

Turkey

The government is on notice from the army that there is no room for the premier's brand of Islamist politics. John Barham reports

Living in the long shadow of Atatürk

Kemal Atatürk died nearly 60 years ago, but remains Turkey's dominant figure. Giant paintings of Atatürk in various poses and uniforms hang from state buildings in Ankara on national holidays.

Every year, at exactly five minutes past nine on the morning of November 10, the moment Atatürk died in 1938, Turks everywhere stand still for a minute of silence. His mausoleum complex on a hill in the capital is a secularist shrine. Last November 10, a record 750,000 people visited the tomb. Last year 2.25m people paid their respects there, nearly twice as many as in 1995.

His profile adorns every Turkish banknote, coin and postage stamp. By law, his portrait must hang in every public office. Every school must have a bust of Atatürk. Kemalism, the national ideology bequeathed by Atatürk, is drummed into children in every school.

Turkey and North Korea are the only countries in the world to practise a personality cult on such a scale, and where the national ideology remains a cornerstone of the state. Kemalism holds that Turkey is a secular, unitary state with a single language and a single flag. Its borders cannot be altered and neither, says the constitution, can its secularist principles.

These principles have served Turkey reasonably well over the past 74 years since Atatürk built the republic out of the wreckage

of the Ottoman empire. Kemalism set a backward, rural nation on the road to becoming a modern state. However, as Turkey has developed, so the limitations of Atatürk's legacy have become more apparent.

The confrontation between the army, the guardians of Kemalism, and Mr Necmettin Erbakan's Islamist government is proof enough of this. The army has decided there is no room for his brand of moderate Islamist politics in secular Turkey. Generals acting in the name of democracy have been putting pressure on the legitimately-elected prime minister to quit. Turks take this warning seriously: the army has staged three *coups d'état* in 37 years.

Gen Cevik Bir, deputy chief of staff, argues that the armed forces "uphold the democratic nature of our state. The basic tenets of our democracy [are] secularism as well as individual rights and liberties within the unitary system of government [The armed forces expect] everybody in our country to fully observe and conform to these basic principles".

Mr Erbakan, 69, quoting Atatürk, says "ascendancy to the constitution, sovereignty belongs to the people unconditionally. No one can impose conditions. He who is democratic must respect the nation's decision. Elections were held and the nation has indicated the solution".

Some argue that the confrontation is not a crisis of the system but a product of

Turkey's fractious party politics. Mr Erbakan, who represents just 21 per cent of the electorate, only took power because the secularist parties to the left and right are too deeply divided by personal rivalries to govern.

Others question Mr Erbakan's democratic credentials. Mr Alan Makovsky, a Turkey watcher at the Washington Institute for Near East Policy, states that "Erbakan's relative moderation in office smacks more of opportunism, than of conviction or democratic evolution".

There are those who say Turkey now has an historical opportunity to re-evaluate Kemalism. Mr Ertuğrul Özkök, editor of the opposition newspaper *Hürriyet*, wrote last month that "with out calling it a second republic we are already in fact discussing its need. Turkey is questioning the republic proclaimed in 1923. Now is the right time to begin discussing the possibility of a second republic".

The crisis of Kemalism goes beyond the army's confrontation with Mr Erbakan. The secular state is decaying, corroded by corruption and overwhelmed by debts piled up a dysfunctional public sector. The economy is drifting for lack of effective government. Inflation, under-employment and low incomes are chronic problems. Society is becoming polarised between secularists and Islamists, right and left, Kurds and Turks, Sunni Muslims and the large minority Alevi sect which



- Area:** 780,360 sq km
- Population:** 61.8 m (1995 mid-year est)
- Language:** Turkish
- Main towns and population (1995 mid-year estimate)**
 - Ankara (capital) 3,524,000
 - Istanbul 8,796,000
 - Izmir 3,065,000
 - Adana 2,123,000
 - Bursa 1,872,000
- Currency:** Turkish Lira (TL)
- Exchange rate:** 1996 average \$1 = TL61,876.38
- May 22 1997 \$1 = TL137,750.00
- Form of state:** Parliamentary republic
- Legal system:** Based on European models and continuation of 1962
- National legislature:** Unicameral Meclis (parliament) of 550 members directly elected for a five-year term
- Electoral system:** Universal direct suffrage over age of 18. Only parties gaining more than 10% of the national vote are eligible for seats in the parliament
- National elections:** December 31 1998; next elections due by December 2000
- Head of state:** President, elected by an absolute majority of the Meclis for a seven-year term. Currently Bülent Ecevit, elected in May 1993
- National government:** Parliament voted confidence in a new cabinet on July 8 1996. The government consists of a coalition between the Welfare party, led by Necmettin Erbakan, who will hold the premiership until July 1998, and the True Path party led by Tansu Çiller, who will be prime minister for two years after 1998
- Main political parties:**
 - Islamist - Welfare party (FP)
 - Centre-right - Motherland party (ANAP), True Path party (DYP)
 - Centre-left - Democratic Left party (DSP), Republican People's party (CHP)
 - Nationalist right - Grand Unity party (BBP), Grand Turkey party (BTP)
 - Independent pro-Kurdish - People's Labour party (HDP)

	1996 Estimate	1997 Estimate
Total GDP, nominal (\$bn)	182.9	194.0
Real GDP growth (annual % change)	7.9	5.0
GDP per head (\$)	2,921	3,049
Inflation, period average (annual % change in CPI)	80.4	78.0
Industrial production (annual % change)	7.1	8.0
Unemployment rate (recorded, %)	7.2	7.8
Money supply, M2 (annual % change)	106	80
Foreign exchange reserves (\$m)	16,436	16,000
Government expenditure (% of GDP)	26.8	28.9
Total foreign debt (\$m)	79,721	82,118
Current account balance (\$m)	-8,967	-7,869
Merchandise exports (\$m)	22,744	24,564
Merchandise imports (\$m)	-42,400	-46,840
Trade balance (\$m)	-19,656	-22,077

Main trading partners (share of total trade to world, 1995)

Exports	Imports
Germany 23.3%	Germany 15.5%
US 7.6%	US 10.4%
Italy 6.1%	Italy 8.9%
UK 6.3%	UK 5.1%
EU 81.2%	EU 47.2%

practices a heterodox form of Islam. Secular Turkey is also losing its validity as a model for the Moslem world, so the debate over secularism and democracy, the roles of Islam and the armed forces in a modern state has wider implications both for Moslem states and for western

governments that fear political Islam. However, the authorities avoid discussing these questions. President Süleyman Demirel, topped twice as prime minister by the army and now Turkey's respected elder statesman, says: "We must strive to heal the wounds of the system.

Attempts to replace this system with a new one would cause heavy sacrifices." An army general was blunter, saying "Atatürk and his friends would spit" on anyone who tampered with the secular state. Mrs Tansu Çiller, deputy prime minister, is also ducking the question. As

leader of the centre-right True Path party, the government's junior coalition partner, she appears more intent on remaining in power and attempting to unite the divided conservative movement under her leadership. She says: "Let us not politicise secularism and religion. We are not going to become

a world power by wasting our time wondering if we are going to be another Algeria."

The debate has moved from parliament and on to the streets and into the media. Television devotes prime-time slots to long political debates. Demonstrators have marched peacefully in their hundreds of thousands, most of them to support secularism. Even concerts of western classical music have become a celebration of secularism.

Turkey needs to reform if it is to evolve into a fully modern state, where the powers of government, the armed forces and the mosque are clearly circumscribed and the rights of individuals and minorities, such as the Kurds, are respected. But the military opposes any reform, claiming that it might lead to dissolution of the unitary state.

Turkey must also change to fulfil Atatürk's dream of becoming part of Europe. Many Turks suspect their country's Moslem identity will always prevent membership of a Christian EU. However, a European diplomat said: "We can accept a Moslem state [in the EU] but not a Kemalist one".

The shape a new republic might take is far from clear. Transition is likely to be slow, confusing and possibly violent. In spite of apprehension over the army's resumption of a direct role in politics, one newspaper columnist says Turkey is living through a "soft coup" - the country has avoided unrest. There is no guarantee this will continue.

Turkey has a history of political violence. Twenty people a day died during fighting between extreme left and right wing factions in the 1970s. The 12-year Kurdish rebellion in the south-east has cost more than 20,000 lives. The ageing Mr Erbakan is no rabble-rouser, but there are younger and more aggressive men in his Welfare party ready to take his place.

Yet Turkey also responds well to strong leadership, as Atatürk's career shows. In the 1980s, Turgut Özal, a former prime minister and president, liberalised the economy and created a dynamic new entrepreneurial class. Turkey has not yet found a leader for the 1990s and time is running out.

II TURKEY

THE ECONOMY • by Metin Münir

Exception to a rule

The ability to sustain growth despite persistent inflation baffles economists

Turkey's ability to achieve impressive growth rates despite high endemic inflation is one of the mysteries of economics.

A World Bank study covering 127 countries suggests that inflation rates of above 40 per cent affect growth rates "severely, negatively". The study found that during an "inflation crisis" - which is defined as a rate of 40 per cent or higher prevailing for two consecutive years - countries experience growth which is both significantly below the world average for the period and under the country's own growth rate prior to the outbreak of the crisis.

Turkey is an exception to this rule. "Turkey's performance over the past two decades defies the conventional wisdom that high inflation is necessarily associated with low growth," says the World Bank.

Turkey started the decade with an inflation rate of around 60 per cent, which drifted toward the current level of about 80 per cent. GNP grew by 8 per cent in 1995 and 7.9 per cent in 1996, corresponding to 92 per cent and 80 per cent inflation respectively.

The government has a growth target for this year of 4 per cent and an inflation target of 65 per cent. Both are likely to be surpassed.

"I must confess that Turkey's ability to sustain growth despite persistent inflation baffles economists," Mr Frederic Temple, head of the World Bank mission in Turkey, told businessmen in Istanbul recently. "Indeed, it even frustrates them."

Turkey seems to have chosen the Italian model for development: growing from poverty to wealth under high inflation, a weak currency, budgetary anarchy and revolving-door governments.

Growth is subject to contradictory pressures. While

Officially registered foreign trade (\$bn)

Year	Exports	Imports	Balance
1991	13.59	21.04	-7.45
1992	14.71	22.87	-8.15
1993	16.35	29.42	-14.08
1994	18.11	23.27	-5.16
1995	21.64	35.70	-14.07

Source: TEB Research

the private sector is dynamic, versatile, resilient and flexible, the state sector, which still dominates the economy, is inefficient, corrupt and a huge drain on resources.

The public sector, which is overmanned and underproductive, extends from traditional services and utilities to a wide range of primary and secondary industries. It accounts for 10 per cent of employment and 25 per cent of the large-scale corporate sector's manufacturing output, according to the World Bank.

State dominance in the banking sector is even stronger. Six of the 10 largest banks are state controlled. In 1995, over 43 per cent of total deposits in the banking system and about 38 per cent of assets were in state banks.

It is the performance of the state sector which is, ultimately, at the root of inflation and its main cause is government overspending.

According to IMF data, at just under 30 per cent of GDP, the level of public expenditure in Turkey is 50 per cent higher than those of other middle-income countries.

In 1996, the budget deficit jumped to 8.2 per cent of GDP from 4 per cent the year before. At year-end, the domestic debt had grown by 28 per cent to nearly \$30bn.

The consolidated budget deficit rose by 113 per cent in real terms to \$14.95bn from \$6.89bn the year before. The main reason behind this deterioration was the high real interest rates on domestic borrowing and short maturities.

The Treasury had to roll some of its maturing debt three times within the year, substantially amplifying interest payments. More

than half of government revenues went towards servicing the domestic debt. Interest rates on Treasury bills were forced up by political uncertainty, with compound three-month rates going as high as 286 per cent in early 1996.

According to the Banks Association of Turkey, in April yields at dollar terms net of inflation were running at 15 per cent for three-month tenors and 23 per

Privatisation revenues

Year	(\$m)
1989	131.2
1990	486.3
1991	223.5
1992	422.9
1993	545.5
1994	411.8
1995	515.4
1996	290.8

Source: Privatisation Administration

cent for six months.

The government's economic policy is focused on short-term palliatives centred around raising revenues to reduce borrowing. The Necmettin Erbakan-Tansu Çiller coalition tried to address the problem by introducing a series of so-called "resource packages", which aim to raise \$30bn, mostly from asset sales and privatisation, to obtain a balanced budget.

"Thank God Turkey is a rich country," Mr Erbakan said. "Wherever you turn there is \$10bn to be plucked. Soon we will be able to give aid to the west."

But most items in his packages are either imaginary or wildly optimistic (like \$14bn earmarked from privatisation), and the budget deficit is expected to

grow even wider. TEB Research, one of Turkey's most respected research companies, foresees a budget deficit of \$17bn in calendar 1997.

In 1996, the first year of the Turkey-EU customs union - which resulted in the elimination of virtually all tariff barriers - the trade balance deteriorated sharply. Although official figures for the whole of 1996 have not yet been published, estimates indicate that exports were \$24.9bn and imports \$44.2bn.

For 1997, the government forecasts a 12 per cent increase in imports to \$49.5bn and a 20 per cent increase in exports to \$30.1bn, leaving the foreign trade deficit more or less unchanged at \$19bn. It is widely predicted however that exports will exceed this target in parallel to GNP growth, which is expected to exceed the target of 4 per cent.

The government expects the current account deficit to decline by 18 per cent in 1997 to \$6bn helped by the continuation of the boom in unrecorded exports to former Soviet states.

The IMF believes that "the economy is in a fragile situation" according to Mr Martin Hardy, the IMF assistant director in charge of reviewing the Turkish economy. He believes that strong political will is required to tackle the underlying problems: the budget and trade deficits, endemic high inflation, the bankrupt social insurance service, the ruinous agricultural support programmes, and the inefficient state companies.

Earlier this month Mr Erbakan established a technical group to prepare a medium-term stabilisation programme - something the central bank has been urging him to do since coming to power nearly a year ago. But it is doubtful whether he - or any other politician in the fragmented parliament - will ever implement such reforms, which would challenge powerful entrenched interests or entail hardship for the masses.

TURKEY III

FOREIGN POLICY • by John Barham

Party and ministry in competition

Ankara has much work to do if it is to achieve aim of full EU membership



Tansu Çiller: bid to push Turkey to the front of the queue backfired

Turkey's foreign policy was once immune to political upheavals. However, since Mr Necmettin Erbakan became prime minister last June, his Welfare party, the foreign ministry and the armed forces have each developed their own competing - and sometimes conflicting - policies.

Mr Erbakan departed from Turkey's traditionally pro-western alignment by developing ties with the Moslem world, to the alarm of western governments. At the same time, the generals began deepening their military and intelligence relationship with Israel, warning Mr Erbakan they would not tolerate rapprochement with Iraq.

Meanwhile, attempts by Mrs Tansu Çiller, deputy prime minister and foreign minister, to push Turkey to the front of the queue for European Union membership backfired when the US rejected her threat to veto Nato expansion if Turkey were excluded from the EU's list of countries slated for future membership.

Statements in February by Mr Wilfred Martens, president of the centre-right European People's party in the European parliament, that Turkey was "not acceptable" for EU membership, strengthened Turkish suspicions of European anti-Moslem prejudice. Mr Onur Oymen, foreign ministry director-general, warned of a "cultural, religious iron curtain" replacing the iron curtain that had divided western and eastern Europe.

Still, EU foreign ministers agreed in April that Turkey's membership application would be judged on the same criteria as other countries. However, Turkey, which applied and was

rejected in 1987, may have a long wait. These criteria include tough economic targets, respect for human rights, and a fully functioning democracy. Many Turks believe their country's large population (second in Europe to Germany) and Moslem identity could still prevent it from ever joining.

Member governments say an EU-Turkey customs union that began in January 1996 should be the basis of a special relationship prior to eventual EU membership. But Mrs Çiller said "either Turkey [becomes] a full member or she will not hang on as a second-rate member". Greek vetoes on EU aid and a surge in Turkey's trade deficit with Europe has led to more disillusionment with the customs union.

Friction with Turkey's old rival, Greece, continues. Last year, they nearly came to blows over two uninhabited Aegean islets. Turkey has warned it would declare war if Greece increased its territorial waters in the Aegean from six to 12 miles, as it is legally entitled to. And, in January, Turkey threatened to attack Cyprus after the Greek-Cypriots ordered Russian air defence missiles.

Ankara has stated that it might annex Turkish northern Cyprus, which it has occupied since 1974, if the southern Greek-Cypriot government joins the EU. Negotiations on Cypriot accession begin next year. European

diplomats say Cyprus cannot join while it is divided, hoping the lure of membership will speed reunification and ease tension between Greece and Turkey.

Relations between Athens and Ankara did improve after Mr Theodoros Pangalos, the Greek foreign minister, sprang to Turkey's defence following Mr Martens's comments. The two countries agreed to an EU initiative to create a commission of non-government "wise men" to report on bilateral problems. Yet the Turkish general staff still sees an expansionist Greece as Turkey's principal strategic threat.

The secularist military played a discreet role in foreign affairs when policy conformed to Atatürkist principles. Now it has taken a more prominent role by forging ahead with an independent pro-Israel policy, to Welfare's fury.

Israeli military aircraft crews train in Turkey. Israel Aircraft Industries won a \$650m contract to upgrade Turkish Phantom fighter bombers. The generals want to buy arms from Israel to overcome a *de facto* arms embargo imposed by the US.

Turkey and Israel are also developing a commercial relationship Turkey ratified a free trade agreement to gradually eliminate trade barriers by 2000. Bilateral

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Competition over policy

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trade was only \$448m last year, although Israeli tourists spend another \$250m to \$300m a year in Turkey. Jerusalem expects trade flows to exceed \$2bn by 2000. The military even forced Mr Erbakan to see Mr David Levy, Israel's foreign minister, when he visited Ankara in April.

Quixotically, Mr Erbakan is trying establish Turkey as leader of the Moslem world. Last year, he created the "Developing Eight" - or D-8 - group of Moslem countries that comprises Iran, Egypt, Indonesia, Pakistan, Nigeria, Bangladesh and Malaysia as a counterweight to the rich world's G-7 grouping.

Energy is an important foreign policy issue because energy consumption is growing by 10 per cent a year. Turkey imports much of its energy, so the government

wants good relations with Iran in spite of military accusations that Teheran exports "Algeria-type terror to Turkey" and supports Kurdistan Workers' party (PKK) guerrillas.

Although Turkey expelled the Iranian ambassador for making a speech in February calling for an Islamic republic in Turkey, it is going ahead with a gas pipeline to import \$23bn of natural gas under an agreement Mr Erbakan signed last year.

This has angered Washington, which is expected to block international financing for the pipeline. The US also worries that an increasingly volatile Turkey could increase the region's instability. Mrs Madeleine Albright, US secretary of state, has said "we feel it vital that Turkey remain a secular state". While the US has treated Welfare minis-

ters to glacial receptions in Washington, it has urged the EU to "embed" Ankara in European institutions.

Turkey imports most of its natural gas from Russia, a regional rival. However, domestic turmoil has undermined attempts to increase Turkey's influence in the oil-rich Caucasus and central Asia. A consortium of international oil companies, including Turkey's TPAO, must soon decide where to lay strategic oil pipelines linking Caspian Sea oilfields to western markets.

Turkey wants the principal pipeline to cross its territory, expecting it to yield rich contracts for Turkish construction companies, transit fees for the treasury, and political influence throughout the region. However, the Turkish route is only one of seven under consideration by the consortium developing the reserves.

IV TURKEY

ISLAMIC BUSINESS • by John Barham

Prospering under Welfare

Interest-free lending continues to be a niche market for Islamic finance houses

If Islam has emerged as a powerful new political force in Turkey, its influence is also growing in the corporate world. Fifteen years ago, there were few, if any, such groups. Now, there are thousands of companies claiming to operate along Islamic lines.

Although it is hard to define what Islamic business practice is, beyond the prohibition on usury and an emphasis on ethics, many observers say the sector is growing rapidly. Islamic companies still tend to be small, but they have benefited strongly from the rise to power of Welfare, the ruling Islamist party.

Welfare has strengthened Islamic businesses by dispensing central and local government patronage that was previously denied them.

In Istanbul, governed since 1994 by a Welfare mayor, small Islamic engineering, service and contracting concerns have won city business that once went the way of big local or international groups.

Müsiad, an Islamist business association founded in 1990, now claims 3,000 members. Last year, it had 2,200. Most of these companies, are small or medium businesses based in the Anatolian heartland, operating in low to medium technology sectors such as textiles, construction or furniture-making.

The growth of these companies alarms the army. In February, the military-dominated National Security Council included as part of its anti-Islamist "recommendations" to the government a stipulation that "finance organisations under the control of religious sects should be followed closely and prevented from becoming economic forces".

Mr Ayhan Apak, a director of İhlas Holding, a big

Islamic conglomerate, is irritated that his company should be considered a nest of fundamentalism. He says the group "has no political connotation, no cultural connotation. This is business. You have to work with the rules of the society you live in. The owners of İhlas are good Moslems, and this is a plus in the eyes of the Turkish people".

Mr Vedat Akgiray, a US-trained consultant at İhlas, says: "When people say a company is Islamic, all they mean is that the owner is a practicing Moslem. But business is business. You still have to sell, package, market and produce."

İhlas is well regarded by financial analysts and is growing fast, although no faster than many conventional companies. The company reported revenues up 51 per cent in dollar terms in 1996 to \$714.6m, and net income up by one-third to \$13.5m.

Yet bankers report that İhlas has managed to sew up business deals more easily than it could in the past,

thanks to its good government connections. It has taken a leading role in the privatisation of the state electricity distribution system with access to cheap financing from Islamic banks.

However, an incentive package it negotiated with the government to set up a car factory with South Korea's Kia group unravelled because of strong opposition from the European Union. Brussels argued that the incentives violated Turkey's customs union with the EU.

Yet İhlas has always tried to stay on the right side of the government of the day, whatever its ideology. Mr Apak says the policy of Türkiye, an İhlas-owned newspaper, is to print only good news and avoid criticising the government.

Few groups have risen faster than Kombassan Holding, based in the city of Konya, a Welfare bastion. It was only founded in 1995 but grew rapidly into a conglomerate based on food, construction, light industry and textiles. It has attracted the attentions of the regulators at Ankara's Capital Markets Board, which investigated Kombassan for suspected accounting irregularities.

While some observers say its acquisition in March of Petlas, a state-owned tyre company for \$35.7m, was politically-driven, the deal may backfire. Successive governments have privatised Petlas, only to take it back when the company's new owners failed to pay.

Islamic finance is still a niche market. Bankers estimate that interest-free finance houses hold no more than 3 to 5 per cent of the financial system's assets. Although business is growing, they are probably expanding no faster than conventional banks.

Al Baraka Türk, founded in 1985 after the government lifted restrictions on Islamic finance, is Turkey's biggest non-interest bank. It is owned by Turkish and Gulf investors led by the Saudi Al Baraka banking group. It posted a 19 per cent growth in assets last year to

\$699.3m, and a 26 per cent rise in net income.

Companies can either lease equipment or borrow money, paying a large fee to allow for inflation and a margin for Al Baraka. Fees vary between 9 and 13 per cent depending on the client and the deal Al Baraka is backing. Depositors share in the profits and losses of these operations through "participation accounts".

Al Baraka places no funds in interest-bearing instruments, such as high-yielding government securities that became the road to riches for conventional banks. Although this has led to lower returns for their clients, there is still a steady supply of investors motivated more by religious concerns than financial goals.

There are more than half a dozen interest-free finance houses offering a growing range of services. Even some big banks take the Islamic market seriously. Garanti Bankasi, one of Turkey's top five banks, offers interest-free banking to clients provided they also keep large balances that earn no interest.

Yet international bankers are wary of supporting Islamic businesses. Syndicating their loans in western financial markets is more difficult than for conventional companies. Furthermore, these companies could suffer if they lost their political connections. A consultant says many of them also have weak management, are ignorant of modern technology, and rely on captive markets of the devout or the poor who are unable to afford better quality products.

A fairer assessment would probably conclude that Islamic businesses have many of the strengths and weaknesses of conventional Turkish companies. The more successful Islamic businesses tend to be flexible, tightly-controlled and highly diversified, with fat margins. Yet they are still reliant on political favours, lack focus, and are controlled by ageing founders rather than professional managers.



Markets, small shops and money-changers make up a very large and growing 'grey economy' which is seen as especially important in providing jobs for the poor who would otherwise be unemployed

HUMAN RIGHTS • by John Barham

Violations still common

Campaigners say reforms are inadequate and enforcement is weak

Serious human rights violations continue in Turkey, in spite of heavy foreign pressure - particularly from the European Union - to halt abuses. The Turkish Human Rights Association's (IHD) statistics show some improvement, but violations are still common.

The government says it deplures violations as much as local and foreign campaigners. Mrs Fansu Ciller, deputy prime minister and foreign minister, said in March: "From now on there will not be any missing persons in this country. This terminology will be out of date in Turkey. Our struggle against terrorism will continue with determination, but in full conformity with human rights."

However, between January and March this year the IHD reported 32 cases of death from torture or while victims were in police custody. It counted 24 cases of "unknown killings", assassinations of opposition figures which rights groups believe are carried out on behalf of the security services. In March, there were 164 political prisoners in jail.

Women's groups have held weekly street protests in Istanbul for over two years, demanding information about relatives they say

were abducted by the security forces. Torture remains common. Human Rights Watch says torture, especially by anti-terror police units, "is neither spontaneous nor rogue. This unit has methodically incorporated torture and abuse into its daily operations utilising special equipment".

In 1995, Ankara amended the constitution and anti-terrorist legislation used to silence discussion of the Kurdish question. This year the government cut incommunicado detention periods to between seven and 10 days.

However, human rights campaigners say the reforms are inadequate and that enforcement is weak because courts do not act against abuses by the security forces. General Cevik Bir, deputy chief of staff, said human rights "should not be abused for political purposes, to polarise society or dismember the country". Violations are particularly severe in the south-east of the country, where the army is fighting a 12-year war against guerrillas of the separatist Kurdistan Workers' party (PKK).

Turkey has more than 150 laws and regulations concerning freedom of expression. They are frequently used against Kurds and left-wing activists. It is an offence to insult the military or Kemal Ataturk, founder of the modern Turkish state. It is illegal to provoke ethnic, regional or religious hatred. Calling for the

division of Turkey is a terrorist offence. A state security court prosecutor has even demanded the death penalty for two Kurds who cut down the Turkish flag and hoisted the PKK flag at a party congress last year.

The government has mounted a legal war of attrition against human rights organisations. Last year, it demanded the closure of medical treatment centres for torture victims. Now it is trying to starve the IHD of funds, including EU grants. It recently asked an Ankara court to close down the association altogether.

Western governments value Turkey's strategic importance and want it to remain integrated in western institutions. Yet politicians are also under pressure from public opinion for a more aggressive stance towards Turkey.

The US Congress has imposed a *de facto* arms embargo on Turkey, primarily in protest at human rights violations. However, Mr Nicholas Burns, State Department spokesman, said: "Turkey should be more fully integrated into Europe despite the fact that there are problems on human rights."

The European Parliament has suspended aid except to organisations promoting human rights and democracy. EU member-governments say resolution of the Kurdish issue and full respect for human rights are basic criteria for accession to the Union.

POLITICS • by John Barham

Slow death for a coalition

The army has brought the Erbakan government to a standstill

Mr Necmettin Erbakan's government ceased to function as an effective administration on the evening of February 28. After an eight-hour meeting, the National Security Council (NSC) handed down a list of 18 "recommendations" warning that failure to comply would bring specified "sanctions".

The council is dominated by the military. Governments invariably obey its recommendations to the letter. It demanded a crack-down on Islamist organisations and implementation of eight-year compulsory education that would reverse the growth in state-run religious schools.

The government's authority began seeping away immediately. The military and its secularist supporters expected Mr Erbakan would either comply and lose legitimacy in the eyes of his Islamist supporters or simply quit. No civilian leader has ever defied the army. Mr Erbakan said plaintively: "In Turkey, governments are formed in parliament, not in the National Security Council." However, he has chosen a middle path, and is attempting to equivocate.

The government has taken

no major decision of its own since that evening. Instead, it is suffering a slow death by a thousand rumours. Mrs Tansu Çiller, deputy prime minister and leader of the centre-right True Path party, the government's coalition ally, said: "There are whispers around us asking when the next coup is going to take place."

While most of Turkey's secularists are relieved that the army has blocked Mr Erbakan, many are embarrassed at supporting what one newspaper columnist called a "soft coup". The generals have toppled three governments in the past 37 years. Few are sure what will happen next.

Mr Mümtaz Soysal, a militant secularist and left-wing MP, said the "first stage is to get rid of [Mr Erbakan], and that is what the military is indirectly doing. Then [we should] see to it that the politicians create a more secular-oriented government. Leaders should accept their responsibility".

However, efforts by True Path rebels to weld a new government out of the current fractious parliament are not succeeding. The centre-right is divided between two bitterly opposed parties, as is the centre-left. Although these four parties hold most of the seats in parliament, their leaders have not overcome their personal rivalries to form a pro-secularist government.

As a result, Mr Erbakan's Welfare party, which took only 21 per cent of the votes in the December 1995 elections, is parliament's largest party. He became prime minister last July after a minority alliance between True Path and its rival centre-right Motherland party collapsed after only three months.

The media and business elite, with army support, are calling for a temporary technocratic government to take over for long enough to prepare the country for fresh elections after rewriting the election laws that would end the division on the right and left and prevent Welfare from taking more seats.

Although Mr Erbakan never began implementing his Islamist agenda - except for an abortive foray into international affairs - secularists say he must be stopped.

However, the causes of Welfare's ascendancy - economic instability, political corruption, inequality, social dislocation caused by urbanisation - remain. Welfare, with its image of incorruptibility, has capitalised most on this discontent. Opinion polls show no decline in support for Welfare since it came to power. It still ranks first with 25 per cent of voter intentions, while support for other parties fluctuates.

The economy posted strong growth last year - for which Welfare claims

principal credit. But it has not cut high inflation, raised low wages or cut under-employment. Yet a steady stream of political scandals, most of them involving secularist politicians, has eroded support for mainstream parties.

Although parliament has cleared Mrs Çiller of three corruption charges - brought by Mr Erbakan before they formed their coalition - her integrity is seriously compromised.

A bizarre incident last November revealed extensive and long-standing links between the security forces, politicians and organised crime. A senior police officer, a gangster and his girlfriend were killed when a limousine they were travelling in together crashed. A True Path MP in the car survived. The ensuing scandal brought down Mrs Çiller's interior minister, also a former police chief.

A parliamentary committee of enquiry discovered that previous governments used gangsters as hired assassins to eliminate "state enemies". Mr Abdullah Çatli, the gang leader killed in the car crash, was closely involved in far-right politics, and was a wanted heroin smuggler.

MPs found that heroin smugglers sometimes work closely with the security forces in the Kurdish

south-east of the country where the army is fighting guerrillas of the Kurdistan Workers' party (PKK). The committee even found evidence that police were involved in gangland killings.

But the government cut short the committee's work, obstructed attempts to lift MPs' immunity from prosecution, and has only brought charges against a few low-ranking policemen. The government lashed out against the media, which investigated the scandal, threatening to punish reporting of "false news".

Western drug control officials worry that the narcotics trade, worth billions of dollars a year, is infecting the state. Police seized over four tonnes of heroin in 1996, but trafficking is growing. About 80 per cent of Europe's heroin transits Turkey.

In January, a German judge trying three heroin smugglers arrested at Frankfurt airport said they had "excellent relations" with the government and "personal contacts" with ministers, which had seriously complicated investigations.

However, these scandals have begun mobilising public opinion, in spite of an abundance of controls and restrictions on free speech, offering proof of the vitality of Turkey's democracy. In February, ordinary people across the country turned off the lights in their houses for a minute at 9pm in protest at corruption. Thousands took to the streets in generally peaceful demonstrations demanding more democratisation.

The media and the streets, rather than in parliament have become the centres of a debate over the country's future, on how secularism and Islam can be reconciled. Although the army's growing role in politics has created a sense of unease, it has not prevented - indeed, it has brought added urgency - to the discussion of the basis for a new republic as Mr Erbakan's coalition limps on.

Holding people's trust

Some observers worry that the military's ideology is anachronistic, perhaps paranoid

An opinion poll in February to find Turkey's most trustworthy institutions ranked the army first, with 90 per cent support; two-thirds of respondents said they distrusted the government. The army may have seized power from elected governments three times in the past 37 years, but civilians and soldiers alike still see the armed forces as Turkey's ultimate guarantor of national unity, democracy and law and order.

Last December, Gen Ismail Karadayi, chief of the general staff, said the armed forces would ensure that Turkey remains "a democratic and secular state [based on the rule] of law. The armed forces are dedicated to Atatürk's nationalism, and are the untiring guardians of his reforms and principles".

Gen Karadayi and his supporters on both the right and

left see little irony in over-riding Mr Necmettin Erbakan's elected government to save democracy and defend an ideology formulated 70 years ago. Mr Mumtaz Soysal, a left wing MP and militant secularist, said: "The army is the founder of the state. The republic has military blood. This is not an ordinary republic, it is a Jacobin republic."

Like many secularists, Mr Soysal and the generals equate secularism with democracy and political Islam with obscurantist dictatorship. Brig Gen Kenan Deniz, head of the general staff's internal security department, says "eliminating fundamentalism is a matter of life and death for Turkey".

However, observers worry that the military's view of its place in society and its ideology has grown anachronistic, even somewhat paranoid. Mr Fehmi Koru, chief columnist of the moderate Islamist newspaper Zaman, says "the army wants to recreate the atmosphere of the 1930s. But there is no place for a powerful army in a modern society".

Mr Mehmet Ali Birand, an influential television journalist and author of two books on the military, says: "The army really believes that radical Islam is as significant a threat as the [Kurdistan Workers' party (PKK)]. I get the feeling the army is not living in the same country."

He disagrees that Turkey's Islamist movement is a monolith that must be destroyed. He argues that it includes moderates and democrats as well as extremists.

Some Islamists say the army's tough anti-Islamist line is putting its discipline at risk. Mr Erol Yarar, chairman of Müsiad, an Islamist business association, says: "If the debate continues like this, the army will lose ground in society. A small number of officers will mean nothing without an army. The people will not question the army, but the people who control it."

Some independent analysts say about 20 per cent of the ranks have Islamist sympathies, about the same proportion as in Turkish society. Every year the army purges suspected Islamist

officers, making little distinction between devout Moslems and political activists. However, few believe the army's Ataturkist *esprit de corps* will splinter.

Although attention has focused on the army's response to internal political threats, the generals justify a large military establishment by pointing to perceived external threats.

Turkey is on bad terms with all its immediate neighbours, with the exception of the Turkic former Soviet republic of Azerbaijan.

Relations are particularly bad with Greece. Fighter aircraft frequently challenge each other to dogfights. The military's assessment of Greece, a Nato ally, is bizarre. Admiral Mustafa Ozbey, a senior general staff officer, claims Athens has an expansionist foreign and security policy that is driven by the "Great Idea" of restoring the Byzantine empire that vanished over 500 years ago.

Other Nato countries are cutting military spending and streamlining defence industries, but Turkey's armed forces are under no such restrictions. Turkey has the second-biggest army in Nato after the US and is one of the world's biggest arms buyers.

Wealth and power have also brought corruption. Commentators say officers may be far less corrupt than civilian politicians, but the taint of corruption is undermining their integrity. The army refused to allow officers to testify before a parliamentary inquiry investigating links between organised crime, the security forces and politicians.

However, the generals are aware of the limits to their authority. Mr Birand says they have no hunger for power, preferring to take over government for short periods to quickly rectify the politicians' errors. Furthermore, they understand that a post-Cold War world is less tolerant of old-style *coups d'état*.

Instead of delivering an ultimatum to Mr Erbakan to quit, they used a scheduled meeting of the National Security Council, a body established under the constitution, to issue "recommendations" for Mr Erbakan to move against Islamist organisations. The generals have mobilised secularist politicians to force Mr Erbakan to comply or resign.

The generals also claim to be above politics, and reject critical discussion of their role in politics and society. However, the army's reluctance to relinquish a leading role in society could threaten the Ataturkist vision of Turkey becoming a modern European state. Ms Pauline Green, leader of the European parliament's powerful Socialist block, told Gen Bir: "We have difficulties with a system where an unelected military could apparently dictate terms to an elected government."



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Political instability unnerves investors

Large companies enthuse about opportunities, but self-promotion by Ankara is lacking

Turkey is the kind of country some foreign investors dream of. It has a large, growing population of mainly young people that is hitting the spending age. Incomes are growing, and with them a hunger for consumer goods.

Turkey's economy is volatile, but the government has maintained its commitment to liberalisation. Last year, a customs union came into force between Turkey and the European Union. Wages are about one-sixth less than in Europe, but workers are often highly motivated. Unionisation and strikes are low.

So why has Turkey never attracted heavy inflows of foreign investment? It has rarely attracted very much more than \$1bn a year in inward investment at a time when capital transfers from rich to developing economies have grown sharply. Last year, when investment flows rose 19 per cent to an estimated \$231.5bn, investment in Turkey remained flat.

Political instability unnerves many investors. Last year, Turkey had three governments. The present coalition is weak and ineffective. Decision-making is slow. Inflation of 80 per cent a year, stalled economic reforms, an impending energy crisis and inadequate infrastructure are further deterrents. In March, Euro-money, the business publishers, moved Turkey 14 places down to 67th position in its country risk rankings. All the leading international credit rating agencies have downgraded Turkey.

Mr Yavuz Canevi, head of Yased, the foreign investors' association, complained: "In this climate, a large number of our members had not only put a halt to new investment in Turkey but also been forced to postpone renewal and expansion investments

or to suspend them completely."

He said new investments, which five years ago made up almost half the total inward investments, fell to just 8.5 per cent in 1995, with reinvestment of locally-earned profits accounting for nearly all foreign investment.

Customs union was expected to spark off an explosion of foreign investment in Turkey. Although EU-based companies are the biggest investors in Turkey, response so far has been muted.

Yet Mr Enver Güney, head of the government's foreign investment directorate, says Turkey began freeing up its once-autarkic economy over 15 years ago and now has one of the region's most liberal investment regimes.

He adds that delayed public sector reform means there can be little foreign participation in privatisations and infrastructure projects, the principal motors of foreign investment in emerging economies. Turkey's 10-year privatisation programme has raised \$3.06bn in revenues, but foreigners, mainly portfolio investors, have bought only \$623.6m of state assets.

Intriguingly, foreign companies and banks well-established in Turkey say it is one of their most profitable markets. Mr Christoph Urban, a Yased official and executive director at Siemens' Turkish subsidiary, says: "We have never lost a penny in Turkey. We have always had profitable years and, I must say that in comparison with European countries we are the most profitable of them all." He says Siemens' return on equity averages over 20 per cent.

Mr Urban says this record of profitability has made it easy to justify investing in Turkey. "Each year we invest DM40m to DM60m because we believe in the country. No matter what, we have kept on investing at times of [national] bankruptcy, military take-overs, the Gulf war and the 1994 [Turkish financial] crisis. We

always kept on investing."

Siemens has had its problems in Turkey, usually involving the public sector. This year the city of Istanbul cancelled a contract awarded to a Siemens-led consortium to install electrical systems in the new metro railway system. Last year, Ankara suspended operation of a mobile telephone company in which it held a minority stake.

An official at the International Finance Corporation, the World Bank body that finances private companies, said: "When you view Turkey from above it looks terrible. But viewing from below, from the micro, company level, it looks great."

Turkey has many sophisticated, well-managed companies and has a growing number of successful second-tier companies. It is they who are carrying out the bulk of investments in Turkey in the absence of significant foreign or public investment.

Furthermore, bad news usually travels further and faster than good news. Company headquarters can be swayed more by newspaper reports than presentations from their own executives.

An executive at an international oil company that has suffered heavy losses for years from government price

Year	Inflows
1987	
1988	488
1989	868
1990	1,006
1991	1,041
1992	1,242
1993	1,016
1994	830
1995*	1,127
1996*	573

* First-half only
Source: General Directorate of Foreign Investment

controls, continues investing to expand his retail network to prepare for the day when Turkey liberalises the fuel market. He says: "Argentina used to be our worst market in the world. After it liberalised and privatised it became our best market. But I do not know how much longer our shareholders want to go on betting money on Turkey becoming an Argentina."

Turkey will probably not attract massive foreign investments without stabilising its economy and beginning major privatisations. But Mr Urban, who once headed the New York office of Germany's Treuhand agency that privatised eastern Germany's state companies, thinks Turkey could sell itself better. He says: "Turkey is not promoting itself very well. You have to go where the investors are, you have to explain the situation, you have to find good examples."