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of the Mediterranean Programme

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Lecture by Kemal Derviş

State Minister of Economic Affairs of the Republic of Turkey

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**Inaugural Lecture
of the
Mediterranean Programme Political Economy Chair**

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Friday June 1, 2001

Lecture by **Kemal Dervis**
(State Minister of Economic Affairs of the Republic of Turkey)

*The Mediterranean, Europe and Globalization:
Keys to the Future?*

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LECTURE

by

Kemal Dervis

State Minister of Economic Affairs of the Republic of Turkey

The Mediterranean, Europe and Globalization: Keys to the Future?*

Thank you very much Professor Mény. Thank you very much, all of you. It's a great pleasure to be here. I must say there's nothing wrong with teaching. In fact, I would go much further than that. It probably is the best activity: teaching and learning and being with students, as well as seeking the truth through research. I think I cherish those days of the past and I do hope to do it again in the future.

Having the opportunity to talk about the topic launching this program, on Turkey and Europe, is really both a pleasure and an honour for me. It's very important for Turkey, the relationship with Europe. I do believe also it is an important matter for Europe. It's a difficult matter. Turkey is a large country. Our population, as you know, is about 65 million and still growing relatively rapidly, not as rapidly as in the past, but it will soon be 70 and then 80 million before perhaps stabilising as happens when per capita income rises. Turkey is a very large country geographically and population-wise. Obviously the relationship between Europe and Turkey, the integration of Turkey into Europe is a more difficult, more challenging problem than for some of the much smaller countries in Eastern Europe.

In approaching the topic, what I would like to do instead of starting right away with Turkey and Europe, is to spend a little bit of time setting it in the context of globalisation, of the global economy and of the international system

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as I see it developing over the next decade. Because I think that to understand the relationship between Europe and Turkey, to analyse it, to see what the real challenges are, one has to put it in that global context. This will help us, in my view, understand it and deal with the problems in a better way.

I won't give you many specific numbers and I'm sure you've seen many of them, but clearly the process of globalisation has advanced very rapidly over the last two decades: whether you look at trade which is growing much faster than GDP on average, whether you look at financial transactions, whether you look at technology, there is no doubt that we are now living a new phenomenon of global integration which is much stronger and irreversible when we compare it to some past period. There have been of course periods of global integration. For example, the end of the 19th century was a period when the ratio of trade and global GDP became quite high. In fact, during the inter-war periods, that ratio declined and we only got back to the ratio of last century in trade in the nineteen eighties. So there some cycles and some people claim that, perhaps, the current trend towards globalisation is reversible.

I think if we analyse it more closely, we come to the conclusion that it's not reversible. It's not just an issue of trade, but it's also the way global production is organised these days. It's not just trading primary commodities against manufactures. I think that an increasing fraction of production is organised explicitly in a global context with firms sourcing themselves and organising their production systems in a global way. That kind of globalisation, and the trade that goes with it, is very different from the kind of trade that we had at the end of the last century. Technology, of course, is a completely different game now. Communication is immediate. Finance, of course, has become a completely different game. So, I think we are in a totally global world and it's not a cyclical phenomenon that can be reversed.

In that context, when you think of Europe and, more generally, of regional integration, many ask the question: what's the relationship between globalisation and the global economy and regional integration such as the one we see in Europe? There is a debate to some degree whether regional integration and regional co-operation is, in fact, necessary. Given the force of globalisation, someone would say, "who needs regional integration? All we need is one big global economy and we don't really need to create regional blocks."

There's a different view. In fact, there's a view that the forces that will go against globalisation will gain strength and while there are problems of scale for small States and small economies, there will be a need for scale but the feelings of identity, the feelings of nationalism and the feelings of culture are such that, instead of going towards a globalised world, we will, in fact, go towards a world

where trade will be very important and finance will be organised on a global scale, but where the political entities will be regional. Huntington is the most famous proponent of this view. I have oversimplified it a little bit but, as you know, Huntington's view of this century is that there will be regional blocks based on culture and religion that will compete against each other: Europe, North America, China, the Islamic world. Instead of having one large global system, that kind of view of the world sees the future more in terms of regional blocks.

My view is that this expectation is wrong. I think we can develop that in some more detail. If you look at technology, if you look at the way global production is organised and even if you look at the way global culture is developing, I don't think there will be a world of regional blocks. I do believe that regional co-operation and some degree of regional integration will actually be a facilitating factor in the process of overall globalisation. So, I don't see regional co-operation and the formation of regional groupings as in contradiction with globalisation, but I actually see these factors as components of it that facilitate globalisation.

If you look at trade history, for example, I do believe that the fact that there is free trade in Europe, that there is now free trade in North America and that there are increasing moves towards free trade in Latin America and East Asia will actually facilitate overall global free trade. By allowing countries to give up parts of their sovereignty to regional decision-making processes, that opens the way and facilitates further international co-operation beyond the regional borders.

I do see a world where there will be regional groupings, where Europe will progress towards greater unity, where probably in the Americas there will be greater co-operation between NAFTA in the North and South America. Maybe Chile, Mexico, Brazil and other countries will join the Northern American Free Trade Zone. But at the same time trade barriers will go down further between America and Europe, between Europe and Asia. I don't see these regional groupings as a development that goes into a different direction from overall global development.

This will be true in trade. I think it will be true for exchange rates. Exchange rates are a big challenge for the world economy and for economists. It's a strange world where Germany and France and Italy have given up their currency and will give it up completely in a few months and, at the same time, you have tiny little countries in Asia or the Middle East that have a national currency. It cannot be a very rational system. So, I do believe that in the world of currencies also we will see currency groups emerging. The Euro zone will

grow towards the East and probably towards the South. The East Asian countries, as you know, are trying to form much closer monetary co-operation and it may not be surprising if we see in the next few years the emergence of an Asian “Euro” built around the Yen. In that sense also there will be regional groupings. At the same time this does not mean that international co-operation and the international nature of the economy will decline. On the contrary, I think these regional groupings will facilitate the further integration of the global economy.

One aspect of all this is that borders will not be very clear. If you look at it within the view of the global economy and of global integration, this may not be such a big problem. For example, if you look at East Asia, there will be increased co-operation, but it won't be clear where the borders of East Asia are. It won't be clear, for example, how Australia fits into an East Asia Free Trade Zone or currency zone. It won't be clear whether Australia will join, as a country of European origin ethnically, how they will join the Asian grouping that might emerge in East Asia. In America, it's already clear that there will be increasing co-operation between American countries but, again, it's not clear where the border will be and which of these countries will really enter these groupings.

Of course, the issue of borders is most challenging and, in a way, most complicated for Europe. The situation was very different during the Cold War where because of the Iron Curtain there was a very clear border with the East and this facilitated Western Europe's integration. There's no question about that. It was facilitated by the existence of the Iron Curtain. Professor Mény, you mentioned the fact that I was at the World Bank working at times on North Africa, Middle East, Central Europe, Eastern Europe – I've been working around the borders of Europe for a large part of my life and I think I have a strong sense of the problems that Europe faces. Where is the border of Europe in the East? It's very hard to say that. Clearly Poland, Hungary, the Central European countries are candidates and will be joining rather rapidly. Except for Poland, they are fairly small countries. I think the absorption of these countries is already decided, although even there the exact way it will work and particularly how it will affect the voting rights and the majority versus unanimity in European decisions is far from clear. But when you go further to the East and further South-East, when you go to the Balkans, Europe faces a real problem, a real challenge. Geographically – I think the way most Europeans read their history books and their geography books – the Balkans are clearly part of Europe. Of course, Greece is already a member of Europe and Greece is in the southern most part of the Balkans. That means that Europe has to absorb Romania, Bulgaria, Ex-Yugoslavia, Albania and in the European thinking or approach of this – I think and I may be wrong – what I've sensed in Brussels

and elsewhere is “yes, we will have to do that, but we have enough problems now, let’s not talk about the details right now.” Somehow, it’s pushed a little bit into the future. Something will have to be done, but it’s quite unclear what will be done about the Balkans and how the Balkans will be part of the European Union as such. Because they are part of Europe, of course, geographically and historically.

And then one can go further East – I can’t remember exactly what it was, but I once saw a newspaper report on Kyrgyzstan and there was a Kirghiz intellectual, a young woman actually, and when she was asked which continent she felt she was from, she said “Europe”. Of course, geographically it isn’t Europe, but the whole Ex-Soviet Union in some sense linked Central Asia to Europe. Russia is clearly also part of the European family of nations. Kyrgyzstan would be pushing it a little bit, but given the links between Kyrgyzstan and Russia, one can’t completely reject the fact that even a Kirghiz intellectual somehow relates to Europe. I think the borders of Europe to the East are naturally very ill defined and pose a great challenge to the whole construction and the whole dynamic of enlargement in Europe, not necessarily negative, but I am just underlining the difficulty of drawing the border. Again, it’s not just a question of Europe. If you look at other groupings, like in Asia or in the Americas, you will find the same kinds of problems.

There is also in Europe, of course, the centre of gravity issue, which I am sure all of you are keenly aware of, the fact that the growth towards the East in a way changes the balance of Europe. I’m sure that in Italy, particularly, this is felt. I know in France it is very strongly felt. I don’t know so much about Spain, but probably also Spain feels that the Mediterranean area, the borders to the South, should be more flexible. There should be a reaching out of Europe to the South. Among many reasons, one of the reasons would be that the centre of gravity should not entirely be placed in such a way that North Eastern Europe becomes the centre of gravity of the whole of Europe. The reason I developed these thoughts at length, is that I think these considerations are very important when we analyse the relationship between Turkey and Europe and when we analyse the integration process between Turkey into Europe. If things were like in the past, pre-Iron Curtain, I think then the question “will Turkey be part of Europe?” becomes a simple question in the sense that it’s either yes or no. If the borders of Europe were clearly defined, then the question would be you either have to be part or you don’t have to be part of the European Union.

I think asking the question in this way is asking the wrong question at this point. Now, true, there are countries which are part of the European Union and there are others who are not. If you like, one could argue, that the relationship between Turkey and Europe can be analysed very simply within the framework

of when will you start negotiating accession and when will that accession happen. I do believe the issue is actually more complicated because, as I said, the borders of Europe are ill-defined both in terms of trade and monetary union.

It will not be easy to have a single Europe. What will probably happen is that there will be a core Europe with a common currency, and in that context, it's not quite clear when and how the United Kingdom will actually adopt the monetary union that the European Union has. Then there will be countries both inside and very closely associated with the EU, but not necessarily in the immediate next decade being fully member, as Italy is part of the European Union or as Germany is part. A lot of the countries in the East will fall into that category, including beyond the geographical borders of Europe, into the space of the ex- Soviet Union. I think countries, such as Ukraine for example, or even countries in the Caucasus, fall into that category.

In that sense, I believe the integration of Turkey with Europe is both more complicated but also simpler. More complicated because it has many dimensions and it can't be reduced, I don't believe, to a simple question of "will you be a member or will you not be a member?" In that sense it's more complicated, but at the same time this makes the issue simpler and less antagonistic because if we reduce the debate to simple membership or non membership, then the answer becomes very difficult and any lengthy delay will cause a lot of friction between Turkey and the European Union.

On the other hand, if one puts it into the wider context of constructing a Europe with flexible borders and with various groupings that have various degrees of integration, then I think one can say that Turkey is already very much part of that Europe. After all, we are in the European Common Market since 1996, way ahead of the Eastern countries. In that sense, Turkey is already more a part of Europe than, for example, Hungary or Poland.

There may be other dimensions again where Turkey will move ahead and some dimensions where Turkey will move ahead more slowly. We now have a flexible exchange rate in Turkey and we want to pursue a flexible exchange rate policy but I would not, for example, exclude a scenario where five years from now, if we have very low inflation if we've managed to get inflation down to European levels, if we fulfil the Maastricht criteria in terms of debt and budget and so on, I would not exclude a Turkish decision to link the Turkish currency to the Euro or, even going further, simply adopting the Euro unilaterally and simply saying, "look, we have 70-75% of our current account transactions with Europe, we are fed up with a flexible exchange rate, we are fed up with inflation, we are just going to adopt the Euro." We may have to negotiate on seigniorage of money creation, which is an issue, but it's not unthinkable that

Turkey will do this. I think, by the way, it makes a lot more sense than Argentina adopting the dollar. Argentina's transactions with the US are less than 30% of its current account transactions whereas Turkey's transactions with the current European Union, not the enlarged European Union, but the current European Union, have already reached 65% if you include tourism and workers' remittances and so on. With an enlarged Union five to six years from now, probably 75% of Turkey's current account transactions will be with the Euro. At that point, it might make a lot of sense for Turkey to simply adopt the Euro as a currency. We could do that unilaterally.

Anyway, we are not negotiating this tonight! It's just an example of how the process of integration can be multidimensional and has to be analysed not just in a black and white sense, "at what exact date will you be a member". If we look at it that way, it will facilitate things because it will be possible to advance on one front where one can advance and perhaps go a little bit more slowly on a different front where there are greater difficulties. That's the framework within which I believe the issue should be analysed. I also believe, frankly, that's the framework into which the negotiating process has to fit. But let me add that we must have a very active process and we must be part of the constructions of tomorrows Europe. We want to be and we will be.

Now, let me say a few words about Turkey itself and how I see developments in Turkey as part of this fitting into the European integration process. Again, I will come back to Huntington. I have written a paper on it in the past. I feel strongly about it. Huntington has in his book a few pages on Turkey, actually at the beginning of the book, where he gives Turkey as an example of bad things to come, because he says countries that have split personalities are going to be in big trouble in the 21st century, countries that are not clearly Western or Eastern, countries where cultures are not clearly defined will have great conflicts in themselves. He sees the chances of such countries to become failed States, to break down as very high. He gives examples: Mexico, Turkey, Australia as countries which don't quite fit into a particular regional, cultural block.

It's true. It's a cliché in a sense. It's not telling you anything new. I'm sure most of you have been there and have studied it. Turkey does have a strongly multicultural identity. Turkey is very European in many ways. Being in Italy, we were saying this morning among the Turkish group here, how close we feel to Italy. We feel almost Italian. It's so close in terms of the behaviour and the tastes and the atmosphere. There is a very strong European dimension to Turkish culture which is not surprising, because historically during Ottoman times Turkey was very much connected and was, of course, in Europe in many ways. Also, ethnically Turkey is a very mixed country, a mixed nation with

ethnic origin coming from all over Eastern Europe, the Mediterranean area, the Middle East and the ex- Soviet Union.

At the same time, there's no question about the fact that Turkey is a deeply Muslim country. It's a religious country. It is very attached to its religion. Turkey has deep links to the Middle East in terms of not just religion, but the music, the food. I've always enjoyed the same kinds of food from Sarajevo to Algiers. It stops in Morocco. Morocco has a different type of cuisine. But, if you go throughout North Africa, the Middle East and the Balkans, you find the same of kind of cuisine, the same kind of sounds in the cities, and a lot of common architecture. There's no question that Turkey also has a very strong Middle Eastern identity and a very strong Muslim identity.

That, for Huntington, is the danger. That, for him, is what will create so much trouble, that these identities will clash and will create major governance problems. I actually believe it's quite the opposite. It is true that Turkey has this multidimensional character. By the way, another dimension has been added to this now with the link to Central Asia, the ethnic linguistic link to Central Asia which was cut because of the Soviet Empire, but which is now open. Turkey is now open to the East. It's open to the South. It's open to the West. It is open to the Mediterranean.

If the vision I try to support, the vision of a world that is regionalising but at the same time is very global, if that vision becomes true, if that's the true future of the world, then Huntington is quite mistaken. Countries that can relate to many cultures, many identities, many geographies will have a huge advantage in such a world, because they can bridge regions and they can be truly global. In that sense, I think that Turkey has a tremendous asset, because it can be an integrator of these various dimensions. It can relate to the Middle East. It can relate to Europe. It can relate to Central Asia and can turn this multidimensionality into a great source of strength in harmony with a vision of a world that is very global and where regional groupings are not clashing with global trends.

It's true that if you have a vision of the world as regions that become increasingly self-contained and antagonistic, you might say Turkey will have a problem in such a world because it will have to define itself as either Middle Eastern or European. But if you view a world with regions where the borders are flexible and open and where being in a region does not contradict having links with another region and being very global, then I think Turkey's multicultural identity and the multiethnic mosaic that we have in Turkey are actually very much in line with that kind of development and will be a source of strength. *Toute proportion gardée*, without exaggerating, I would say there is

something almost American in Turkey, because in the US too, I think, what makes the strength of the US is the fact that in many ways it can relate to all parts of the world. When you go to California, you see the important Asian connection. In Texas, or Florida, you feel the Latin American connection. Of course, everywhere in the US there is a strong connection to Europe. There is also a strong connection to the Middle East and particularly, of course, a privileged and very strong relation with Israel. In a sense, the US projects a culture which is also very multidimensional and being such a strong player in the world both politically and economically, this multicultural nature and openness to many regions, of the United States will have an influence not only within the United States, but overall on the development of the world. I think, in that sense, I would argue that because of the Ottoman past, Turkey has similar characteristics to what one feels in the United States.

Huntington openly says in his book that he foresees big problems for Turkey because of the multifaceted nature of Turkish identity and the very different ethnic origins that make up the Turkish nations. He sees Atatürk's attempt to modernise Turkey, he misjudges it and misanalysis it as an attempt to impose Western or European culture on Turkey. If you analyse Turkish history much more carefully than he has done, both the Ottoman times and modern times, you will see that already in the past century there had been a very strong modernising force in the Ottoman empire and, in a way, *Kemalism* is a continuation of that trend and that the *Kemalist* project was above all a modernising project deeply rooted, in fact, in the Ottoman culture and identity. At a time when the Empire collapsed and when the Nation State had to be built, what happened was not simply a completely new transplantation of Western cultures into Turkey, but a modernisation of Turkey, rooted in a struggle that had started much earlier.

When you look at the personality of Mustafa Kemal, you will find somebody very local, very much rooted in the country, the army, the traditions that were strong in the Ottoman Empire. You had someone who is extremely national, extremely local but, at the same time, somebody extremely open to the world and somebody who realised that adopting best practice, whether it was in economics or in military affairs or in science, was absolutely necessary for the future of the country. What he wanted to import was science and progress. But at the same time he built a very national State very strongly linked to the traditions of Turkey. I don't really see that as a point of discontinuity.

One thing also one has to stress is this whole issue of ethnicity and Turkey – there is this famous question somebody once asked Mustafa Kemal: Who is a Turk? The answer was “whoever is a citizen of Turkey”. I think this is very important because Turkish identity was expressed in a very modern way as an

identity of citizens and not with respect to any ethnic connotation. I do believe this is something we need to underline, that the nationalism you find in Turkey is not a nationalism that is based on race or on ethnicity, but on the concept of being a citizen. It has been sometimes degenerated by some people, but essentially the feeling of being a nation is the feeling of being a nation of citizens.

To conclude, I believe Turkey does have multicultural roots. I believe that it is very European and, at the same time, very Muslim and very Middle-Eastern, that there are strong links now emerging with the Turkic World and Central Asia, but that these are actually assets and strengths of Turkey, not weaknesses, that these assets will become even more important in the next years and as the world globalises these assets of Turkey will be appreciated more and more both by the Turkish population itself and by its partners. Europe will expand to the East. It will expand to the South. I think nobody knows at this point exactly how it will expand.

Nobody knows how European governance will be organised. Many tough problems are facing Europe, we saw it at the summit in Nice or afterwards. There is a big debate on how this European governance will be organised. I think that we should on our side, on the Turkish side, work very hard on getting both the economy and the social system to modernise the country as much as possible, to get the inflation down, to get the legal system as close as possible to the European legal system.

We shouldn't worry too much about when exactly we will be a member of the European Union. We should strive for it and we should keep declaring, "yes, we do want to become members", but we don't have to make the exact timing into an obsession. I think the important thing is to keep the dynamism and keep moving forward. I repeat, at some point we should adopt the Euro as our currency.

Then, five to six years from now or seven to eight years from now, I think it will become much clearer how Turkey will fit into the political construction of Europe, rather than being antagonistic to each other at this point with the Europe arguing, "no, you can't become a full member until twenty or thirty years from now," and Turkey saying, "no, we want to become a member three years from now", we should look at the fundamentals and keep moving. At the same time, Turkey should strengthen her links to the Middle East, strengthen our links to Central Asia and remain a very strong partner of the United States.

If we pursue that policy, I think in the end we will see both in Turkey and in Europe that there is no other way but integration and that the integration will

be a normal natural process that will fit into the opening of Europe to the East and that we'll proceed in much less antagonistic ways than if we put it in terms of a debate about when exactly we are to become a full member of the European Union.

A final word on the economic program, although it's not the topic today, but I think it's very important to realise that some of the issues that make the relationship between Europe and Turkey more difficult that have to do with human rights, the nature of democracy and so on, I think in many ways Turkey has made tremendous progress over the last twenty years on all these fronts. Improvements remain necessary, but they will come much easier and will be much better implemented once we are no longer in a state of economic crisis.

People have to be looking at the future, their own future, with confidence. There has to be enough money and resources in Turkey to address social problems and to help the weaker segments of the population. If we manage to have this strong economy and this self-confidence that comes with a strong economy, then solving some of the other problems that are an issue between Europe and Turkey will become much, much easier. They have to be solved out of Turkey's own desire to solve them, not as things imposed from outside. They cannot be solved if somebody attempts to impose them from outside. On the contrary, I think the more there are crude attempts to impose things on Turkey, the more it will backfire. It is thanks to economic strengthening, and increasing self-confidence in Turkey, an increasing sense that Turkey can rely on herself that we are a strong country and a strong society, that will make it easier to solve some of the social problems that remain to be solved.

Many thanks. These were my thoughts for tonight.

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Discussion

Question (a journalist from Turkey): Mr. Dervis, do I conclude from your presentation today that you don't see Turkey in a hurry to fulfil the so-called Copenhagen political criteria? That's my first question. My second question is, of course, the whole of Turkey is excited over one single question. Is Mr. Dervis going seriously into politics? Because he has become the hope of the country and we would like to hear a clearer answer to your political plans for the near future.

Answer: I think Turkey wants to fulfil the Copenhagen criteria and definitely needs and wants to move in that direction, but it is important to realise for every country you have to interpret these criteria within its context, whether it's Turkey or other countries in the East. I just want to repeat the fact that Turkey will move further in developing its democracy fully in line with the strength of its economy. I strongly believe in that. The biggest positive factor in the development of Turkish democracy is self-confidence. The more self-confident we are, the easier it will be to develop all of the dimensions of our democracy and the major component of this self-confidence is, of course, economic strength: economic strength, not just for a sense of pride and a sense of knowing that we are strong, but also to have some resources to address social problems that are linked to some of the tensions in democracy. So, we need to generate these resources to address these problems.

Your second question is, I think I've said it many times but somehow the message doesn't come out, I am committed to working on the economic program. Believe me, it takes more than 24 hours – I shouldn't say that I need some sleep – but it certainly takes more than fifteen hours a day and it's very important that the attention of the Economic Ministers in the Government and of myself, not just of myself but of everybody who works on the economy, is fully focussed on economic matters. I think this is what I am trying to do. I am not engaged in politics. I am not into politics. One should make one important distinction: explaining the program to people and to various parts of civil society and also listening to what civil society and the private sector and the Unions have to say on the program and, therefore, visiting cities and organisations and talking to them, one has to interpret this in view as a part of making the economic program work, not as a political campaign. I give you a story which is quite true: when I left Washington, when I left the World Bank, I called some of my friends in various countries that were in tough positions during economic reform programs. One of them, for example, was the Governor for the Central Bank of Mexico. There were others like *Leszek Bilcerowicz*, who used to be the economic reformer in Poland in the early 1990s. They all said one quite

important thing. They said to me, “look, obviously having the right measures, trying to pursue the right policies is very important, but more than 50% of the success of an economic reform program, in particular in times of crisis, is the ability to explain this program and to generate popular support for it.” You cannot succeed with an economic program if people perceive it as something that is prepared by bureaucrats behind closed doors. You have to be out there. You have to discuss it. And people must see a government united behind the program. A Prime Minister who really believes in it. You have to market your program and you have to ask for support for it. I wish that everybody would see the efforts in that light and not as political activity.

Question (William Wallace from London): You said quite clearly that the task of economic reform is Turkey’s in the first instance, but you hinted at what the European Union can do to help. What briefly, in the next year, do you think are most helpful measures which the European Union can provide to assist Turkey in this task?

Answer: Let me first stress that really the economic program in Turkey has received tremendous international support through the International Monetary Fund and the World Bank. Of course, we asked the G7 and other European countries also to help. The decision was taken to help via the Bretton Woods institutions rather than direct bilateral financial support. The amount of financial support that the Bretton Woods institutions have committed to the Turkish program - of course to the program as it is implemented, it’s not money that comes overnight, it will come throughout the year but quite rapidly – it’s the largest amount with respect to a country’s quota at the IMF, in other words, reflecting the country’s size, ever given by the Bretton Woods Institutions to any country. I think we must be grateful on the Turkish side for this degree of support by the international community. It reflects the strength of the program both on the structural and the macroeconomic policy side.

I would like to express my thanks here also to Europe because European shareholders have been extremely helpful. I should stress that as Italy is still the chairman of the G7, Italian support was very critical, very important and Italy played a very crucial and positive role in the process that led to the decision by the board of International Monetary Fund to give Turkey this support on the 15th of May. Italy was a very critical leader of this process.

Vis-à-vis Europe as such, Europe did something very important in Helsinki when it made the decision, when it reversed itself in a sense and clearly made the decision that Turkey was a candidate country for the Union. Psychologically, that was a very important turning point and it remains very important that European Union and the leading countries of Europe reaffirm that

they see Turkey as part of the European family. It's important to say it often and repetitively with strength. That doesn't mean Europe has to say it has to happen immediately or very quickly, but reaffirming the fact that Europe regards Turkey as part of the European family is very important. Again, I put it in the whole context of my talk. It's also important vis-à-vis the whole Mediterranean region, even beyond Turkey, that Europe makes that statement.

Finally, in more concrete terms, there are several issues where it is very important that Turkey feels that it has a seat at the table. Turkey is a big country. It's a country with a very long history. It is a very important member of the NATO Alliance. It has played a very important role in that Alliance. It has committed resources to that Alliance. It has committed lives to that Alliance. It's very important that whatever the issue is that Europe gives Turkey a full seat at the table. It doesn't mean that solutions are easy, but the worst thing Europe can do is to make Turkey feel it doesn't have a seat at the table on issues which concern Turkey very much and deeply. I am the Minister of Economy so I shouldn't say more! Yes, I think Turkey must have a strong seat at the table. Then one can negotiate. One can disagree or not agree. Many issues can be solved and some issues may not be solvable in the short term. But Turkey must have a seat at the table.

Question: You put the stress on having a strong economy to begin with in the road ahead to the European Union, but we cannot deny the fact that the European Union is very much of a political process. The political way – the engagement to the political aims is a very important matter in this integration process in the candidate countries. How can we – Don't you think there is a contradiction there, that taking the economy as a first priority may create deeper problems for us?

Answer: I don't think so. The differences in inflation levels and levels of income are still very large unfortunately. I think Turkey must embark on a strategy that will allow it to grow on an average of about 7% a year and once it will succeed in that without having recurrent crisis, I do strongly believe that the sense of self-confidence that will develop in Turkey will make all the other problems much more easy to solve.

It will also make Turkey a more attractive partner for Europe, of course. The stronger the economy of Turkey, the more European investment and production come to Turkey, the more trade there is, the more financial links there are, the stronger will be European interest in fully integrating Turkey. I do believe that the economy deserves priority. One has to deal with the political issues too, but I do believe that an economy in crisis, an economy that is weak is a very bad moment to try to deal with the political aspects. In that sense, I

strongly hope that the economic recovery and growth in Turkey will make the solution of these other problems easier.

On the political side, there are issues. Our Foreign Ministry is very skilfully and ably dealing with them. I don't want to discuss the details. I do feel, again, both for Europe and for Turkey, it is when the economy is in a growth phase and is strengthening, that the real progress will be made and I think if you look back historically, that is also the way it has been. The big steps forward have been taken at times of economic success.

Question: Maybe, I didn't express myself well. In the other candidate countries, for example, the Spanish example, but also in most Eastern European countries, the priority is on the political agenda. First, to become a member of the European Union becomes a political goal and then to move towards this political goal all the reforms are addressed in order to reach this political goal. Are you saying that in Turkey we will have to follow maybe a road which is a little bit different than that of the candidate countries? Because you have also stressed in your speech that the good question is not just to concentrate on to be a member or not to be a member. I don't know whether that is clear this time.

Answer: I do believe it will be more difficult to integrate Turkey into Europe than it has been to integrate Spain for various historical and economic reasons, also the income levels. Spain is a much richer country than Turkey. For Turkey it will be more complex and it will take more time. Also, Turkey is part of that Eastern and South Eastern border which is ill-defined. With Spain, it's very simple. Where else will Spain be? You can't put it in Latin America. Spain was naturally part of the European Union very quickly. In Turkey, it's more complicated like with Bulgaria, with Romania, with Serbia. These are countries where the whole process will be more complicated. I don't think it helps us to make it look as a very simple decision. When will you be and at what date will you be a member of the Union? I believe we have to work on the economic front and on the social front and be part of the dynamic and also be part of the process that defines what Europe will be five years from now. I am not at all sure that the European Union five years from now will be the same exactly in the way it's governed and the way it functions than it is today. In fact, I would go further and say it's almost impossible that it remains the same. One should solve problems gradually and one has to be very clear that Turkey cannot be part of Europe unless the economy strengthens substantially over what it is today. It is a priority.

Chairman: One last question. We take both – can you ask both questions and then, perhaps, he can respond?

Question: A very short question, actually, Mr. Minister. It's not directly an economic one, but it's linked to the Turkish-European relations. I was very much surprised by two statements done by your government. The first one was that if there is a Kurdish government in Europe, that will provoke a *casus belli*. The second, that there must be a separation in Cyprus as it happened in Czechoslovakia. My question is not if there is a contradiction between these two questions or statements. Do you think these statements contribute to improve relations between Europe and Turkey and if these statements creates trust among the two partners? Thank you very much.

Question: I want to ask about your economic program in Turkey. You said that it's important to persuade the Turkish people for the economic program and you are making some visits in Turkey in some cities. Do you think that Turkish people support your program because we feel also that there is a feeling in the Turkish people that the program is imposed by the international organisations such as IMF and World Bank? Do you think that you have the support of the Turkish people for your program?

John McCarthy IMG Bearings Bank. Dr. Dervis, from what you've said today, what is your read on what customs Union has done to benefit Turkey?

Answer: I will concentrate on the economic questions. I mean the purely political statements the government has made, I don't think I am the right person to answer these questions.

In terms of the support for the program, I do repeat, I think success of the program critically depends on keeping the support of a majority of the people in Turkey – no program can have the support of everybody in any country in the world. There will be disagreements and there will be criticisms, but it's very important that this program has wide support and it's very important to explain it to civil society in Turkey. It is a program that was definitely prepared by Turkish specialists working in various ministries.

It's not just a program, by the way, that started upon my arrival. A lot of the work preparing the new laws had already been done in the past, but the laws had not yet been brought to Parliament. I will tell you also that it was very heartening for me to find that when I started working at the Treasury in Turkey, within 48 hours I could feel very much at home. In Turkey, despite all the problems and despite the low salaries, there are excellent technicians and excellent people in the various economic organisations and ministries. There

was a problem of co-ordination, but not of quality of people. The quality is there. The co-ordination, I think we have to do better. This is the way it works everywhere.

Economic reform programs are supported by international organisations. They are supported by IMF and the World Bank. They are not imposed. These are programs that we formulate and then we ask for support. That's the way they have to be looked at. Of course, when international institutions give large amounts of resources to a country, they do ask what will you do with these resources, how will you use them. It's only natural that we explain this to them and that there are links between the amount of resources and how they will be used. The IMF, of course, has conditions and these conditions are linked to the implementation of our program, but the program is not imposed by anybody or by the IMF. Indeed, the IMF knows very well that the program that is imposed from abroad cannot succeed.

I will finish this answer by one small story, because I think it's a very important message. Any anecdote, particularly in an academic audience, doesn't create data, isn't econometric evidence, but one of the things that touched me the most when I visited one small Turkish town in the South was a small farmer who basically said, "look, please don't tell us that things are fixed until they are fixed; if it takes more time, it takes more time but, please, we want to know things are OK when you tell us they are OK. Don't hurry. Don't say they're OK when they are not OK." I've heard this in many ways from many people.

I think the people are fed up with being told overoptimistic scenarios: everything is fine, everything is great. They know in their own lives that things are not so easy. They want to be told that things are fixed when they are really fixed. I was very touched by that farmer who said that. I do believe there is support and I do believe that, frankly, the press in Turkey helps in that process. I'm not saying that everything the press does is fantastic, but I am impressed by the degree of interest and coverage both the televised press and the written press is giving to the economics and the economic program. When they don't like something, you can immediately hear it on TV that evening. While it can be stressful, I think it's very positive. Press is an interpreter, if you like, between what happens in the government and the large number of people. I do believe they play a very important role in translating policy and also in translating demands coming from the country. I do believe in that sense Turkish press is, perhaps, more active and skilled than many countries that I have visited in other parts of the world.

In terms of the Union, if one goes back to 1994-95, there was a lot of resistance. Part of industry was worried about the Customs Union (your question), but I do believe that the fact that Turkey could adopt zero protection for industrial goods really almost overnight, not quite overnight but almost, the Turkish industry not only survived but in many ways did quite well. This shows how strong the Turkish economy is and how competitive parts of Turkish industry have become. It was very unfortunate that at the end of 1999, right at the moment when all this adjustment was taking place in Turkish industry, that we fixed the exchange rate in such a way and we carried out a macroeconomic policy that ended up in a real appreciation of the Turkish Lira much beyond what was desirable at that time.

The reason for that was that inflation was higher in Turkey than had been foreseen. Some of the structural reforms were not carried out rapidly enough. You had more inflation vis-à-vis the fixed exchange rate than the program had foreseen. That, of course, created competitive problems for the Turkish industry and, at the same time, the other problem was that the Euro-Dollar exchange rate didn't move in the way people expected. The Euro weakened a lot and because Turkey is a country that predominantly exports in Euro and imports in dollars, this created another major problem for Turkish industry. The year 2000 was a very difficult year in this whole adjustment to the Customs Union because of the exchange rate.

I do believe that we will now, provided we solve the problems of the financial sectors and stabilise the overall atmosphere in Turkey, we will benefit tremendously from the very competitive exchange rate that we have now. The real exchange rate now is more competitive than it has ever been in the last decade. I think at least 15% more than even at the lowest point in 1994. Turkish industry will strongly compete thanks to this exchange rate and, of course, the tourism sector, the construction sector will also benefit. I do believe, therefore, that in terms of finalising the adjustment to the Customs Union, we are at a very good moment right now.

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