New book assesses the changes in Turkey’s political economy during 2000-10

There is a widespread perception that the past decade has been transformational for Turkey. In October 2011, three workshops in Istanbul, Brussels and Washington D.C. brought together experts on many aspects of Turkey’s political economy to exchange views on the nature of the changes during the past decade:

- How important were the changes?
- How much did they actually move the foundations for inclusive and sustainable growth?
- What gaps and challenges did they leave or create?

A large range of views made for vigorous debates. Still, patterns of consensus and divergence in views became clear. Describing these is the objective of the book entitled “Turkey 2000-10: A Decade of Transition-Discussions Among Experts” by Sena Eken and Susan Schadler.

Nowhere was the change in the economic landscape clearer than the approach to macroeconomic and financial policies. The macro environment had reached a crescendo of instability at the turn of the century: inflation had hovered around a growth-defying 80 percent for years; savings rates had fallen; the financing of soaring fiscal deficits had pushed public debt, real interest rates and capital inflows to unsustainable levels; and, risk-taking by undercapitalized banks went uncurbed. This perfect storm of vulnerabilities paved the way to Turkey's most devastating post-war economic crisis in 2001, pressing the necessity for a broad post-crisis reformulation of macroeconomic policies and institutions.

That reformulation changed the tenor of economic policies and helped secure strong economic performance during the middle of the decade. From the introduction of inflation targeting and central bank independence, to fiscal control, to financial sector supervision, the changes put Turkey in the company of emerging market countries with better economic policy frameworks. These changes were viewed as having been key ingredients of the speed and strength of recovery from the hard impact of the global crisis later in the decade.

But changes, even ones that endure a decade of challenges, can be undermined as they encounter new circumstances. Thus, the most actively debated question concerning macroeconomic policies was whether the monetary, fiscal and financial frameworks crafted over the decade continued to enable policy decisions that will steer the economy away from the risks of overheating, excessive dependence on foreign financing, and unsustainable domestic indebtedness. It was certainly too soon to tell whether the achievements would be permanent. Moreover, with successes came higher expectations and greater ambitions for the speed of income convergence with advanced countries and for the inclusiveness of prosperity.

A dominant theme was that macroeconomic stability was necessary but not sufficient for strong and sustained growth in Turkey. Perhaps the most common distinguishing differences between countries that reach their potential and those that do not are found under the rubric of structural and social policies. On these policies, there was a wide range of views. While change for the better had occurred in several areas, serious impediments to strong and equitable growth
remained to be tackled. Attention was especially focused on policies that would render the education system better at meeting the needs for creative thinking and skills required to power employment growth. These goals called for innovation in both the curriculum and objectives of education. They would also depend on changes in the role of and attitudes toward women in the economy, and efforts to tailor regional policies toward more growth in weaker regions.

Like all open economies, Turkey had faced new challenges stemming from globalization during the decade. Turkey's success in meeting these challenges was attributed in no small part to its shift toward more outward-oriented trade and supporting diplomacy. This shift in perspective, along with stable macroeconomic conditions and the new vitality of intermediate technology lines of production, had contributed to a renewal of export growth, particularly to new Middle and Near East markets. A vigorous debate took place around the question of whether an industrial policy focused on promising export sectors might have led to faster, better diversified, and higher technology exports.

The goal of European Union accession had been a profound force for change—political, social, and legal—during the decade and had contributed importantly to economic successes. However, the vigor and single-mindedness of the push to adopt changes required by the EU had faded after the middle of the decade. Opinions were divided on what this meant for the future. Some felt that the absence of an EU push would eliminate interest in continued pursuit of many institutional changes. Others felt that changes early in the decade in response to the drive for EU accession had set in motion a process that would eventually resume.

Overall, the consensus on the impact and durability of Turkey's decade of change was cautiously optimistic. True, there were immediate challenges on the macroeconomic front, particularly reining in the excessive dependence on foreign financing by raising domestic savings and containing inflationary impulses that had come at the end of the decade. But a policy framework for tackling these problems was in place if the will to use it to those ends was present. Structural and social challenges—not met as decisively as they should have been during the past decade—remained substantial. Should choices be made to address these actively, Turkey could secure a stronger and steadier development path in the decade to come.

Turkey 2000-10: A Decade of Transition-Discussions Among Experts published by Foreign Economic Relations Board of Turkey (DEİK) is available at:

http://www.deik.org.tr/4511/T%C3%9CRK_EKONOM%C4%B0S%C4%B0NE_10_YILLIK_BAK%C5%9E.html

About the Authors:

Sena Eken is an economist with extensive experience in the formulation and implementation of macroeconomic, financial, and structural reform policies related to developing, emerging market, and advanced countries. After receiving her B.A in economics from Robert College in Turkey, she did graduate studies in economics at the University of Essex in the U.K., and received her Ph.D. in economics at the University of Pittsburgh in the U.S. She is currently an independent consultant. Her professional experience includes senior positions at the International Monetary Fund,
including as Assistant Director in the Middle East and Central Asia Department; an advisor to the Governor of the Central Bank of Turkey; and scholar positions at the Foreign Economic Relations Board in Istanbul and at the Middle East Institute in Washington D.C. In these capacities, she led or participated in missions to over 35 countries, undertook policy-oriented research on a wide range of country-specific and regional issues, and published over 30 articles and books.

**Susan Schadler** is a Senior Fellow at the Centre for International Governance Innovation in Waterloo, Canada and a non-resident Senior Fellow at the Atlantic Council in Washington D.C. She also consults with a variety of international organizations. She is a former Deputy Director of the International Monetary Fund’s European Department. In this position she led surveillance and lending operations to many European countries, including Turkey, and managed research teams working on European economic issues.