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Introduction

S. Togan and V. N. Balasubramanyam

The papers that make up this volume were presented at the conference on Turkey, Central and East European (CEE) countries and the EU, held at Bilkent University, Ankara, Turkey, on 9–10 March 1996. A legal structure that promotes entrepreneurship, competition and the institution of prudent monetary and fiscal policies is a prerequisite for membership of the EU. This volume analyses these and related issues in the context of the Turkish and CEE economies.

The volume is divided into three parts, the first of which analyses international trade and macroeconomic issues. In Chapter 2 Sübidey Togan provides an empirical analysis of the consequences of opening up Turkey and the CEE countries to competition from the EU. After comparing the CEE and Turkish economies Togan considers the trade agreements that Turkey and the CEE countries have signed with the EU. He shows that the Turkey–EU Customs Union Decision (CUD) has offered rapid liberalisation of trade. Similar considerations apply to the Europe Agreements (EAs). He then compares the CUD provisions on harmonising commercial legislation with those of the EAs. After discussing issues related to competition policy and state aid the author analyses the potential for trade between the EU, Turkey and the CEE countries. He argues that once free trade agreements have been signed between all the parties, trade between these countries should increase considerably.

In Chapter 3 V. N. Balasubramanyam and Neil Corless discuss foreign direct investment (FDI). The authors analyse the implications of Turkey's membership of the EU, the FDI Turkey attracts and whether Turkey's prospects of attracting FDI will diminish if the CEE countries join the EU. The authors argue that the most important factors influencing FDI inflows are per capita income, the trade policy of the host country, price stability, the efficiency wage rate and a stable economic environment. Thus Turkey could attract increased amounts of FDI if it paid more attention to macroeconomic stability and the growth of per capita income. Turning to the likely effects of customs union membership, the authors note that a mere CUD may not suffice to attract increased inflows of FDI. Turkey will attract more FDI if the integration induces a relatively high growth rate, imposes stricter macroeconomic discipline and establishes credible liberalisation measures. In the event of CEE countries becoming members of EU there is some danger of

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diversion of FDI into the CEE, but the diversion is unlikely to materialise in a big way.

In Chapter 4 Hikmet Uluğbay and Osman Zaim study issues relating to fiscal policy in Turkey and the transitional economies of Europe. They consider trends in fiscal variables and matters relating to tax and expenditure reforms, before going on to analyse privatisation, social safety nets and social security within a comparative framework.

P. N. Snowden and C. Yıldırım (Chapter 5) look at financial policy issues confronting the Turkish and Eastern European economies. The authors concentrate on two financial policy considerations implied by the process. On the macroeconomic level they examine the question of exchange rate management in the presence of capital flows and stabilisation policies. On the microeconomic level they consider problems encountered by the banking sector during structural change.

In Chapter 6 Ismail Arslan provides an exhaustive analysis of investment incentives in Turkey. The author notes that the Turkish government has promoted investment by means of various incentives since the 1960s, encouraged private investment, attempted to use investment incentives as a tool of regional policy and oriented resources towards favoured industrial sectors. It is emphasised that the incentive system has not worked well as a tool of regional policy and at most has met with mixed success in promoting investment. It is shown that Turkey has extensively subsidised various industries through the incentive system, but subsidisation is against the guidelines laid down in the EU–Turkey CUD.

Cevdet Denizer (Chapter 7) deals with the transition in Eastern Europe and the former Soviet Union. The author studies the determinants of growth and inflation and shows that the reforms have been successful in reducing inflation and restoring growth, but that the initial conditions in these economies were important. The policy variations between the transitional economies is explained by their politics, perceptions and aspirations. Denizer then considers the growth prospects of these economies. He argues that countries with strong reform efforts can enjoy rapid rates of per capita growth.

In chapter 8 David Sapsford, David Greenaway and Steve Leybourne analyse the effects of trade liberalisation on economic growth in Turkey. Utilising smooth transition analysis to estimate the relationship between trade liberalisation and economic growth, the authors study the Turkish growth experience over the period 1950–90 and show that liberalisation promoted a significant increase in GDP but was accompanied by a deterioration in the rate of growth of real GDP.

The subject of Part II is law and economics. In Chapter 9 Stilpon Nestor studies the main elements of a market economy's legal framework, focusing on private property rights and institutions. Addressing constitutional reform and general private law in transitional economies, the author concentrates on the definition and determination of private property rights and studies the legislative framework for the creation, functioning and dissolution of

commercial companies. He then considers elements specific to transition, such as foreign direct investment, corporatisation and privatisation legislation. In the final section the author emphasises the importance of a proper private legal framework and its enforcement, and maintains that the successful establishment of a stable legal framework for property rights and their enforcement in the Czech Republic, Hungary and Poland was reflected in their accession to the OECD in 1995–96.

In chapter 10 Tuğrul Arat, Turgut Tan, Izak Atiyas and Erdem Başçı deal with the legal framework for private sector activities in Turkey. The authors note that the essential components of this have been in existence for quite some time. In Turkey, market-oriented rules regulating property rights, contracts and company governance have become part of economic and social life. According to the authors, significant effort is still necessary in respect of competition law, a regulatory framework for the participation of the private sector in the provision of infrastructure, and enhancing the transparency and competitiveness of government procurement.

Shyam Khemani (Chapter 11) discusses the design and implementation of competition law and policy in transitional economies with reference to Russia and the CEE countries. After describing the constraints on the effective implementation of competition law the author discusses the ‘best practice’ application of competition law, policy and statutes in selected transitional economies.

The fourth and final chapter in Part II, chapter 12 by Nurkut Inan and Gamze Öz, analyses the Turkish Law on the Protection of Competition, adopted in 1994. After discussing the rationale of the Act the authors consider the purpose, scope and implementation of the Act. The final sections of the chapter concentrate on the consequences of infringing the competition rules and the impact of the CUD on Turkish competition law.

Part III deals with geostrategical considerations and consists of a single chapter – chapter 13 by Ali Karaosmanoğlu. The author looks at the prospects of a security relationship between the CEE countries, Turkey and Western Europe. After concentrating on issues relating to NATO enlargement and the security interests of Turkey and Western Europe, the author considers perspectives for the future.

The European Council meeting in Luxembourg on 12–13 December 1997 emphasised that the CEE countries had to speed up the implementation of policies to comply with the EU *acquis communautaire* and that the accession of applicant countries will depend on their compliance with the Copenhagen criteria. In the case of Turkey, the Council emphasised that Turkey should be brought closer to the EU in every field. The thirteen chapters in this volume cover issues relating to the pursuit of prudent monetary and fiscal policies, appropriate competition, trade and foreign direct investment policies, approximation of laws and adoption of the EU *acquis*. The volume should be of value to both policy makers and academicians in the CEE countries and Turkey.