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CAPTURING VALUE WORLDWIDE<sup>SM</sup>



## Country Profile: Turkey

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A handwritten signature in dark blue ink that reads "James S. White, Jr." The signature is written in a cursive, flowing style.

# Turkey: East Meets West



The legacy of Mustafa Kemal, the founding father of modern Turkey, is visible everywhere in the country. Most public monuments and the nation's currency *Lira* all bear the hallmark of the great leader.

**T**urkey, a country with a history dating back to the dawn of civilization, has tales of blood, tears, and triumphs to tell. The land provided the backdrop to Homer's *Iliad* and some of the great battles which shaped the course of world history. The country, which spans both Europe and Asia, seems to present a picture of contradiction, as it embraces both Islam and secularism, and maintains ancient traditions while remaining modern at the same time. In fact, these contradictions form an integral part of Turkey's identity and fuel the aspirations of a country jostling for a place among the world's developing economies. Firmly rooted in the progressive ideals of its founding father Mustafa Kemal, Turkey is often projected as a beacon of tolerance and peace among Muslim-majority nations. The country, which makes no secret of its ambition to join the European Union, has been making giant strides in implementing social as well economic reforms to attain that goal.

## The rise of the Ottoman Empire

The Anatolian peninsula, which comprises the greater part of modern Turkey, was inhabited by many tribes and races from ancient times. After the Persian Achaemenid Empire's occupation during the fifth and sixth centuries B.C., Alexander the Great dominated the region for a time, before the Roman's began rule. Sultan Mehmed II captured the Roman city of Constantinople in 1453, an event which many historians mark as the end of the Middle Ages and the beginning of the Modern Age. Curtains came down on the majestic Byzantine Empire and out of its embers rose the Ottoman Empire, which would hold the center stage in world affairs for centuries to come. The fall of the city of Constantinople was also significant in that it brought an end to the supremacy of Christendom and papal authority. Culturally, the conquest led to far-reaching consequences, as many citizens escaped from the city to different parts of Europe, mainly Italy, which encouraged the flowering of the Renaissance movement. The cultural reawakening ignited a renewed interest in classical literature, art, and science. Economically, the conquest led to the closure of trade by land between Europe and Asia, which encouraged European explorers to

discover new sea routes to Asia.

## **Mustafa Kemal midwives a new republic**

The history of modern Turkey began when Mustafa Kemal “Ataturk” (Father of the Turks) established the Republic of Turkey in 1923 from the ruins of the Ottoman Empire, which collapsed following its defeat in the First World War. A visionary, Kemal implemented a number of social, legal, and political reforms intended to take the infant nation forward. The country was ruled by a single political party for around 25 years until the opposition Democratic Party came to power in the 1950 elections in a peaceful manner.

However, the peaceful state of affairs did not last long, marred by intermittent military coups. The opposition Republican People’s Party, which had lost successive elections in 1955 and 1957, accused the ruling government of clamping down on freedom of the press and deviating from the principles of Mustafa Kemal. The dissenting voices, which grew louder, also had the support of the country’s military. Finally, the first and the most significant of the nation’s military takeovers occurred on May 27, 1960, when the then Prime Minister Adnan Menderes of the Democrat Party was overthrown and executed after a long trial. The military intervention of 1960 sowed the seeds for the subsequent military coups in Turkey in 1971, 1980, and 1997.

Turkey also intervened in the neighboring island of Cyprus when the Greek military abetted a coup on the island nation, which deposed the then Cypriot president Makarios. The sectarian differences between Greek Cypriots, who formed the majority of the island’s population, and the minority of Turkish Cypriots spurred Turkey into action. Turkey’s military action and

### **Turkey and the World**

Nominal GDP	\$ 734,853 million
GDP Rank	17/191
Per Capita GNI	\$9,020
Per Capita GNI Rank	78/210
Population Rank	18/223
Geographical Area Rank	37/249
Global Competitiveness Rank	61/133
Economic Freedom Index Rank	67/179
Human Development Index Rank	79/182
Major Industries	Basic Industries, Banking, Transport, Communication, Textiles and Clothing, Automotive, and Electronics

occupation of vast swathes of Cypriot territory in August 1974 led to the creation of the Turkish Republic of Northern Cyprus, which is recognized only by Turkey.

The ethnic Kurds, who form a minority in Turkey, have long complained that they are being discriminated against by the country's government. Kurds also accuse the government of committing human rights violations. The Kurdistan Workers' Party (PKK), later known as People's Congress of Kurdistan or Kongra-Gel (KGK) launched a separatist insurgency movement in 1984, which continues to be a serious internal problem, resulting in the loss of many lives. The rebels lied low for a while, only to strike back by calling off the ceasefire in 2004, which led to a fresh eruption of violence. In the wake of the renewed hostilities, the Turkish



Turkish baths are an integral part of the country's cultural heritage. Now considered more of an exotic thing to do when you are in Turkey, the *hamams* or bath houses, served as public meeting places for the country's women folk in earlier days.

government extended an olive branch to the Kurds in 2009, by promising to bring down the number of troops stationed in areas populated by the Kurds.

Turkey became a member of the United Nations in 1945, and in 1952, the country entered the NATO. Now, the country is also a non-permanent member of the UN Security Council. Currently, Prime Minister Recep Tayyip Erdogan of the Justice and Development (AK) Party is in power in Turkey.

### **Literature, *hamams*, and women's freedom**

Turkey professes itself to be a democratic, secular, and constitutional republic. The majority of the population consists of ethnic Turks, while the Kurds constitute a minority. Islam is the predominant religion and Turkish is the official language. Ankara is the capital and Istanbul the largest city. Modern Turkey is a cultural cauldron, a confluence of Ottoman, European, Middle Eastern, and Central Asian traditions. Charting a path apart from the religion-driven Ottoman empire, Mustafa Kemal made a clear demarcation between religion and state, aiming to transform Turkey into a modern nation. Kemal's government patronized fine arts such as paintings, sculpture, and architecture. Turkey also has contributed to world literature, counting Nobel Prize-winning post-modern novelist Orhan Pamuk among its citizens. Nazim Hikmet, who was inspired by the Soviet poet Vladimir Mayakovsky, introduced a new style of poetry writing.

Turkey is also a tourist's delight, exhibiting its rich cultural heritage from the Roman occupation to the Ottoman era, including remains of some magnificent churches and historical monuments. The country, which witnessed the blooming of many cultures, also nurtured the tulip flower, which was introduced to Europe during the Ottoman rule. Turkish architecture, which combines the influence of many cultures, flourished during the Ottoman period. A visit to Turkey would not be complete without the indulgence of a Turkish bath. The bathing places, known as *hamams*, were initially attached to mosques, but gradually developed an improved style and functionality. Somewhat similar to a modern-day sauna, the method of relaxation and cleansing the body soon evolved into a popular pastime during the Ottoman rule, with separate cubicles for men and women. Some of the *hamams* were also known for their architectural beauty. *Hamams* in present-day Turkey are found only in up market hotels meant for tourists.

While women have made significant strides in Turkey toward acceptance and public respectability, some contradictions still exist. Inspired by Kemal Ataturk's legislations and his exhortation to women to become independent, Turkey elected its first female Prime Minister Tansu Ciller in 1993. Educated Turkish women are equally at ease whether they don the modern hat of a business tycoon, aspiring model, glamorous TV journalist, or dogged lawyer. The government prohibits wearing of headscarf in government offices, schools, and universities. However, behind closed doors, average Turkish women still seem to be dominated by their male counterparts. In traditional Turkish villages, women were only allowed to get together at places such as *hamams* and the public laundry. As people migrated in large numbers to the cities, most uneducated women now find themselves virtually confined to the four walls of small city apartments.

## Eastward Ho!

After their great exodus from Central Asia to Anatolia in the Middle East about a thousand years ago, the Turks held sway over the entire region. However, with the fall of Ottoman Empire and the birth of the Turkish Republic, they completely turned their backs on their former colonies and began to look to new-found allies such as several European countries and America. However, things have taken an about-turn in recent years with Turkey trying hard to establish a rapport with some of its Arab neighbors. There has been a phenomenal increase in Turkey's exports to the Middle East and north Africa, valued at about \$31 billion in 2008. Turkish goods such as cars and tableware now flood markets in countries such as Iran, Iraq, and Egypt. Apart from gas pipelines, Turkish construction firms have bagged contracts to build hotels, shopping malls, and even airport terminals in those markets.



Women have made their mark in modern Turkish society with careers such as modeling, law, TV journalism, and teaching, both in schools and universities.

Significantly, Turkey is trying to fill the power vacuum in the region created by the decreasing clout of former Arab heavyweights such as Egypt and Iraq and waning American influence in the wake of the Iraq imbroglio. Turkey's angry reaction to the recent Israeli attack on a flotilla carrying humanitarian aid for the Gaza strip could be interpreted as a rallying cry to the Arab world to gather against the Jewish state or a testimony to the country's growing power in the region. Many of Turkey's Muslim neighbors see the country as a bridge between the East and the West, while the country's western friends consider it a credible example of a modern democracy.

### **In expansion mode after recession**

Turkey has a mixed economy with modern industry, commerce, and traditional agriculture sectors. Interestingly, the farm segment accounts for about 30% of the country's jobs. Notwithstanding a rapidly growing private sector, the state has a significant presence in basic industry, banking, transport, and communication segments. Textiles and clothing make up the largest industrial sector, which creates one-third of industrial jobs. Recently, however, other developing sectors including the automotive and electronics industries have overtaken textiles as the leading contributors to country's exports. After initial setbacks, the economy bounced back in 2001, growing at an average annual rate of 6% or more, although sharp declines were seen in output in 1994, 1999, and 2001. The country enjoyed good growth rates during 2002-07, thanks to a resurgence of investor interest in emerging markets, IMF support, and a prudent fiscal policy. The financial crisis, which engulfed most countries during the second half of 2008, led to a 0.9% fall in the country's GDP, while the GDP shrunk by about 6% in 2009. Remarkably, inflation fell to 6.5% in 2009, the lowest in 34 years. However, the country's commitment to economic and judicial reforms and the prospects of attaining EU membership are expected to give a fillip to foreign direct investment. Significantly, the country recorded total FDI inflows of more than \$180 billion at the end of 2009.

Turkey's financial markets and banking system could emerge from the 2009 global financial crisis relatively unhurt due to the country's implementation of some banking and structural reforms in the aftermath of the financial crisis in 2001. Clocking a growth rate of 6% over the last quarter of 2008, Turkey's economy recovered during the last quarter of 2009. During the first four months of 2010, Turkey managed to increase its exports by 23% to garner \$35 billion in revenues. Industrial production also expanded during this period, with the consumer confidence index exhibiting growth. The country's dismal unemployment scene also showed a slight recovery during the period.

The opening of the Baku-Tbilisi-Ceyhan pipeline in May 2006 which transports up to one million barrels per day from the Caspian Sea to the domestic market was a major boost to the country's resources sector. Besides, some oil producing nations have plans to develop several

gas pipelines to help move Central Asian gas to Europe via Turkey.

To sum up, the country's economic fundamentals remain sound, but could face headwinds in 2010 as the global economic slowdown continues to curb demand for Turkish exports. Still, the OECD has forecasted 6.8% economic growth in 2010 and 4.5% next year. The agency, however, cautions that new jobs created won't be sufficient to cater to an increasing labor force and forecasts that unemployment will rise further, hitting 15.9% in 2011.



The OECD has forecasted 6.8% economic growth for Turkey in 2010 and 4.5% next year. However, the high unemployment rates remain the single biggest impediment to the country's growth as it emerges from the recession.

## Aspiring for European Union Membership

Turkey had always wanted to become a part of the European community, beginning in the mid-19<sup>th</sup> century, when the Ottoman Empire tried to introduce certain reforms modeled on European principles. The efforts continue today. The nation's European ambitions got a shot in the arm when Mustafa Kemal came to power after the disintegration of the Ottoman Empire. Kemal Ataturk tried to give Turkey a European orientation. After Ataturk's death in 1938, İsmet İnönü more or less followed Ataturk's policies until his death in 1972. Turkey achieved a rare distinction when it became an associate member of the European Community in 1964. Aiming to reach its coveted goal, the country has made dedicated efforts to

strengthen its democracy and economy, and active membership talks with the European Union began in 2005. Turkey's EU membership issue, which still hangs in balance, may finally be resolved if the country patches up with its neighbor Cyprus, which is objecting to Turkey entering the European bloc. Cyprus continues to be a topic of debate between the EU and NATO. If Turkey does manage acceptance into the EU, it would become

the first Muslim nation to do so.


## Challenges Ahead

The army, which has ousted four governments since 1960, remains a threat to Turkey's thriving democracy. Some conspiracies hatched by the army against the government surfaced recently, thanks to some forthright military officers who exposed the renegades within their ranks. The country's politicians, who always have an axe to grind, are no better either. Despite its tall claims, the country has shamefully archaic laws which hamper freedom of expression. In a recent incident of media gagging, the Turkish government imposed a \$3.3 billion tax fine on the country's largest media group for its allegedly hostile coverage of the Erdogan administration.

The row also brought to the limelight the country's notorious taxation system and political interference in corporate affairs. In July 2008, the ruling Justice and Development (AK) Party had a close shave when a court dismissed a petition seeking to ban the party. Such developments continue to threaten the democratic credentials of the country.

Corruption among political higher-ups has become more the norm rather than the exception, with a former prime minister making the headlines recently on bribery charges. Interestingly, opinion polls have consistently showed that the general public considers the army less corrupt than its politicians. Russia and the Ukraine, known for rampant levels of corruption, are the main contributors of foreign direct investment into Turkey, rather than countries from Western Europe or North America. Bureaucratic red tape also stands in the way of foreign investments, as Turkish customs regulations are hard to comply with.

On the economic front, the Organization for Economic Co-operation and Development (OECD) recently urged the country to implement fundamental reforms of the labor market to rein in the high unemployment rate. The agency warned that, in the absence of new and more flexible rules, it will be difficult to create more jobs on a sustainable basis. Moreover, Turkey's relatively high current account deficit and dilly-dallying in policy-making are other factors which affect investor confidence.

Notwithstanding these challenges, Turkey is well-placed to emerge as a formidable economy in the years to come. Relative political stability and an atmosphere conducive for economic growth are definite positives for the country. Turkey's attainment of European Union membership would complete the country's great transition from the pages of history to a truly globalized economy, a status the country aspires to attain. 

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