

Honorable Ministers, Distinguished guests, Dear members of the press

On behalf of TUSIAD, I am very glad for having this opportunity to share with you Turkey's serious economic transformation and the prospects of economic integration into the EU. I would like to extend my thanks to Deutschbank on behalf of Mr. Rolf-E. Breur for support they have lent us for this important meeting.

The Recommendation of the European Commission on Turkey's progress towards accession, disclosed on 6th October, states that "in view of overall progress of reforms,, the Commission considers that Turkey sufficiently fulfils the political criteria and recommends that accession negotiations be opened." We consider that a historical progress was achieved in Turkey-EU relations.

The assessment of the European Commission stems from radical developments on the Turkish economic and political agenda of the past three years. These developments that changed the face of Turkey included: EU accession process, structural reforms, and of course the outlook of the economic panorama.

Turkey made tremendous efforts during its EU membership journey. Since 1995, four amendments to the Constitution, 7 reform packages, a new civil code and a new penal code passed from the Parliament.

TUSIAD, since its foundation, has aspired and thus, worked for Turkey to become a European democracy and to have a globally competitive economy. In this context, TUSIAD has always given priority to Turkey's relations with the EU and focused its efforts for Turkey's alignment with the Copenhagen political criteria.

Besides the progress on the lines of meeting Copenhagen political criteria for democratisation and rule of law, a precondition for the beginning of membership negotiations, the economic fundamentals exhibits an outspoken improvement.

The current positive economic outlook rests on three pillars: high growth, enhanced stability and a comprehensive structural reform agenda. A brief glance at Turkey's macroeconomic performance since the economic and financial crises of 2001 clearly illustrates the success in improving the economy's resilience. Turkey succeeded in combating high and chronic inflation and brought it down from more than 70% at the beginning of 2002 to less than 10% within a time span of about two years. The economy grew strongly out of the slump. In 2002 and 2003, GDP grew by some 6.5% on average, well above Turkey's long-term growth average of 4.5%. The recent performance resembles the golden age in Europe that is experienced between the Second World War to the Oil Shock in mid 1970's.

The positive economic environment having been sustained, improvement in all indicators and expectations continue. The initial data regarding the first half of 2004 also justifies the continuation of "low inflation-high growth" process. Our economy grew by 13.5% in the first half of this year, which makes Turkey one of the fastest growing country of this year.

These improvements in Turkey's macro and financial fundamentals were the result of sound macroeconomic policies and extensive structural reforms. These structural changes were subsequent to an economic program supported by the IMF but were also collaborated with EU norms and regulations.

On the other hand; the institutional and regulatory framework were carried to international standards, transparency and efficiency were improved in public procurements and a substantial privatization scheme is being worked on. These efforts targeted deeply rooted issues and changed the outlook of Turkish economy. In the 2004 Regular Report the Commission stated that: “Turkey has made further considerable progress towards being a functioning market economy, in particular by reducing its macroeconomic imbalances. Turkey should also be able to cope with competitive pressure and market forces within the Union, provided that it firmly maintains its stabilisation policy and takes further decisive steps towards structural reforms. Furthermore the Commission assessed that *“the economic impact of Turkey’s accession on to the EU would be positive. ...”*

Ladies and Gentlemen:

Turkey should maintain its stabilisation efforts and pursue its comprehensive structural reform agenda to convert the recent positive outlook of the economy to a sustained one.

We expect that the improved stability and strong growth will continue during the second half of the year. We reckon that 2005 will also be a year of high growth, decreasing inflation, and improving macro balances.

Certainly, this positive portrait does not depict a risk-free environment. Although the Turkish economy gained strength through the structural reforms, it is still vulnerable to internal and external developments. We, therefore, believe that Turkey should pay; utmost importance to seize the positive market sentiment, target a well developed policy implementation and continue its structural reform program.

Despite the marked improvements in economic indicators, attaining higher growth-lower inflation in 2005 will necessitate a better calibration in implementation.

The increasing complexity of the economic policies calls for the conservation of the confidence atmosphere. The continuity of credibility together with a refined and ingenious execution of policies will secure the positive expectations-positive outcome climate which will ensure to attain 2005 targets.

Renewed agreement with the IMF will be one of the uppermost conditions to maintain the confidence atmosphere. We also appreciate the new three-year economic program, which is currently undertaken by the government. Preserving the fiscal discipline and proceeding structural reforms with determination will also contribute to the sustainability of positive expectations.

Meanwhile, we have to admit that the progress in structural reforms is quite impressive but not exhaustive. There is still a gap between the “done” and “to do”. Deepening and advancing the economic reform agenda will constitute the premise for sustainable growth in medium to long term.

The EU accession process is an important part of Turkey’s journey. The start of negotiations with the EU will further consolidate our political stability and therefore create a sound basis, which will enable the government to continue undertaking daring economic reforms. A huge and unsaturated domestic market that resolved its structural issues and an increased level of purchasing power, that has strong economic relations with its neighbours will certainly be attractive for European companies.

I now want to take the opportunity to expand the time horizon to underline some of the possible contributions of Turkey on the global competitiveness of the EU 10-15 years from now.

Let's think of a Turkey that started accession negotiations with the EU, proceeded further on structural reforms and undertook a massive strike for improving the investment environment. Let's make some pleasant arithmetics. Actually the per capita GDP in Turkey in terms of PPP is 6,000_ according to the Commission figures. With 70 million of population this gives an overall GDP of 420 billion _. With an average 5% growth up to 2015 and 80 millions of population by then, we are talking about an economy which will have 10,000_ per capita GDP and an overall GDP of 800 billion _. I think that these figures imply an economic power that cannot be neglected by the EU. A politically and economically stable and prosperous Turkey, will offer the EU companies a large and still growing consumer market as well as important investment opportunities in industry, services, infrastructure and energy.

In accordance with the Lisbon strategy, the production, consumption and employment structure of EU will experience a rapid transformation. It is crucial to attune with this transformation and wisely complement the gaps emerging from it.

Turkey should put in practice a strategy that maximizes mutual benefits of Turkey's membership. Accession of Turkey would mean even higher growth rates driven by increased trade and investment flows, higher productivity growth and change in the composition of output driven by alignments for the upcoming trade and investment opportunities. As TUSIAD we are undertaking a study which will include an industrial scheme seizing not only Turkey and the present conjuncture but also the current and upcoming global developments, technological and scientific movements, interaction within sectors, transformation and needs of the social structure.

Turkey is undergoing a demographic transformation. While the EU population is aging fast, the labor force in Turkey is increasing within the overall population. Furthermore, the family sizes are coming down which implies that, consumption demand, especially on durables will continue its fast growth.

However, to make best use of this complementarity on demographic structures, Turkey should apply a pro-active human resources management strategy. The education system should be reorganized in line with the demand of skilled labor force.

Ladies and Gentlemen:

Ambitious to take place among the developed countries, Turkey is obliged to make best use of its opportunity to enter a sustainable growth path. We regard the EU membership as offering a framework. Obviously, starting of negotiations will not provide the ultimate solution. It is the necessary condition. Enabling its sufficiency is the responsibility of Turkey.

That is why we argue that it is the time to proceed decisively with great courage. The way ahead should be assessed in a broad perspective considering economic, social, and political dimensions.

As the business world, we will always advocate the tough and brave attempts that bring Turkey one-step closer to its objectives. And we want our friends overseas to appreciate our efforts and objectives and make a fair evaluation of Turkey.