

BTI 2010 | Turkey Country Report

Status Index	1-10	7.54	# 20 of 128	
Democracy	1-10	7.65	# 30 of 128	↗
Market Economy	1-10	7.43	# 22 of 128	➔
Management Index	1-10	6.34	# 23 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	73.0	HDI	0.81	GDP p.c.	\$	13111
Pop. growth	% p.a.	1.3	HDI rank of 182	79	Gini Index		43.2
Life expectancy	years	72	UN Education Index	0.83	Poverty ²	%	9.0
Urban population	%	68.2	Gender equality ¹	0.37	Aid per capita	\$	10.8

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

Apart from Albania and Kosovo, Turkey is the only country with a Muslim majority and an explicitly secular political system. Its institutions operate with reasonable efficiency and in line with the constitution. In comparison to other countries in the Middle East, Turkey's democracy functions rather well. The country's elections are free and fair. In principle, all Turkish citizens have the same civil rights. Turkey's constitution forbids discrimination based on cultural, religious or ethnic differences. In practice, however, ethnic (Kurdish) and religious minorities suffer some discrimination. In addition to the Turkish constitution, the European Convention of Human Rights protects against civil rights violations. Turkey's judiciary is free from direct influence and intervention by other institutions. Judicial review of legislative and executive acts functions adequately. Cases of corruption, however, have occurred.

In general, Turkey's administrative system works sufficiently well. The government maintains public security and order throughout most of the country. Exceptions to this are found in parts of east and southeast Anatolia, where the PKK and other militant Kurdish organizations operate. The European Union supports and monitors participatory and pluralist democracy in Turkey and, because of Turkey's desire to join the union, has supervised the performance of the Turkish administration and judiciary since 1999. In its annual progress report of 2005, the European Commission called Turkey a well-functioning market economy for the first time; the country has thus complied with one of the Copenhagen criteria. The European Commission's 2008 annual report confirmed the existence of a market economy in Turkey.

Since Turkey's 2001 financial crisis, an impressive reform package aimed at, and eventually achieving, fiscal consolidation and institutional reform has contributed to strong and sustainable economic growth. GDP growth has been impressive and stable, although it has slowed down from its rapid growth between 2002 and 2006. The average annual growth rate was 5% between 2005 and 2007. Between 2002 and 2008, the cumulative rate of real GDP growth reached 40%,

making the period the longest stretch of uninterrupted growth in the history of Turkey. According to TurkStat, the country is now the sixteenth-largest economy of the OECD countries. On 8 March 2008, Turkey introduced the European System of Accounts (ESA) in order to better reflect the sizeable informal sector of its economy. This reform has added one-third to the economy, according to the European Commission's 2008 annual report.

Inflation, reaching single digits in 2004 for the first time in three decades, has recently risen. By the middle of 2008, it had reached 10.6%. Despite this, Turkey has significantly reduced its public debt burden. Tight fiscal and monetary policies have improved confidence and reduced risk premium. Business investment and FDI inflows have declined in the 2007 – 2008 period (FDI was 3% of GDP in 2007 and decreased to 2% in 2008). In actual numbers, they stood at \$9.6 billion and \$19.766 billion respectively.

Turkey's current account deficit, however, remains enormous. Rising oil prices in mid-2008 contributed to this. Exchange rates have been volatile. The recent increase in inflation and rising levels of private sector external debt show that Turkey is still vulnerable and in need of additional reform measures in order to support economic growth. The European Commission, however, stated in its 2008 annual report that the foundations and resilience of the Turkish economy are substantially stronger than some years ago.

History and Characteristics of Transformation

The proclamation of the Republic of Turkey (as one of the successor states of the Ottoman Empire) signaled a new phase in the history of the social and political transformation of Turkish society, which had begun in the early 19th century. The Turkish process of cultural and political transformation was unique, particularly with regard to its totality and success against the background of a predominantly Islamic society. This process also sought to amalgamate Western and pre-Islamic Turkish culture in order to create a new national culture at variance with the heritage of the Ottoman Empire. The history and geographic location of Turkey made this a difficult task. Turkish identity was and is a mix of European, Middle Eastern and Asian elements.

After the death of Atatürk in 1938, İsmet İnönü became the second president of the republic. One of his greatest achievements was to preserve Turkish neutrality during World War II. Still, Turkey suffered by the conflict. Its army was kept in a condition of alert, prices rose steeply, food and other commodities were rationed, and the black market flourished. The Democratic Party (DP), founded in 1946 (the year Turkey embarked on multi-party democracy), managed to win a landslide victory in 1950 and remained in power until 1960. This period was marked by economic growth and a substantial increase in Turkey's average living standard. The Democratic Party's economic policies focused on infrastructure development, agricultural mechanization and

industrialization. During the DP's second term in power, however, economic conditions deteriorated massively, inflation and public debt increased, and the government adopted increasingly repressive policies in order to silence dissent. Growing tensions and the failure of the DP government to tackle the economic crisis led to military intervention under General Gürsel in May 1960. Prime Minister Adnan Menderes was removed from power. Military rule was short-lived; one and a half years later the country returned to civilian government. In subsequent years, the political situation remained tense. None of the ruling governments was able to stay in power for long. In 1971, the military intervened again in a so-called coup by memorandum. The Turkish economy performed relatively well during this period with accelerated industrialization and growth rates of about 5.7% until 1970. Yet after 1971, Turkey once again went through a period of political instability and economic crisis. The two oil crises and the military embargo imposed by the United States after the Turkish invasion of Cyprus in 1974 hit the country hard. The core of the problem, however, was political polarization between the communists and the ultranationalists. When the situation became unsustainable in the late 1970s, the military intervened again in 1980. This time military rule lasted for more than two years. The military leadership initially dissolved all political parties and allowed new parties to form only after a screening process. The dominant party emerging after the return to civilian rule in 1983 was the Motherland Party, led by Turgut Özal. A National Security Council, dominated by military officers, acted to guarantee order and the adherence of the government to the constitution.

Until 1980, the Turkish economy was mainly based on import substitution and the agricultural sector. Özal pursued a different economic policy aimed at creating an export-oriented industry. New liberal economic policies led to a liberalization of imports and exports and fundamental changes in the Law for the Protection of the Value of the Turkish Currency and the foreign currency exchange system. The government reduced state subsidies and enacted a value added tax in order to increase state revenues. In addition, the government issued revenue-sharing bonds, created mass housing and privatization administrations, and formed free trade zones. As a consequence, Turkey's economic growth accelerated and its chronic foreign currency deficit problem receded. In spite of significant progress and a noteworthy empowerment of the private sector, the public finance policy has led to serious budget deficits, which have so far resulted in two severe economic crises (in 1994 and 2001, respectively).

Since 2002, the Turkish government has been working closely with the IMF and the World Bank to implement a structural reform program aimed at stabilizing and strengthening the economy through controlling public expenditures and inflation, increasing transparency in public financial management, accelerating privatizations and foreign investment as well as reforming the agriculture and financial sectors in accordance with the requirements that EU membership implies. In recent years, the government has altered one-third of the Turkish constitution and has passed over two hundred new laws, most of which deal with the modernization of the penal code, the protection of the freedom of expression, religious pluralism and human rights. These reforms have abolished state security courts. Recently, the first civilian has become chairman of the National Security Council.

The most important underlying characteristic of the transformation process in Turkey is the basic contradiction between the attempts of the state elites to preserve the fundamentals of the republic conceived by Mustafa Kemal (Atatürk) and written into every successive constitution and the deviating dynamics created by political democracy and economic liberalization. Time and again this contradiction has expressed itself in societal processes aimed at emancipating Turkey from the straightjacket of Kemalist orthodoxy.

Transformation Status

I. Democracy

1 | Stateness

The state has a monopoly on the use of force throughout the entire physical territory of the country. Yet, Turkey confronts separatist violence in its struggle against the PKK and its successor organizations, in particular in eastern Anatolia. The country must also cope with religious fundamentalism and organized crime.

Monopoly on the use of force

With the exception of the PKK, all citizens, including cultural, religious and ethnic minorities, accept the structures of the nation state. In theory, all citizens have the same civil rights; the Turkish constitution forbids discrimination based on cultural, religious or ethnic origin. This legal reality is not always put into practice. Members of religious minorities are practically excluded from certain positions, such as becoming a civil servant or an army officer.

State identity

The Turkish state has a secular order with modern institutions. Secularism has been the principle basis of the legal, social and political order since the foundation of the republic. Religion and religious dogmas do not have direct influence on politics. Opponents accuse the ruling moderate Islamist/conservative Justice and Development Party (AKP) of having a hidden Islamist agenda, but with the exception of a failed legal initiative to lift the ban on female headscarves in state universities no openly Islamist policy has been pursued. A constitutional institution (Art. 136), the Directorate for Religious Affairs (Diyanet), maintains firm state control over religious affairs, particularly with regard to basic applications and interpretations of religion. An essential shortcoming of the Diyanet is the exclusion of religious communities other than Sunni Islam. Turkey's Alevi community and non-Islamic religious groups have no representation in the body.

No interference of religious dogmas

Turkey's administrative system works reasonably well. Nevertheless, it needs a comprehensive reformation in order to create a modern, decentralized, participatory and transparent administration. The legal system, particularly law enforcement, is for the most part not affected by corruption.

Basic administration

2 | Political Participation

All elections since 1950 have been free and fair. However, when political parties began to re-emerge after the 1980 military coup, they had to conform to rules set by the military authorities. A 10% threshold exists for parties to enter parliament (higher than in any country belonging to the European Union), which practically excludes smaller parties with limited voter appeal from entering parliament. Some parties have resorted to letting their candidates stand as independents. Once elected into parliament, these independents can re-join their parties and even form a faction if their number exceeds 20. In such a way, four more parties (in addition to the three passing the 10% threshold) are now represented in parliament.

Free and fair elections

In principle, the democratically elected government has the effective power to govern, although the strong influence of the military in Turkish politics acts as a constraint. The military, in the form of the Office of the General Staff, must be considered a political enclave, as it operates independently from civilian elected authorities and undergoes no parliamentary scrutiny except in budgetary matters. This system of so-called defective democracy can best be observed in the military activities against the Kurdish separatism of the PKK. These military actions are completely directed by the military establishment without any civilian guidance. This does not necessarily mean that civilian authorities and the military do not see eye-to-eye concerning these military activities.

Effective power to govern

The legal framework with regard to the freedom of association is generally in line with international standards. Public demonstrations are subject to fewer restrictions than in the past. In some cases, however, security forces have used excessive force, especially when the demonstrations were carried out without permission.

Association / assembly rights

The Turkish government made amendments to the anti-terror law in June 2006 as a response to the escalation of ethnic terrorism. Under the new law, the list of what constitutes a terrorist offence was extended and a wide definition of terrorism maintained. The law describes the circumstances under which the legal restrictions on freedom of expression, the press and the media can be practiced.

Freedom of expression

According to the European Commission's annual report in 2008, prosecutions and convictions for the expression of non-violent opinion under certain provisions of the new penal code are still a cause for serious concern and may contribute to the creation of a climate of self-censorship. This is particularly the case for Article 301, which penalizes "insults to Turckdom," which may refer to the republic in general or to organs and institutions of the state. Although this article, amended in April 2008, includes a provision that expression of thought intended to criticize should not constitute a crime, the state has repeatedly used the law to prosecute non-violent opinions expressed by journalists, writers, publishers, academics and human rights activists.

The European Commission's 2008 annual report also lists further articles of the Turkish penal code that constitute dangers for the freedom of expression. These are Articles 215, 216 and 217 (criminalizing offences against public order), Article 288 (criminalizing attempts to influence a fair trial), and Article 318 (criminalizing the discouragement of individuals from military service). The report also regards the new anti-terror law as a cause for concern.

In April 2008, the court case against 53 mayors belonging to the Kurdish DTP party was closed. The mayors' offense had been to send a letter to the Danish prime minister requesting that the Kurdish Roj TV should not be closed down. The court sentenced the mayors to two and a half months imprisonment, which was commuted to a fine. The mayors did not appeal the court verdict.

In 2006, a public debate emerged over the need to change the electoral system, which currently requires political parties to reach a 10% threshold at national level to achieve representation in parliament. On 30 January 2007, however, the European Court of Human Rights rejected the claim that the imposition of an electoral threshold of 10% in parliamentary elections interfered with the free expression of the people in choosing the legislature. Self-imposed censorship by journalists who write on taboo topics such as Kurdish affairs or the question of the Armenian genocide remains a problem. Several murders, such as the one of famous Armenian journalist Hrant Dink in Istanbul on 19 January 2007, have contributed tremendously to the fear among journalists of being too critical or independent in their writings.

3 | Rule of Law

Turkey has a well-defined system of separation of powers. Its constitutionally defined checks and balances function properly. Despite this, the military leadership continues to intervene in the political process.

Separation of powers

The judiciary is relatively free from direct influence or intervention by other institutions. This statement must be qualified, however. Decisions made by the High Military Council concerning personal affairs, especially expulsion from the ranks due to "political non-reliability," are not open to judicial review. The judicial system has some structural weaknesses. Cases proceed slowly and inefficiently, due to backlog and the large number of cases pending. In addition, as pointed out in the European Commission's annual report, judges and prosecutors are attached to the Ministry of Justice with respect to their administrative functions. The High Council of Judges and Prosecutors, the supreme governing body of the judiciary, does not have its own staff, premises (it is located in the Ministry of Justice) or budget. The judicial inspectors, who are responsible for evaluating the performance of judges and prosecutors, are attached to the ministry rather than to the High Council. As a result, the judiciary forms part of the state establishment and on occasion acts like a political actor rather than independently.

Independent judiciary

On the other hand, the case against the ruling party (AKP) opened by the chief public prosecutor on 14 March 2008, may represent the growing independence of the judiciary. The prosecutor charged the party with being a focal point for anti-secular activities. The government did not put pressure on the judiciary, and all parties accepted the final verdict. On 30 July 2008, the Constitutional Court fell one vote short of finding the party guilty (and therefore to be dissolved), but ruled that the party's anti-secular activities merited its state funding to be reduced by 50% for the year 2008.

In April 2008, the government presented a draft judicial reform strategy. The European Commission's 2008 report approvingly stated that the strategy was comprehensive. Amongst other goals, the strategy intends to enhance the independence of the judiciary.

Generally, the state and society hold civil servants accountable and act to prevent conflicts of interest. Politicians, on the other hand, enjoy different treatment, as the state tribunal does not have the authority to charge and prosecute those who misuse their public mandate or power in office. The wide scope of parliamentary immunity remains a major problem in the fight against corruption. Overall, during the period under study, the government has made some limited progress in this respect, notably on increasing transparency in the public administration. Yet, the European Commission's 2008 annual report explicitly states that Turkey has made no progress in limiting the immunity of members of parliament or in regulating the financing of election campaigns.

Prosecution of
office abuse

In general, Turkey guarantees and protects civil rights. Members of religious minorities, however, are practically excluded from becoming civil servants or army officers. The European Union supervises Turkey's fulfillment of the Copenhagen political criteria. Furthermore, Turkey as a member of the Council of Europe is obliged to implement the provisions of the European Convention of Human Rights (ECHR). In spite of this obligation, however, a large number of appeals to the ECHR against Turkey persist. Although many cases date back to the pre-2004 period, the European Court of Human Rights (ECtHR) delivered a total of 266 judgments between September 2007 and September 2008 alone, in which Turkey was found guilty of having violated the ECHR. The European Commission's 2008 report noted that the majority of cases were concerned with the right to a fair trial or the protection of property rights, while only few of them dealt with the right to life, torture or other ill-treatment. The report also stated approvingly that Turkey abided by the rulings of the ECtHR in most cases.

Civil rights

4 | Stability of Democratic Institutions

Turkey's democratic institutions work together in a relatively harmonious and effective way. Appropriate governing organs prepare, create, implement and review all relevant political decisions, as described in the Turkish constitution. Since 1999, the performances of the administrative system and the system of justice have been examined and improved with the guidance of the European Commission.

Performance of democratic institutions

All relevant political and social players with the exception of the PKK and its successor organizations accept the democratic institutions as legitimate. The military's commitment to democratic institutions remains questionable, especially in light of the unclear behavior of Turkish generals following the election of Abdullah Gül (AKP) as the new president of the Turkish parliament.

Commitment to democratic institutions

5 | Political and Social Integration

The Justice and Development Party (AKP) held a comfortable majority in the period between 2002 and 2007. In the most recent elections of 22 July 2007, the party scored an impressive electoral victory by attracting 46.58% of the vote. The chairman and founder of the party, Recep Tayyip Erdoğan, was asked to form a new government.

Party system

The election gave the AKP 341 seats in parliament. Only two other parties managed to pass the 10% threshold: the Republican People's Party (CHP) gained 112 seats and the Party of the Nationalist Movement (MHP) 70. A total of 26 "independents," many of Kurdish background, also won seats in parliament. Using a legal loophole, the independent deputies then re-joined the pro-Kurdish Party of the Democratic Society (DTP), the Democratic Left Party (DSL), the Party for Freedom and Solidarity (ÖDP) and the Party of the Great Unity (BBP), thereby giving these parties parliamentary representation. The parliament has five independent deputies. One seat is vacant.

In general, however, the party system in Turkey is still rather unstable and voter volatility is very high – the absence of a socially rooted party system is undoubtedly one of the main reasons.

A close-knit network of interest groups promotes the growth of participatory democracy. Currently, Turkey has an increasingly diverse landscape of organizations, including approximately 80,000 registered associations and several hundred unions and chambers. Despite this expansion, civil society's major actors have had only limited influence on policy-making in recent years. In general, the impact of civil society institutions is growing.

Interest groups

According to the European Commission's annual report, the recent reform environment has led to positive developments for civil society organizations. They have become more vocal and better organized, especially since the adoption of the new law on associations. They also profited from amendments to the law on foundations, which took effect in February 2008.

Turkish people's consent to democracy is very high. With the exception of fundamentalist movements, all social, economic and political groups are devoted to a pluralist parliamentary system. On the other hand, the level of trust and confidence in political parties and politicians is very low. Considerable concern exists among citizens about the very possibility of a functioning democracy in Turkey. In a poll conducted in late 2007, only 31% of respondents were convinced that democracy could function in the country; it is notable that in a poll in 2003, 50% of respondents had expressed that view.

Consent to
democratic norms

Autonomous groups and voluntary associations are traditionally well-developed and organized. They work and cooperate well with each other. These autonomous organizations enjoy a high level of trust among the population.

Associational
activities

II. Market Economy

6 | Level of Socioeconomic Development

Since the crisis of 2001, an impressive package of fiscal consolidation and institutional reform has created a strong foundation for economic growth. As a result, GDP growth has been strong and stable, approximately 7.4% between 2002 and 2006 and 5% afterwards.

Socioeconomic
barriers

Over the period from 2002 to 2008, real economic growth was 40%, making Turkey by now the sixteenth-largest economy of all OECD countries.

Until 2007, annual inflation fell steadily and remained in the single digits. It rose to about 10.6% in the first half of 2008. The public debt burden had been reduced in the years leading up to 2007, only to climb again during 2008, no doubt due to higher oil prices. Tight fiscal and monetary policies improved confidence and reduced risk premium, thereby enhancing business investment and FDI inflows (\$9.6 billion 2005, \$19.9 billion 2006, \$22 billion 2007, with a reduction due to the global financial crisis in 2008 to about \$11 billion). Despite these positive indicators, Turkey's current account deficit is large, exchange rate movements have

been volatile, and the recent increase in inflation and rising levels of private sector external debt draw attention to the country's vulnerabilities and to the need for additional policies to contain risks. Extreme income disparities continue between rural and urban regions, particularly in the east and southeast of the country. These uneven development patterns affect the country's economic health and cause large social problems.

According to the UNDP Human Development Report 2007-2008, the first quintile's share of the total disposable household income is 5.3% and therefore less than it was in 2005. Households in the fifth quintile received 49.7%, several percentage points higher than in 2005. Thus, the ratio of the fifth quintile's share to the first quintile's share S_{80}/S_{20} rose to 9.3 in 2007-2008 in comparison to 7.7 in 2004. The combination of the decrease in the first quintile's share of disposal income and an increase in the fifth quintile's share quantifies the growing economic inequality in Turkey.

According to the Human Development Index 2007/2008 (0.775, rank 84) the life expectancy at birth in Turkey is 71.4 years and adult literacy is 87.4%. The demographic growth rate is sinking steadily. According to the HDI, it was 1.9% for the period from 1975 to 2005 and is projected to decline to 1.2% between 2005 and 2015. In contrast, the unemployment rate is decreasing only slowly and has even increased up to the end of 2007 (10.6% in December 2007, up 0.1% from December 2006). A significant percentage of underemployment, estimated at 4%, should also be taken into account.

The UNDP's gender-related Development Index ranks Turkey on position 79. Some gender inequalities exist with respect to adult literacy (80.4 for women and 96.0% for men) and estimated earned income (\$4,385 for females and \$12,368 for males). In 2008, the government put in place a Gender Mainstreaming Strategy in order to reduce gender inequality.

In recent decades, Turkey has significantly expanded children's access to education. However, the quality of education remains low, and the education system focuses predominantly on providing good quality education for the most able students, who are channeled towards the university system and work in the formal sector. As a result, the most binding human capital shortages are at the middle and low end of the labor market. Despite this, resources continue to be skewed towards the high end. Although it was originally conceptualized as a merit-based system, the system favors students from higher-income families with more resources; this raises efficiency and equity concerns.

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	393037.5	483992	529931.9	655881.4
Growth of GDP	%	9.4	8.4	6.9	4.6
Inflation (CPI)	%	10.6	10.1	10.5	8.8
Unemployment	%	10.3	10.3	9.9	10.3
Foreign direct investment	% of GDP	0.7	2.1	3.8	3.4
Export growth	%	11.2	7.9	6.6	7.3
Import growth	%	20.8	12.2	6.9	10.7
Current account balance	\$ mn.	-14431.0	-22137.0	-31893.0	-37697.0
Public debt	\$ mn.	67337.1	61908.7	67132.9	75170.9
External debt	\$ mn.	160719.6	169269.4	207772.9	251476.8
Total debt service	% of GNI	8.5	8.6	7.7	7.5
Cash surplus or deficit	% of GDP	-	-	1.9	1.4
Tax Revenue	% of GDP	-	-	19.7	18.5
Government consumption	% of GDP	11.9	11.8	12.3	12.6
Public expnd. on edu.	% of GDP	4.0	-	-	-
Public expnd. on health	% of GDP	4.3	4.1	3.5	-
R&D expenditure	% of GDP	0.5	0.6	0.6	0.7
Military expenditure	% of GDP	2.8	2.5	2.5	2.1

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

The state fully guarantees and maintains market competition. All market participants have, in principle, equal opportunities. According to the 2008 annual report of the European Commission, the work of the Competition Authority continued satisfactorily. The report also concluded that the process of privatization supported the authority's role in the market. The government improved transparency in the corporate sector and upgraded its accounting standards, although it has not yet fully implemented these reforms because of the need to

Market-based
competition

increase the administrative capacity of the Council of State. The Turkish government made no improvements in the field of state aid. The absence of transparent monitoring and policies to decrease distortions negatively affects the economic climate. Exceptions in the regulatory framework continued to undermine public procurement policies. To conclude, Turkey experienced some improvements with regard to competition policy, but deficiencies remained or worsened in certain areas. Overall, significant privatization continued. Turkey has made further efforts to reduce impediments to market entry and exit.

In 2007, about 55,000 enterprises were established, an increase of 5% compared to 2006. At the same time, roughly 10,000 firms were liquidated. According to the European Commission's 2008 report, restrictions on foreign ownership still exist in the areas of civil aviation, maritime transport, road transport, ground-handling services, broadcasting, energy, accountancy and education. The share of the informal sector is very high in comparison to other European economies. The existence of a substantial informal economy (estimated over 60%, according to other sources as high as 83%) hampers viable market economy development in Turkey. Nonetheless, the European Commission declared for the first time in 2005 that a well-functioning market economy existed in the country. The European Commission's 2008 report concluded that Turkey has achieved macroeconomic stability.

With the establishment of the customs union, Turkey fulfilled its obligation to adopt the European Union's anti-trust legislation. Turkey also created an independent body (High Committee for Competition) to monitor the market and implement the anti-trust rules when necessary. The committee operates effectively with regard to privatizations and mergers and acquisitions. It also ensures that market positions are not abused.

Anti-monopoly
policy

Turkey has liberalized its foreign trade according to the general regulations of the World Trade Organization (WTO), the Customs Union Agreement between Turkey and the European Union, and various free trade agreements signed with different countries. In addition, Turkey grants preferential treatment to least developed countries and some developing countries within the framework of the generalized system of preferences and also according to the specific needs and requirements of the agricultural and industrial sector. Turkey applies the EU common external tariff (CET) to most imported industrial goods and processed agricultural products.

Liberalization of
foreign trade

Turkey enacted a new decree on 25 August 2004, with the major aim of completing its obligations and aligning itself to the European Union's GSP regime. With this new decree, all industrial products covered by the European Union's GSP regime are included in the GSP of Turkey. The country has thus fully adopted the European Union's GSP regime, both with regard to countries and products. Since 1980, Turkey has implemented an export-oriented strategy in hopes of creating an outward-oriented economic structure within the framework of a free-market economy.

The report of the European Commission 2008 notes some progress in the field of the customs union between the European Union and Turkey. However, it also states that there is need for further efforts in several fields, among them free-trade zones and customs duty relief.

The Turkish banking system is organized according to international and European standards, with functional supervision, minimum capital requirements and market discipline. The Turkish banking sector consists of deposit banks, development and investment banks as well as participation banks that operate according to the profit-loss sharing principle. According to the Central Bank of Turkey, the number of banks decreased to fifty after the 2001 financial crisis. The asset concentration ratio of the largest five banks is 59% and 28% if the largest ten banks are considered (according to the report of the European Commission 2008, this has remained stable since September 2006). The total asset size of the banking sector has reached \$317.5 billion as of September 2006. The asset size of the Turkish banking sector to GDP ratio was 83.5% in 2005 and reached 89.5% in June 2006; it is estimated to have reached 90% in 2008. This indicates that the Turkish banking sector has grown more rapidly than GDP, which itself has been increasing continuously for the last 18 quarters. The ratio between the banking sector's balance sheet and GDP increased to 68% at the end of 2007, compared to 66% one year earlier. As a result of the increasing interest of foreign investors in the Turkish banking sector in 2007-2008 the share of equity held by foreigners reached 22% in early 2007 and grew to 26% by the beginning of 2008. Although the European Commission praised the increased resilience of the Turkish financial sector in 2007-2008, the potential effects of the global financial crisis, which began in late 2008, are causing some concern for the future of the Turkish financial sector.

Banking system

8 | Currency and Price Stability

Turkey's macroeconomic performance between 2002 and 2006 was positive. Beginning in 2007, growth decelerated, private demand declined, and the import-to-export ratio developed negatively (imports grew far more than exports). This negative trend continued in 2008. The European Commission's 2008 report reported weaker aggregate demand and higher uncertainty due to the beginning of the global financial crisis and the turbulent domestic political events. Still, it noted with approval that the foundations and resilience of the Turkish economy were substantially stronger than a few years ago.

Anti-inflation /
forex policy

Turkey still has a substantial weakness in its large and widening account deficit. Its relatively short history of responsible macroeconomic policies (since 2001) makes the country vulnerable to external shocks. In this more difficult international environment, sustained strong economic performance will require the bolstering of confidence in Turkish macroeconomic policy and political commitment to structural

reform. According to Morgan Stanley, fiscal consolidation played a role in ending Turkey's the self-fulfilling inflation process and in improving the effectiveness of its monetary policy.

In March 2008, the national accounts of Turkey were thoroughly revised, which resulted in the reduction of the current account deficit to GDP by one-third. However, external debt has been growing (to about 45%); two-thirds of it is private external debt, which the EU Commission regarded as a source of risk in its 2008 report. At the same time, the EU Commission attested to Turkey's solid external position throughout 2007 and 2008.

The global financial crisis caused a correction in Turkish asset prices and the currency (by October 2008), indicating the danger of further output losses and inflationary pressures. Due to previous restructuring measures and comfortable prudential indicators, the impact on the Turkish banking system has, so far, remained limited. External financing needs, together with the reliance of the private sector on external financing and a sizeable – although falling – debt stock have been identified as potential vulnerabilities of the Turkish economy. Inflation has slightly increased to about 10.6% by mid-2008, once again a two-digit figure after four years of single digits.

Macrostability

Runaway state spending has been brought under control. Net public debt to GDP has fallen from 46.1% in 2006 to 38.8% in 2007, and is considered likely to fall further in the medium term, which would improve fiscal sustainability. The government accounted a five-year medium term fiscal framework (MTFF 2008-2012) in June 2008, which seeks to reduce public debt to 30% in 2012.

The successful stabilization program implemented in the 2002-2006 period has been succeeded by a new stage in Turkey's development strategy, which aims at raising the growth potential by means of higher public investment, job creation, further structural reforms and better education. This endeavor is difficult due to the necessity of balancing the desire for higher growth with the need to maintain price stability and reduction of the account deficit. The EU Commission noted in its 2008 report that the public debt was no longer a major concern for fiscal sustainability. The current policy mix was regarded as adequate. The report also stated, however, that macroeconomic remained vulnerable to shocks.

9 | Private Property

The Turkish legal system clearly defines property rights and the regulation of the acquisition of private property. As reported in the European Commission's 2008 report, Turkey made further progress in legislative alignment with provisions concerning copyright and related risks. Turkey has aligned its legislation with EU

Property rights

legislation concerning copyright and similar rights to a large extent. Weak administrative capacity, frequent and inconsistent changes of legislation, as well as conflicts over collective management of rights remained problematic issues. The country has made some progress with regard to industrial property rights. A revision of the regulation implementing the European Patent Agreement in Turkey entered into force in 2008. Substantial problems remain, however, fielding the implementation of legislation concerning property rights. These problems include shortages of staff and differences in understanding between the Turkish Patent Institute (TPI) and the courts.

Turkey gives private companies wide legal and institutional safeguards. These companies comprise the most important component of the Turkish economy. Privatization is continuing. The privatization of the energy sector, noted for its particularly slowness in 2006, has progressed; four electricity distribution regions are now fully privatized networks. The privatization carried out was generally consistent with elementary market principles. The export sector is the locomotive of the Turkish economy and nearly 98% of the 500 most important exporting firms are private companies.

Private enterprise

The time required to establish a company lessened and application procedures have been simplified. According to the Turkish treasury, the time to establish a business can be as short as one day, if the necessary documentation is already prepared. Corporate governance principles are not fully implemented. Turkey has a SME strategy in line with the European Charter for Small Enterprises. Its government introduced a common definition for all Turkish SMEs in line with the *acquis communautaire*.

10 | Welfare Regime

In October 2008, the new social insurance and general health insurance law entered into force. Besides a number of other goals, it aims at ensuring adequate and sustainable pensions. The complete overhaul of the Turkish social security system, begun in 2006, has thus continued.

Social safety nets

In the new system, the state will pay the health premiums of those with an income of less than one-third of the minimum wage; those earning the minimum wage or more are liable to pay a premium calculated according to income levels. The new system will further reduce bureaucracy. Children under the age of 18 will have social security coverage. The reform aims to ensure long-term financial stability for the social security system. The government is also upgrading the administrative capacity of the newly established social security institutions; its inspection capacity, however, is still in need of strengthening.

The OECD reported that the social security reforms have already significantly improved the long-term sustainability of Turkey's pension system. The report also concluded, however, that Turkey's social security system continued to serve as an important barrier to a more rapid expansion of the formal-sector economy in two ways. First, early-retirement incentives (including severance payments) continued to push many middle-aged workers into the informal sector. Secondly, even when the transition of the new pension rules is complete, net replacement rates will remain very high by OECD standards, thus requiring high social security contribution rates, which make the employment of skilled labor in the formal sector too expensive. The OECD thus regarded additional pension reform as one of the keys to overcoming the economic duality in Turkey. The May 2008 reform bill addressed this problem. On the one hand, the bill made it easier to obtain a pension in the first place (by reducing the period for which pension insurance premiums have to be paid by half). On the other hand, the percentage of monthly income used to calculate the amount of the pension was reduced from 2.6% to 2%. The bill also introduced a plan to raise the retirement age gradually to 65 by 2048. Women will continue to be allowed to retire at the age of 58 and men at the age of 60 until 2036.

Since the pension system still does not cover the informal sector, it does little to alleviate poverty, particularly with regard to the elderly. The planned increase of the retirement age is expected to reduce inter-generational inequities and to enable a significant cut in the tax wedge on labor. The reform bill has been criticized for reducing the ratio of those entitled to a regular retirement payment from 3% to 2%. This figure is extremely low and will need to be addressed in the future.

According to the European Commission's 2008 annual report, Turkey has made limited progress in the area of anti-discrimination. Transposition of the EU directives concerning discrimination on grounds of racial or ethnic origin, religion or belief, disability, age and sexual orientation is still incomplete. The transposition of the non-employment aspects of the Racial Equality Directive is in particular need of being addressed. Turkey needs to establish an effective and independent governmental body charged with promoting non-discrimination and equal treatment. Turkey also requires further alignment with EU standards in the field of equal opportunities, particularly with regard to parental leave, equal pay and equal access to employment, burden of proof, as well as statutory and occupational social security. Turkey has not yet established this "Equality Body," required by the *acquis communautaire*. Women's participation in the labor force is very low (under 25%), and the female employment rate has recently dropped to around 20%. The government must strengthen the administrative capacity of the Directorate General for the Status of Women. Although written regulations do exist, the members of religious and ethnic minorities are practically excluded from becoming civil servants or army officers.

Equal opportunity

11 | Economic Performance

The Turkish economy's rapid recovery after the crisis of 2001 was to a large extent due to tight monetary and fiscal policies and structural reforms. The Turkish economy, with its \$857.387 billion GDP, is the world's 12th largest economy and the 6th biggest compared to the 27 EU member states. The average growth rate of GDP between 2002 and 2006 was 7.5%. This slowed during 2007 and 2008 to around 4.5% (2008 estimates).

Output strength

During 2007 and 2008, exports rose by 17.55% and 29.68% respectively and imports by 19.47% and 29.78%. The annual inflation rate decreased from 29.7% in 2002 to 9.8% at the end of 2006, but has recently risen to 10.6%.

Net public debt to GDP has fallen from 92% in 2001 to under 60% in 2005 and again to around 50% at the end of 2006. It was reduced by 4.85% in 2007 and by 10.05% in 2008.

Foreign Direct Investments (FDI) reached \$9.6 billion in 2005 (more than the total value of the last 20 years) and \$18.6 billion in November 2006, before falling to \$11 billion (mid-2008 estimates). This reduction was blamed on the tremendous credit crunches in the international markets.

The current account deficit increased sharply to 6.1% of GDP in 2006 and since then has risen even more. In February 2008, Turkey conducted talks with the IMF, the first time it did so since the 2001 crisis. The parties are presently negotiating a loan. The average per capita income (in ppp) amounted to just over 25% of the EU-25 average. The close connection to the IMF and the perspective to become a member state of the European Union form the main anchors for the Turkish economy.

12 | Sustainability

Turkey has not ratified the Kyoto Protocol and is not party to the Espoo and Aarhus Conventions. It has not transposed the EU's Emissions Trading Directive and related decisions.

Environmental policy

According to the European Commission's 2008 annual report, Turkey has made some progress on environmental issues. Turkey has to a large degree taken on the Environmental Impact Assessment (EIA) directive. The country made good progress in the field of air quality and some progress in the field of waste management. The EU Commission cited little progress in Turkey with regard to water quality. Although Turkey has further aligned its laws to those of the European Union with regard to the protection of nature, overall transposition, implementation and enforcement remain very low.

Turkey has adopted legislation for the reduction of noise and is now in full alignment with the *acquis communautaire* in this area. The preparation of noise maps and action plans, however, is still at an early stage. Legislative action regarding industrial pollution control and genetically modified organisms has been completely stagnant. At the same time, amendments to the legislation on dangerous chemicals improved risk management in the chemicals sector.

Turkey's administrative capacity with regard to environmental policy has been further developed by the recruitment and training of a sizeable number of staff. The government has established a new department for the implementation of environmental programs in the Ministry of Environment and Forestry (MoEF). However, Turkey made no progress toward establishing a national environment agency.

The UNDP Report on Human Development of 2007-2008 identifies Turkey's carbon dioxide emission as 0.8% of the world total. Sustainable development still needs to be introduced as a cross-cutting policy, particularly in the fields of energy, transport and agriculture.

Turkey's biggest asset is its young and well-educated population. Turkey leads Europe in the number of students in sends abroad for higher education and ranks fifth worldwide. Analysts expect this policy to lead to a considerable enhancement of human capacity in both Turkey and the entire region. According to the UNDP Human Development Report 2007-2008, the schooling rate has reached 89.0% in primary, 67.1% in secondary and 21% in higher education. The share of GDP allotted to education was 3.7%.

Education policy /
R&D

In the field of research and development, Turkey was associated with the Sixth EU Framework Program for Research and Technological Development (FP6). In FP7, Turkey takes part as an associated member of the European Union. Turkey also cooperates actively with the Joint Research Center.

Turkey's research policy resulted in significantly increased budgets for research and development. The increase between 2000 and 2007 was more than seven-fold (€106 million in 2000, €761 million in 2007).

European Commission monitoring further helped to improve Turkey's science and research capacities. The European Commission's 2008 annual report noted that the participation in the first calls under FP7 was higher than in FP6, but that there was still room for improvement with regard to the success rate.

In terms of funding, Turkey has mostly succeeded in obtaining small projects. It has taken steps with respect to the mobility of researchers, including full participation in EURAXESS. Investment in science and technology support (3% of GDP in 2006) has increased, with the result that Turkey is by now well integrated into the

European Research Area. The involvement of Turkey's private sector and SMEs in research is still very low, and the number of scientists is below the EU average. A further aggravating factor is that research is not sufficiently integrated in educational curricula.

Transformation Management

I. Level of Difficulty

Turkey has only a few structural constraints on governance. The strengths of the country are its relatively high level of economic development and its relatively young and well-educated labor force. Deficient infrastructure in southeast and east Anatolia constitute one difficulty Turkey must confront. Another difficulty is Turkey's need to reconcile elements of traditional and modern society. Deficiencies in the administrative and legal systems represent further problems. The beginning of the accession negotiations with the European Union in October 2005 contributed significantly to the preservation of political and economic stability.

Structural
constraints

Turkey has only a moderately developed tradition of civil society, especially in comparison to EU member states. The European Commission's 2008 annual report noted that governmental bodies regularly consulted NGOs, yet no coherent legal framework organizes this cooperation. The European Commission stated that civil society organizations still needed to be strengthened, although the adoption of amendments to the law on foundations in February 2008 greatly improved their position.

Civil society
traditions

The heritage of the Ottoman Empire is still significant in present-day Turkish society. Turkish society contains members of every nationality from the Ottoman Empire. According to Article 66 of the Turkish constitution, "Everyone bound to the Turkish state through the bond of citizenship is a Turk." Turkish nationality is thus based on a modern constitutional citizenship and not on ethnicity. Consequently, "Turkishness" and "Turkdom" refer to all citizens of Turkey. Since all Turkish citizens enjoy the same rights and benefits of citizenship, no groups in Turkey have a "minority" status, except for the three minorities recognized by the Treaty of Lausanne (Armenians, Greeks and Jews). The treaty stipulates that minorities in Turkey consist only of non-Muslim communities. Various ethnically different communities, however, exist in Turkey and are eager to qualify themselves as minorities according to international and European standards. The conflict potential between the different groups in Turkish society has been described by Emre Kongar as "the two polarisations along the lines of nationalism and religion: One being Kurdish vs. Turkish nationalism, the other being Islam vs.

Conflict intensity

secularism.” Extreme Turkish nationalists and nationalistic Kemalists are at least as militant as their opponents. Until the implementation of the recent reforms, many legal hurdles existed for publishing in languages other than Turkish. Since 1999, minorities enjoy the right to publish and disseminate media, such as newspapers or audiovisual channels, in their own languages and to operate private courses that teach any language spoken in Turkey. Yet, Turkish is still the only official language that can be used in state schools and universities. In conclusion, ethnic, religious and social conflicts exist in Turkey, but the government makes few official political attempts to reconcile them. The European Commission’s 2008 annual report emphatically stated that Turkey had made little or no progress in the field of ensuring cultural diversity.

II. Management Performance

14 | Steering Capability

During the period under review, the Turkish government was determined to continue a process of reforms in the areas of democracy and human rights. This process began in 1999. The political leaders have been effective in initiating reforms that aim to improve democracy and human rights standards by aligning Turkish legislation and implementation with international and EU norms. Undoubtedly, the requirements of EU harmonization play a crucial role in accelerating this process. In the period under review, the European Commission classified Turkey’s reforms and improvements as compatible with the Copenhagen criteria.

Prioritization

The government seems eager to implement many of its reforms, but although the majority of Turkish society welcomes them, there is also a certain resistance to change.

Implementation

According to the 2006 Eurling Report (named after Camiel Eurling, member of the European Parliament), Turkey needed to give new impetus to the pace of political reform. Full and effective implementation of the reforms is of utmost importance for Turkey to ensure the irreversibility and sustainability of the changes. Hence, concrete results are required. The government has since taken steps to ensure effective and full implementation. It has initiated comprehensive joint projects in conjunction with the Council of Europe and the European Union on human rights training for the security forces and the judiciary. Furthermore, bilateral programs with several European countries (most noteworthy Greece and Bulgaria) are

operational. Turkey participated in the launch of the Union for the Mediterranean in July 2008. It has, however, failed to implement the Additional Protocol requiring it to open its harbors and airports to ships and aircraft from the Republic of Cyprus.

In Turkey, the political leadership holds the decision-making power in its hand and is somewhat unwilling to delegate its power. Because of this egocentric attitude, the majority of the political elite shows little willingness and ability to learn. In relations with the European Union, however, Prime Minister Erdoğan, who has linked his political credibility with a successful EU entry process, has demonstrated his ability for complex learning. He has shown a willingness to act flexibly and to replace failed policies with alternatives.

Policy learning

15 | Resource Efficiency

Poor resource allocation and efficiency constitute fundamental shortcomings of Turkey's public sector. The government's personnel policy is particularly illuminating with regard to the efficient use of human resources.

Efficient use of assets

The number of employees in the public sector reached 2.3 million in June 2006 and climbed to 2,583,234 by May 2008. Many of them are underqualified or have inadequate capabilities. Turks commonly believe that the selection process for public sector employment is influenced by political opinion; this indeed seems to be the case, particularly with regard to high-ranking officials. The 22% share of expenditure earmarked for personnel in the state budget 2006 is one clear indicator of the existing inefficiency. Out of \$127 billion of total expenditure \$27 billion were spent on personnel. According to the Turkish Ministry of Finance the figure has declined to 20% by the end of 2008.

In the area of public administration, some attempts or discussions have begun on the modernization of the administrative capacity of the state, but a comprehensive reform, including decentralization, is not yet planned. The stagnation of reforms in the civil service sector has often been blamed on political turmoil during the period under review.

With regard to efficient use of budget resources, the deviation of real expenditures from those pre-planned stayed within acceptable margins. The two Maastricht criteria have been met in 2008. Budget deficit to GDP was around 1.8% in 2008. The ratio of total public debt to GDP sank to about 38.8% in 2008 and continued to remain well below the Maastricht criteria.

Since 2002, the one-party government has contributed to political stability in Turkey. Political leaders coordinate the central governmental issues in accordance with local administrative issues. A harmonious performance on all levels of management fosters political stability.

Policy coordination

The governing party Justice and Development Party (AKP) won most of the municipalities in the latest local elections in 2004. Conflicts of interest between the localities and the national government were rapidly eliminated, and policy coordination worked without major difficulties. It remains to be seen how AKP's losses in the March 2009 local elections (from 46% down to 40%) will affect political procedures in Turkey.

According to its 2008 progress report on Turkey, the European Commission is convinced that the country has made some limited progress in the fight against corruption, notably in the field of increasing transparency in public administration. However, as mentioned above, corruption remains widespread and anti-corruption authorities and policies are still weak. Turkey possesses no comprehensive anti-corruption strategy. Nonetheless, the country has conducted training of law enforcement officers on corruption detection and investigation and has developed guidelines on seizure and confiscation. It has also set up systems for monitoring the impact of anti-corruption measures.

Anti-corruption
policy

The media reported a large number of corruption incidents, particularly in the field of real estate agencies, local government and universities. This led to several high-profile corruption investigations.

A number of issues remain to be addressed. Turkey needs to improve its legislation on the financing and auditing of political parties. The wide scope of parliamentary immunity remains a significant problem in the context of corruption in Turkey; this problem is aggravated by a lack of objective criteria under which immunity can be lifted. Turkey's government has made no progress on strengthening parliamentary oversight of public expenditures.

Turkey needs better coordination within its currently existing system of combating corruption. The creation of a body with sufficient independence designed to conceive and monitor the implementation of anti-corruption measures would be a step in the right direction.

16 | Consensus-Building

All major actors within and beyond the political life in Turkey agree on the need for a market economy and democracy. That consensus is the consequence of long-standing modernization, westernization and EU-accession processes in Turkey.

Consensus on goals

In principle, Turkey has no anti-democratic veto powers that threaten the government. Yet, the national security council and the armed forces have exercised strong influence on the Turkish political system in the past. They may do so again in the future. In July 2008 the government uncovered a network of high-ranking officers and officials (Ergenekon), which had been preparing a putsch. Though the

Anti-democratic
veto actors

government broke up the attempt by arresting some 30 individuals (followed by further arrests right up to early 2009) the incident highlights the potential threat that the military elite pose to the Turkish democracy.

Cleavages between religious, conservative, traditional and modern groups contain the potential for conflict. This potential may escalate unless the government finally develops appropriate measures to mitigate it. The government has failed to effectively mediate many conflicts, like the headscarf issue, due to its being involved or biased. Contrary to its conservative-religious base, however, the government refrained from reigniting this issue every time it encountered the strong resistance of the state establishment. In terms of ethnic conflicts, the government has attempted to depolarize the conflict between Turkish and Kurdish groups and has repeatedly emphasized the need for a political solution.

Cleavage /
conflict
management

In the case brought forward by the chief public prosecutor against the AKP, democratic and judicial standards were observed. All parties involved accepted the final verdict, which had the character of a compromise solution. The verdict stopped short of outlawing the AKP, and instead reduced the party's state funding by 50%.

Turkey's current political leadership considers civil society as an integral part of the country's participatory democracy. Economic and professional interest associations and the media have assumed particularly important roles, although at present no legal framework exists concerning the position of these civil society institutions in the Turkish state.

Civil society
participation

Undoubtedly, during the period under review, the government has not been able to deal satisfactorily with the issue of the Armenian genocide during World War I. It has, however, displayed a greater degree of openness with regard to a settlement of that issue than previous governments and the military. Despite this increased openness, a conference in 2005 on the Armenian question planned by Boğazici, Bilgi and Sabanci Universities in Istanbul, had to be cancelled "due to security reasons." But in September 2008, Abdullah Gül became the first Turkish president ever to visit Armenia. He was invited by his Armenian counterpart Serzh Sarkisian to visit a qualification football match between the countries' national teams for the 2010 soccer world championship. Gül answered this diplomatic gesture by inviting Sarkisian to Istanbul.

Reconciliation

The present government has repeatedly called for a political solution to the conflict between the Kurds and the Turkish national state, but has not yet taken any decisive steps. Turkey has made some concessions, particularly in the field of broadcasting in the Kurdish language.

17 | International Cooperation

The multi-dimensional character of Turkish foreign policy is best reflected by Turkish membership in a wide range of leading international and regional organizations, such as the United Nations, the Council of Europe, the North Atlantic Treaty Organization (NATO), the Organization for Economic Cooperation and Development (OECD), the Organization for Security and Cooperation in Europe (OSCE), the World Trade Organization (WTO), the Organization of the Islamic Conference (OIC), the Black Sea Economic Cooperation Organization (BSEC), the Economic Cooperation Organization (ECO), and the Developing 8 (D-8). Since October 2005, Turkey has been a candidate country to join the European Union.

Effective use of support

The process of Turkey becoming an EU member started as early as the late 1950s. The process has strongly influenced Turkish foreign policy ever since. Recently, Turkey has begun to extend its economic ties beyond the Balkans, the Middle East and the Caucasus and Central Asia. Its official vision for the 21st century is to become a fully integrated member of the European Union and also to become a leading country in the Middle East. Turkey participates, in the role of permanent observer, in the activities of the Organization of American States, the Association of Caribbean States and the African Union. It seeks to establish similar links to the Arab League and the Association of South East Asian Nations.

For the most part the international community considers the Turkish government to be a credible and reliable partner, although some, especially Western governments as well as Kemalists in Turkey, maintain suspicions of an alleged “hidden agenda” of the AKP.

Credibility

Turkey’s political leadership is willing to develop good neighborly relations. According to the Ministry of Foreign Affairs, the primary objective of Turkish foreign policy is to help secure and nurture a peaceful, stable, prosperous and cooperative regional and international environment that is conducive to human development at home as well as in neighboring countries and beyond.

Regional cooperation

Turkish foreign policy bears out these intentions. Although Turkey has long-standing tensions with Greece, mutual cooperation does exist. Regular talks between the Turkish and the Greek government also take place. Turkey has increasingly cooperated with Bulgaria and has long played an important role in mediating the Middle East conflict, particularly between Syria and Israel. Turkish relations with Armenia constituted another problematic issue in the past. Abdullah Gül’s official trip to Armenia in September 2008 began a period of observable progress in this regard. Although tensions between Armenia and Turkey are by no means eliminated, the visit was a move toward establishing better relations between the two countries.

Another problematic issue is that of Cyprus. Turkey maintains and subsidizes the Turkish Republic of North Cyprus and has hostile relations with the Republic of Cyprus. It has so far failed to meet the European Union's demands to open its harbors and airports to Greek Cypriot shipping and aircraft. In 2004, however, Turkey has played an important positive role in the attempt to solve the Cyprus conflict. It is expected to do so again in the current negotiations between the presidents of the two communities in Cyprus. Turkish Prime Minister Erdoğan has, on the other hand, indicated that Turkey is not willing to accept a solution adverse to its interests, even if that position was to lead to sanctions by the European Union, such as impeding or arresting the Turkish EU accession process. The Cyprus issue remains unsolved and is still a sensitive affair for Turkey.

Strategic Outlook

In 1999, the European Union for the first time declared Turkey a candidate country and thus eligible for admission. Since then, the goal of EU accession has been, even more than before, the major motivating force for the transformation of the country. The accession partnership adopted in 2001 provides Turkey with a roadmap to bring about democracy, rule of law, human rights and respect for and protection of minorities. According to a European Commission report, Turkey fulfilled the Copenhagen criteria by December 2004. This was a prerequisite for EU membership. The European Union officially started membership negotiations with Turkey on October 3, 2005.

A broad social consensus exists in Turkey with respect to the course of political reform; however, the lack of credibility of EU policies towards Turkey has weakened the position of the country's pro-European reformers. Some EU member states, particularly those with a conservative or Christian Democratic government, frequently indicate their reluctance to accept Turkey as a full member irrespective of its compliance with the Copenhagen criteria. These countries cite religion, geography, demography, economic development as well as the legitimate concerns over defective democracy and an unsatisfactory condition of human rights as impeding factors to Turkish membership in the European Union. The Turkish government faces the challenging task of transforming these resentments.

With regard to economics, the recent positive economic developments are creating serious and highly promising business opportunities for local and multinational companies. The FDI inflow (peaking at \$20 billion in 2007, before being reduced to \$11 billion due to the global financial crisis) is clear evidence of such a trend. Tight fiscal and monetary policies and structural reforms became the main anchor of Turkey's stability and growth. The Turkish government should continue these policies. The labor market has recently started to improve, but needs to gain more momentum.

Although the strength of the domestic economy, higher oil prices, a strengthened Turkish lira and increased substitution between domestically produced raw materials and imported goods resulted in a current account deficit of 6.3% of GDP in 2008, the extreme income disparities between rural and urban regions, particularly in the east and southeast regions of the country, remain an ongoing source of social problems. The question is whether the Turkish political system has reached a solid degree of sustainability and will thus continue to make further progress on its path to comply fully with democratic norms. Although the military has refrained from major interventions during the period of study, it has made its continuously powerful voice heard and may feel tempted to intervene once the AKP government crosses certain red lines. Several events, on the other hand, inspire a certain degree of optimism. The court case that the government opened against the AKP (charged with violation of secularism) in March 2008 and concluded in July of the same year did not result in the outlawing of the party but rather in

reduced public funding for its activities for a certain period. At the same time, the police arrested a number of high-ranking officers and officials on charges of being involved in the Ergenekon network, which was advancing plans for another military putsch. On the other hand, the AKP has accepted certain rulings by the constitutional court outlawing some laws it had advocated (notably the repeal of the ban of female headscarves in state universities). Altogether Turkish democracy appears to have gained stability.

Together with the challenge of creating a consolidated European democracy, the country faces the question of whether Turkish nationalism, which has been dramatically on the rise lately, can be transformed into a spirit of pro-European reform. In addition, a potential “no” vote of the European Council with regard to Turkish accession would have significant, though unpredictable, repercussions on Turkey’s domestic situation. Several European countries are already strongly advocating a “preferred partnership” between the European Union and Turkey, thereby hoping to prevent the country from becoming a full member state. Such an outcome would have grave social and political implications for Turkey.