by 27 percent against dollar in the first trade after the government's announcement. According to the urgent measures to be implemented, cash Turkish lira and foreign exchange liquidity problems of banks would be temporarily solved. However, the next measures and revisions to the economic program would be announced following the intense consultations between the government and the IMF.

## **5. DERVIS FACTOR**

With the eruption of economic crisis in November 2001, the public confidence in the government declined rapidly. Having lost all hopes that the political class currently in power could solve accumulating economic problems, Turkey was desperately in need of a new source for remedy. Kemal Dervis, a well respected Turkish economist and the Vice-President of the World Bank at the time, emerged in that context as a possible economic savior. Dervis accepted a job as the Minister of State in charge of the economy. His approval was partially due to the apparent backing by the American Administration and the influential international financial institutions to this appointment.

Respect for Dervis in the international arena, as well as his humble personality, and his insistence on the importance of teamwork, immediately triggered public support. The new minister and his team offered a detailed analysis of causes of Turkey's economic troubles, offered their analysis and called for an economic program of transition to a strong economy. Furthermore, Dervis emphasized the need to deal with social problems and focus on transparency, which revealed to be the most important remedies to overcome crisis. Many non-governmental organizations, including TUSIAD, also declared support for Dervis and shared their views and positions with the Minister on Turkey's future. The Board of Directors of TUSIAD met with him and expressed optimism about the program that was being prepared at the time. TUSIAD had strongly

opposed the government and criticized its past record of mismanagement of the economy, as well as its hesitance to implement structural reforms.

Meanwhile, multilateral financial institutions and the United States Treasury made it absolutely clear that Turkey needed to undertake serious structural changes to receive further loans. The country's increasing dependence on the IMF along with other international involvement in Turkey's affairs added fuel to nationalist reactions, creating a strong alliance against the Program.

Dervis introduced the new economic program on May 15, just before the IMF Board of Governors made its decision on a new Stand-by Arrangement between the IMF and Turkey. The top priority on the agenda was the banking reform, followed by privatization. Dervis' program primarily aimed to halt further devaluation, and bring down the inflation rate. It also recognized the government's debt and reiterated the guarantee on all deposits. Ultimately, the logic of the program relied on a sharp 9% decrease in public expenditures, a reduction of the debt burden by pulling down the interest rates, and bolstering exports and tourism.

Aside the Economic Program, Dervis had to deal with personal challenges. The day after he was appointed, the Chairman of the autonomous Banking Regulatory and Supervisory Board, Zekeriya Temizel, resigned. Temizel, who was a symbol of the anti-corruption fight in the country, although not deemed as successful in managing the banking system, opposed serving under someone "who did not serve the state for one day." More significantly, Ecevit's coalition partners refused to cooperate with Dervis and did not allow him to take charge of the two public areas they controlled, the Privatization Administration and the State Planning Organization. In addition, many politicians in the governing coalition, and elsewhere, perceived Dervis a political threat.

The Minister of State in charge of privatization, Yuksel Yalova, had been forced to resign his post after he came out strongly against the tobacco law that ended up being vetoed by President Sezer. Yalova's move paved the way for a rearrangement of cabinet members from the ANAP. In this respect, Interior Minister Saadettin Tantan was removed from his post by the leader of ANAP and the Deputy Prime Minister, Mesut Yilmaz. Indeed, Tantan was the only remaining anti-corruption figure after the resignation of Temizel, who had inserted immense pressure on suspected businessmen and mafia figures.

Dervis' biggest challenge came with the Telekom privatization issue. The Minister of Transportation at the time, Enis Oksuz, was extremely reluctant to let go of the Turkish Telekom against the privatization law, in the way it was proposed by the Treasury and the IMF. Along with Oksuz's unwillingness, the military also became involved in the dispute by presenting its strategic concerns to the Government, particularly about majority shareholding by foreigners and the sale of satellites. During the fight over the "Telekom" privatization and against those who complained about the demands of the IMF, Dervis

continuously stressed that this was a Turkish program and insisted that these struggles were just natural in a democracy.<sup>1</sup>

In the midst of intense internal political friction in Turkey, the IMF Executive Board decided to postpone the release of the second part of the agreed loan, some \$1.5 billion. The World Bank, which was also expected to release \$ 1.7 billion, followed suit the next day. The IMF board cited both the Telekom matter and President Sezer's rejection to sign the law to close down a state bank, Emlakbank. With respect to Telekom, the public was unevenly divided. Some supported the IMF conditionalities and believed that Turkey would be able to discipline itself under such a pressure. However, the majority thought that the IMF has become too dominant in Turkish politics. An increasing number of analysts, encouraged the anti-IMF sentiments by speaking of national pride, neo-imperialism, and stressing the need to look into the country's own resources.

Eventually, Oksuz was forced to resign from the cabinet and, the Telekom problem was mostly overcome. Subsequently, the IMF and the World Bank released the postponed loans. Yet the Telekom episode proved to be the most serious challenge to the Program, which undermined Minister Dervis' initiatives. It would be wrong, however, to suggest that the Program, its goals and its logic enjoy no domestic support. There are many who put the blame on the current political class for having made Turkey so vulnerable to foreign intervention and dependent on outside resources. More importantly, most segments of the Turkish society, including some of the working class, have a more thorough understanding of the consequences Turkey would face without political and administrative reform. There is, after all, an abundance of reports, conference proceedings, studies and plans that address all the issues that are currently on Turkey's reform agenda. Overall, despite its deficiencies, the Program presented by Minister Dervis in many ways set the framework for a profound political and economic transformation in Turkey.

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<sup>1</sup> Frictions among coalition members that led to resignations were not restricted to these examples. However, other resignations, for example that of Turkish Energy Minister Cumhuriyet Ersumer or Public Works Minister Koray Aydın, were more related to the corruption allegations that gained momentum in the recent years.

*Turkish Energy Minister Cumhuriyet Ersumer resigned on April 27, 2001, after 15 people, including former senior Ministry of Energy officials, were charged in a probe of energy tenders, dubbed "Operation White Energy." The press often criticized Ersumer for excessive support of the Blue Stream gas line and for interfering with tenders. Frictions have run high between ANAP and MHP over corruption issues. Reportedly, Devlet Bahçeli, the leader of MHP, hesitated to show full confidence in Ersumer. Markets, on the other hand, surged the same day with optimism that a "clean" resignation would allow the government to continue in office without an outbreak of political rivalry, although some feared that frictions between ANAP and MHP could be exacerbated.*

*Similarly, Turkey's besieged Minister of Public Works, Koray Aydın, caught up in a corruption scandal regarding favoring of construction tenders, resigned both from his cabinet position and the national parliament in the beginning of September 2001. There have been increasing calls for Aydın to resign after an investigation launched by prosecutors of the Ankara State Security Court, which attested that many tenders led by the Ministry of Public Works had been awarded illegally. The minister had also come under fire for being a partner in companies that sold materials to construction companies. Top ministry officials, including a deputy undersecretary and several contractors, were detained for questioning in connection with the corruption case.*

## **6. ATTEMPTS TO RESTORE CONFIDENCE: ARE THE REFORMS BACK? (MARCH 2001-PRESENT)**

As tens of thousands of protesters took to the streets of Istanbul and other Turkish cities protesting the government's handling of the economic crisis, Kemal Dervis, former Vice-President of World Bank and newly appointed Minister of Economy, unveiled Turkey's long awaited economic program, introducing a three phased strategy to overcome the economic crisis: measures concerning the banking sector; restoring stability in the money and foreign exchange markets; and managing macroeconomic balances to enable an environment for sustainable growth. The strategy was to begin in the second half of the year. The restructuring of the financial sector, enhancing the transparency in the public sector and strengthening the public finance; increasing the competition and efficiency in the economy, and strengthening social solidarity were four major areas in which the structural reforms would take place as part of the three-staged strategy.

The economic program found its financial support after tough negotiations with the IMF. The Fund approved a \$19-billion loan to be granted to Turkey on May 15, 2001. The World Bank is committed to providing \$2 billion in loans to overhaul the banking system and help alleviate poverty.

Meanwhile, new Governor of the Central Bank, Sureyya Serdengeçti, announced the Bank's new monetary policy on May 15, prior to the IMF's approval of its financial package for Turkey. The monetary program aimed to bring about stability in foreign currency supply and demanded that it be based on daily foreign exchange auctions through a more flexible system. In an attempt to avoid extreme fluctuations in the free-floating foreign exchange market, the monetary program gave the Central bank the power to influence exchange rates.

However, the implementation of the new economic program was not without problems. With public opinion turning against the government, conflicts over the government's efforts to reform the banking and telecom sectors have renewed concerns over the country's political stability. A number of ministers conceded that the coalition government was shaken on several occasions while attempts to recover from the dire effects of the two crises continued. Deputy Prime Minister Devlet Bahçeli, the leader MHP, even considered withdrawing from the government, claiming that he was not made aware of details of a letter of intent sent to the IMF in return for a loan package. The government could only resolve the rift between coalition members at the leaders summit of three parties, as the controversial reform items, such as telecommunication and tobacco laws, came to the agenda.

The dispute between Dervis and then Transportation Minister, Enis Oksuz over Turkish Telekom reform had threatened the stability of the coalition. The government appointed a new board of directors for telephone monopoly Turk Telekom, ending a standoff between coalition partners and opening the way for the release of the second installment of the credit from the International Monetary Fund. According to a compromise reached by the government, four of the seven Telecom Executive Board members were appointed by

Enis Oksuz, two by Kemal Dervis, and one by the Prime Minister Bulent Ecevit. Disagreement over Turk Telekom led Prime Minister Ecevit to warn of scenarios to dissolve the government, a conviction that drove Deputy Prime Minister Devlet Bahçeli to go so far as to say that Dervis could resign if he chose to do so.

Moreover, Kemal Dervis had to deny rumors that he planned to resign over a similar disagreement on the banking law, after a parliamentary committee had made changes to its draft, watering down some of the proposed reforms.

However, some undeniable progress in the field of structural reforms has been achieved despite such clashes among the coalition partners. These reforms initiated or completed important changes in the most important areas for restructuring the Turkish economy, and to a great extent Turkish politics as well. The following is the list of these reforms:

- **The Amendment in the Banking Law (May 2001):** The amendment produced several arrangements in the banking system and a decree regarding state banks. A joint and politically independent board was established for Ziraat and Halk Bank, to report to the Treasury, and to restructure the state banks and enhance their privatization. Regulations about the banking sector covered three categories of banks: State, Fund (SDIF), and private banks. Fund and state banks' overnight positions were reduced by at least two-thirds as of the March 16, 2001; their overnight positions vis-à-vis commercial banks were eliminated and the remaining positions were cleared out.

Regarding **state banks**, duty losses (losses generated by assignments to these banks) were eliminated by a decree repealing the former decrees. The capital of state banks was increased, Emlak Bank was closed, its liabilities and some of its assets were transferred to Ziraat Bank, and their unproductive branches were closed. A new lending regulation was adopted in order to assure financially feasible, specialized lending.

Regarding **Fund banks**, five of them were reorganized under Sumerbank, and another four were merged in a second transition bank (Eti Bank). The remaining SDIF banks were recapitalized to cover their negative net worth, and their branches and personnel were reduced. Two SDIF Banks were sold (Demirbank, Bank Express), and the newly established Asset Management Unit assumed the management of bad assets.

Regarding **private banks**, all capital-deficient banks were asked to prepare detailed capital strengthening plans and add their profits into their capital. Some tax advantages for the mergers of banks were introduced (Korfez and Osmanli Bank were merged recently), regulations regarding tax base of banks and related to investment and financial situation were enacted.

- **Privatization of Turk Telekom (May 23, 2001):** This includes the legislation that accelerates the process of privatization of Turk Telekom. The Law is

comprised of arrangements regarding company shares, the elimination of company's monopoly in fixed line services, establishment of the Telecom Board, measures to increase the efficiency of the sector's management, and the sale of shares to a foreign strategic investor. The law aims to clear the way for domestic and international investors. Basically, The company was to be privatized (except Golden Share) through a block sale to a strategic investor as well as through offerings to the public and company employees. The Telecom law sets a 45% limit for foreign ownership and gives the government the power to veto strategic decisions. Turkey's powerful military, which relies on Telecom for communications, had warned against selling a majority share to foreigners.

A restructuring program has been initiated, which should, in theory, make Telekom more attractive to a strategic buyer before privatization. Telekom's market value has sunk rapidly in recent years. 18 international consultancy firms have been invited to bid for the process. Additionally, final preparations are underway for transferring Turk Telekom's satellite business to another government body, the General Directorate of Satellite Communications. Turkey's powerful military is known to be sensitive to the implications for national security of a privatized company running Turkey's three satellites. Finally, a new professional board and management team for Turk Telekom has been appointed. The authority of the Ministry of Transportation related to concessions and licensing were transferred to the autonomous Telecommunication Authority.

- **The Bill Amending the Central Bank Law (May 5, 2001):** This bill stated that an autonomous Central Bank would be the only authority empowered to make monetary policy. As the single authority on monetary policy, the Central Bank will no longer be subject to political pressures or become an instrument for printing money. The Central Bank's main objective will be to ensure price stability. A Monetary Policy Board (to be set up within the structure of the Central Bank) will work out the principles and strategies of a price-stability oriented monetary policy. Together with the government, the board will have the power to set up inflation targets and take measures to protect the domestic and foreign value of the national currency.
- **Amendment in the budget law for covering the restructuring costs of banks (April 26, 2001):** The law aimed at covering the huge losses incurred by the three public banks and a dozen private banks taken over by SDIF. The bill, which amends the budget law, allows the treasury to issue special bonds to generate resources for banking reforms. It effectively includes the debt of the public banks, estimated at about \$20 billion, in the budget. The legislation also introduces a series of technical measures to rehabilitate these banks before putting them up for sale. In addition, a supplementary budget in line with program expenditure figures was adopted.
- **Law on Sugar (May 19, 2001):** The law established the Board of Sugar that is authorized to supervise the sugar market. The law also includes regulations on the

production standards, pricing, and marketing conditions in the sugar market. The government will give up setting sugar prices as of the 2002-2003 production season. The law foresees the privatization of 27 state-owned sugar factories, and a quota system in production and marketing to enable a steady supply of different types of sugar. These changes are meant to harmonize the Turkish sugar industry with the EU system.

- **Law on the Natural Gas Market** (May 2, 2001): This law aims to liberalize the natural gas market in Turkey. Under the new Law, BOTAS' monopoly in the import, transportation, and distribution of natural gas is eliminated, and participation of the private sector at all stages is encouraged. The natural gas market will be regulated by an independent regulatory board, which also embodies the functions of the former board regulating the electricity market.
- **Tobacco Law** (June 21, 2001): This law sets the procedures and principles regarding the pricing, distribution, sale and control of tobacco and alcoholic beverages, which are set to be regulated by the Tobacco Products and Alcoholic Beverages Regulatory Board. According to Law, the state will no longer make direct purchases.
- **Electricity Market Law** (March 3, 2001): The law defines a new legal framework by introducing private sector competition (production-transfer-distribution-sale) and regulatory arrangements in the electricity market. It calls for the establishment of a new administratively and financially independent Energy Market Regulatory Authority, which will undertake monitoring and auditing of gas and electricity sectors.
- **Law amending the Civil Aviation Act** (April 26, 2001): In this legislation, Turkish Airlines and other airline companies are granted the authority to freely determine ticket fare prices on domestic routes. The new prices will take effect following approval by the Transportation Ministry.
- **Law amending the Expropriation Act** (May 5, 2001): This law amends some of the essential parts of the Expropriation Act. The amendment intends to set fiscal discipline in expropriation decisions and value assessment, and restricts expropriation operations until necessary allocations are provided. The law establishes that the procedure of these operations will use primarily outright purchase and exchanging methods.
- **Law on the Economic And Social Council** (April 20, 2001): This law establishes an Economic and Social Council for consultation on legislation and practices related to these affairs. The Council aims to create economic and social policies and to ensure social consensus and cooperation. The Prime Minister, Deputy Prime Ministers, nine Ministers, three bureaucrats, and representatives from seven non-governmental organizations will have positions in the Council.

The Council will convene upon a written request of one third of its members or at the invitation of the Prime Minister once every three months.

- **Bill on the restructuring of the Employment Council:** This comprises the second stage of the Social Security Reform program.
- **Tax regulation to extend the use of tax identification numbers** (June 21, 2001). According to the decree, the implementation of tax identification number in banking transactions will be started as of September 1, 2001. In addition, the government approved further tax measures: (a) an increase in petroleum consumption tax by 15 percent in early May 2001 (b) an increase in VAT rates (except the reduced 1 and 8 percent rates) by one percentage point; and (c) an increase, as of April 2001, in the minimum contribution base relevant to social security payments to be in line with existing regulations.
- **Law on tax allowances in the pension savings and investment system** (June 29, 2001): This legislation is intended to establish tax incentives for employees and employers to participate in a new voluntary private pension system. The move aims to reduce the pressure on the state's social security system and to promote investment by the superannuating funds.
- **The law on international arbitration** (June 21, 2001): This measure seeks to fully implement the recent constitutional amendments on the subject.
- **Swap auctions** (June 15, 2001): The Treasury conducted swap auctions in order to extend the maturity of domestic borrowing with favorable costs while assisting the Turkish banking sector in reducing its foreign currency exposure. The swap auctions have produced positive effects on the domestic debt service and borrowing requirement in the year 2002, as well as debt redemptions in 2001. Moreover, foreign currency risk in the banking sector was reduced and rolled over; domestic debt was eased as the swap extended the terms of maturity of borrowing.
- **The law on Intellectual Property Rights** (February 2001): Within this legislation, people who make changes in an artwork without the permission of its artist will be sentenced to a maximum prison term of six years and fined up to 150 billion TL. Radio and television broadcasters are required to secure the written permission of the artists before broadcasting their works.
- **Regulations to abolish 15 budgetary and 2 non-budgetary funds** (April-June 2001): These arrangements enabled the consolidation of the fund system. 46 budgetary and 6 extra-budgetary funds had already been closed so far. These changes enhanced fiscal discipline and transparency.
- **Changes in the Customs Legislation:** This process covers the profound legislative changes needed to adapt to the EU Customs Regulations and Laws.

## **7. PROGRESS IN TURKEY'S DEMOCRATIZATION AND HUMAN RIGHTS**

Recently, Turkey has been increasingly blamed for failing to take sufficient measures to prevent ongoing human rights abuses. While there is no doubt that human rights violations constitute a major problem in Turkey, one should also recognize many serious efforts, both inside and outside the government, to address the situation.

Since the Ecevit government came to power in June 1999, the human rights situation in the country has been progressing, due in large part to the fact that it enjoyed the first working parliamentary majority in years. During the coalition government, military members have been removed from State Security Courts. The state-of-emergency regime in terrorism-plagued southeastern Turkey has been restricted, resulting in an expansion of civil liberties. Many imprisoned writers have been released and the prosecution of some others suspended.

The Ecevit government has issued new decrees against torture and urged local authorities to prepare regular reports from the field. Furthermore, civil servants have been made more legally accountable for their official actions. The coalition government has allowed 31 mayors from the Kurdish-based HADEP party, elected in April 1999, to do their jobs freely. The three other HADEP mayors, who had been arrested, were released subsequently to return to office. Besides, PKK leader Abdullah Ocalan has not been executed, despite the existence of death penalty in Turkey.

These efforts were not only regarded as human rights achievements in the Turkish context but they have also gained international recognition. Human Rights Watch, an organization that has consistently pointed out human rights abuses in Turkey, reported in the fall of 1999 that the incidence of torture in the country had dropped "appreciably." The US State Department's 2000 Human Rights Report noted that accusations of state-sponsored extra-judicial killings have dropped off significantly. In addition, a report published by the United Nations at the beginning of 2001 praised Turkey in its fight against illegal narcotics production, trafficking and sales. More specifically, Turkey was commended for its campaign to uncover heroin production facilities, as it established an intelligence unit to investigate the money-laundering efforts of drug traffickers, shut down many drug-producing plants, and confiscated large amounts of drugs throughout 1999 and 2000.

In spite of the economic difficulties, one of the most important stages for Turkey's full membership to the EU was completed in February 2001. The relevant EU institutions approved the Framework Regulation, allowing the delivery of financial aid to Turkey, and forming the legal basis of the Accession Partnership Document, Turkey's key to enter the EU.

As a response to the positive news coming from the EU side, the Turkish government prepared on March 2001 its program for the political, economic and legal reforms required for full EU membership. While many people had focused on the events relating to the economic crisis, the Accession Partnership Document of the EU and Turkey's

National Program clearly have had a substantial and positive impact on Turkey's democratization and human rights progress.

The National Program was presented to the public by Deputy Prime Minister Mesut Yilmaz. This document was Turkey's response to the Accession Partnership prepared by the European Union. The National Program identified the need for taking 4000 administrative measures, making changes in 94 laws, and for enacting 89 new laws. In the critical areas of broadcasting and education in one's mother tongue, the role and status of the National Security Council, and the elimination of the death penalty, the National Program fell far short of the standards set forth in the EU Accession Partnership, as even Yilmaz admitted. The response of the European Union, however, had been muted due to expediency. It was widely believed that the EU did not wish to pressure Turkey too much in its current predicament and was also content with postponing negotiations for accession for as long as possible. The pursuit of confidence building measures with respect to the Cyprus issue and other measures aimed at improving dialogue with Greece remain some of the leading concerns of the National Program.

Despite its deficiencies, the National Program for the EU was an important document. It reiterated Turkey's resolve to seek membership in the European Union and thus continue on the path of Westernization. In a way, the National Program's publication meant that the path had now been cleared once and for all. It was not coincidence that the two National Programs—IMF and EU-- were made public the same day since these were in effect twin documents. Mr. Dervis' program was Turkey's promise to meet the economic criteria of the EU. In that sense, the ultimate success of the economic program relied on the success of the political program of EU accession, since the economic crisis in Turkey also had political causes and consequences.

Moreover, Turkey has made very significant moves in the area of democratic standards and political reforms, reinforced by the Helsinki Summit in December 1999, and after the acceleration of the EU integration process with the establishment of Accession Partnership and subsequent adoption of Turkey's National Program. These moves in detail include:

- Constitutional amendments restructuring State Security Courts by replacing military officers with civilian judges.
- Amendments in the Law of Political Parties to prevent the judicial system from the arbitrary closing of political parties.
- An increase in sentences for officials found guilty of torture through revisions in the Code of Criminal Procedure Law, and compelling reform in 74 different areas of the legal system.
- The Repentance Bill, which granted limited amnesty to members of illegal and terrorist organizations who have not actively committed murders and who surrender to the security forces.
- Postponement of crimes committed by members of the press. The enactment of the Repentance Bill granted amnesty and reduce sentences.

- Amendments to the Turkish Penal Code (i.e. redefinition of torture, ill treatment, and abuse of power against individuals by public officers) offers broad definition of torture and inhumane treatment in line with UN and European Conventions on torture.
- Facilitation of the prosecution of civil servants and public officers on cases of torture and maltreatment.
- Initiation of programs to educate the public on human rights that include: mandatory course on “Citizenship and Human Rights” in primary schools, optional “Democracy and Human Rights” course in high schools, human rights centers in colleges/universities, and mandatory human rights courses in police academies.
- Passage of a constitutional amendment package, including the 69th article closing the political parties and reducing the term of the Presidency. According to these new regulations two thirds of the Constitutional Court is required to ban a political party being accused of committing crimes against the Constitution..
- Formation in December 1999 of three new institutions: The Human Rights Council, the Human Rights Supreme Board, and the Human Rights Advisory Board.
- Establishment in March 1999 of a Bureau for the "Struggle Against Organized Crime" in the Justice Ministry.
- A decree with the force of law on establishing a Human Rights Board under the Prime Ministry, And the establishment of several committees to investigate alleged human rights violations in the parliament.

#### ➤ **Constitutional Amendment Package of October 2001**

During its plenary session on October 3, 2001 the Turkish Parliament approved 34 of the 37 proposed amendments in the Constitution that aimed to improve democratic standards in Turkey. The adoption of this constitutional reform package is an essential step towards compliance with the European Union (EU) Copenhagen political criteria, and the completion of Turkey’s National Program, both prerequisites to begin EU membership negotiations.

The amendments include improvements in such areas as freedom of thought and expression, freedom of association and press, civic rights, individual liberties, and gender equality. The death penalty would be restricted to war crimes and acts of terrorism. In addition, restrictions on fundamental rights, and the length of detainment periods were revisited in an effort to adjust Turkish legislation to fall in line with the relevant provisions of the European Human Rights Convention.

Moreover, the package redefines the composition and the sphere of activity of the National Security Council emphasizing its advisory role and increasing the number of its civilian members. The amendments revoked the “ban on the use of languages other than Turkish in broadcasting” thus eliminating the remaining restrictions on the social practice of the Kurdish language. The changes have made the closure of political parties more difficult, and have enhanced the rights of expatriates in Turkey.

The three rejected amendments were the eligibility for being a deputy, parliamentary immunities, and supremacy of international agreements over national legislation in case

of conflicting provisions. The government stressed that the last issue would have to be resolved before the final agreement on Turkey's EU membership.

The recent amendment package is not the first comprehensive attempt for a radical change in the Constitution. During the summer of 1995, the Parliament enacted amendments on 15 constitutional items, and important changes had been enacted on issues such as union rights, and the activities of non-governmental organizations and political parties.

However, there were two main differences in the recent demands for constitutional reform compared to that of the previous one. First, this most recent package included several critical issues that had not been covered in the constitutional amendments discussed in 1995; particularly Article 13 and Article 14 of the Constitution, dealing with the abuse of basic human rights, as well as Article 38 concerning the death penalty. All political parties were united in granting support for the amendment package, although disagreements among political authorities did take place on controversial issues. The amendment request on death penalty fuelled heated debate in the Parliament, where the leader of MHP and Deputy Prime Minister Devlet Bahçeli warned that the amendments might easily be manipulated by the separatist groups, and voiced his opposition to the lifting of the death penalty for those convicted of carrying out acts of terrorism. As a result, the amendment on Article 38 of the Constitution, which barely passed, now states that capital punishment is to be retained during times of war and for acts of terrorism.

As a matter of fact, some analysts stated their disappointment in the amendment package, claiming that it does not provide any changes on the issues of rule of law, the state of emergency rule, and the independence of the judiciary. They argued that the latest constitutional reforms only target those issues particularly relevant to the EU, rather than what is really needed for strengthening democratic foundations of Turkey.

Nevertheless, it is a widely accepted perception that the approval of the constitutional amendment package was crucial in terms of clearing the way for other comprehensive constitutional changes in the future. It also laid out the framework for fundamental changes in the Turkish Penal Code, as the government will have to make amendments in the Code in order to conform to the constitutional requirements.

## **8. CONCLUSION**

The ruling period of the current DSP-MHP-ANAP coalition, the 57<sup>th</sup> government of Turkey, has so far been a controversial episode in Turkish political history. The formation of the government coincided with rising nationalist sentiments, triggered by various domestic and international developments, such as the capture of separatist PKK leader Abdullah Öcalan and the EU's exclusionary decisions towards Turkey in the Luxembourg Summit. Ironically, three parties with radically different political constituencies and agendas were bound to come together in June 1999, with a resolve to achieve key political and economic reforms necessary to overcome longstanding difficulties within the country that had grown throughout 1990s.

Turkey has faced many challenging issues during the Ecevit government, one of the most striking being the two recent economic crises, which deeply shook the foundations of Turkish life. This evidently led to increased pessimism in the way in which most analysts have evaluated the current coalition government's performance.

However, this negative sentiment should not overshadow the importance of the ongoing reform process, initiated by the Ecevit government, that paved the way towards improvements in democratization and the transformation of Turkey's economic structures. Despite its flaws and deficiencies, and in spite of resistance even within the government itself, the reform process resoundingly achieved what the previous governments failed to do during the last ten years.

The concept of "crisis" is most frequently used to describe Turkey's current problematic situation. Equivocally, it also implies a period of a major transformation, an opportunity for change and renaissance within the political and economic contexts. To this end, the laws initiated by the Ecevit government and enacted by the Parliament are expected to fundamentally alter the nature of political life in the country. Whether a better future can be attained for Turkey will depend on the outcome of the great battle between the forces of change and those of inertia.

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