

March 5, 2001

TURKEY'S CRISIS: CORRUPTION AT THE CORE

The CSIS *Turkey Update* of December 2000, which predicted that that this would be “Turkey’s Winter of Discontent,” unfortunately proved to be all too prescient. Following a bitter row between President Ahmet Necdet Sezer and Prime Minister Bulent Ecevit at the Turkish National Security Council (NSC) meeting on February 19, the troubled Turkish banking sector slipped perilously close to collapse and forced the effective abandonment of the International Monetary Fund (IMF)-backed economic program and the devaluation of the Turkish lira by more than 30 percent. The governor of the central bank, Gazi Ercel, and the treasury undersecretary, Selcuk Demiralp, loyal defenders of the government’s program to the bitter end – on February 20, Ercel was still advising investors “to stop waiting for devaluation like Godot” – promptly tendered their resignations. Two weeks after the startling reversal, however, the three-party coalition government headed by Ecevit, which was also confidently asserting that there would be no deviation in economic policy, shows no intention of paying the political price that is normally expected in Western democracies.

In fact, apparently buoyed by a much-publicized telephone call from President Bush on February 23, Ecevit is trying to soldier on. On February 28, he told his Democratic Left Party (DLP) colleagues, “If I resign and provoke a government crisis under the current conditions, then I will not be able to explain this to the nation or history. Our main duty now is to improve the economy as soon as possible. When fulfilling this duty, certain difficulties may have to be faced. I am confident that we will overcome the difficulties in a short time with our people’s resistance, cooperation, and solidarity, and with our government’s consistent, determined and honest stand.” Despite such predictable reassurances, it is far from certain whether Ecevit, a visibly tired septuagenarian, can implement what remains of the program. His government has not yet given any clear indication of how it intends to extricate Turkey from the economic morass, and, it underlined its desperation by turning to an outside expert. The appointment of Kemal Dervis, a World Bank vice president, as a minister of state for the economy on March 2, provoked near euphoria in the Turkish mass media. But the coalition he has joined will find it very difficult to recover the support of the Turkish people, who were willing to endure severe economic hardship for the sake of the anti-inflation economic program, or to restore the confidence of foreign investors. Consequently, Turkey faces a period of even greater economic hardship and political uncertainty, while confronting the IMF and the new United States Administration with urgent policy questions.

ANATOMY OF A COLLAPSE

The regular monthly NSC meeting had brought together the commanders of the Turkish armed forces with the prime minister and the leading members of the government under the chairmanship of the president. The meeting at the presidential palace broke up after only 15 minutes, however, without proceeding to the agenda, which included reforms intended to pave the way to possible European Union

membership, because of an angry walkout by Ecevit. The details of the confrontation at the apex of the Turkish state were subsequently revealed by Ecevit — in violation of the secrecy rule relating to the proceedings of the NSC — who said that he had left because of “an unacceptable berating” by Sezer. His words caused immediate panic in the financial markets and the stock market was down by more than 14 percent at the end of the day. With Ecevit and his closest confidante, Deputy Prime Minister Husamettin Ozkan, utilizing the parts of the media beholden to the government to cast the blame on Sezer, billions of dollars fled the economy and the stock market fell by an additional 18 percent two days later.

Embarrassingly for the IMF, which signed a standby agreement with Turkey in 1999 and is providing over \$11 billion in credits, the crisis coincided with a visit by Stanley Fischer, first deputy director of the IMF and one of the architects of the relationship with Turkey. As the crisis deepened, Fischer and his team were dragged into emergency talks with the government, which eventually had no choice but to abandon the currency peg, a vital component of the anti-inflation economic program, in order to prevent a total banking collapse during the night of February 22-23.

The current crisis came on the heels of an earlier banking crisis after the collapse of ten private banks had necessitated an emergency IMF aid package. The \$7.5 billion additional IMF credit last December had emboldened Ecevit to boast that the IMF support showed that the economy was “still on track.” Moreover, it had also encouraged his government to avoid decisive action on one of the root causes of Turkey’s economic crisis, the growing problem of corruption, particularly in the banking sector. Shocking allegations of fraudulent activity following the failure of the private banks had contributed directly to the previous crisis. With the questionable and allegedly illegal practices of the collapsed private banks creating an additional and perilous exposure of billions of dollars for the public banks controlled by the government, and growing doubts over the management and lending practices of the public banks themselves, a new crisis was perhaps inevitable.

“YOU ARE SITTING ON MUD”

It was the very issue of corruption that brought long-simmering tensions to the boil at the NSC meeting. Unlike his predecessor, Suleyman Demirel, who, through inaction, effectively protected cronies accused of corruption during a long political career, President Sezer, a former chief justice, has been focusing on corruption since his election in May. The powerful Turkish military, which has intervened directly or indirectly four times in the past 50 years, has been equally attentive to the problem. Parallel to its continuing concerns with separatist terrorism and fundamentalism, the military was reported in September as having identified corruption as “a primary threat” in its national security assessment document. The chief of staff, General Huseyin Kivrikoglu, then warned that “the anticorruption drive would continue until Turkey was a country that all Turks could be proud of.” Kivrikoglu was clearly referring to operations launched in 2000, with the discreet support of the military, with revealing names like Hope, Whale, Iceberg and Octopus, which had led to the arrest of a number of well-connected businessmen and bankers. In the first days of 2001, the gendarmerie, under the control of the Turkish General Staff, moved to direct action by launching Operation White Energy to root out corruption in Turkey’s energy sector. But, as more businessmen and bureaucrats were duly apprehended and sent to the State Security Courts and the trail appeared to be leading to Energy Minister Cumhur Ersumer and the Motherland Party (MP), it became increasingly clear that the ultimate success of the entire anticorruption effort depended on the willingness of the Turkish system to move decisively against the politicians allegedly involved.

The list of political figures widely reported in the Turkish press as having been implicated, directly or

indirectly, in the ongoing investigations include Deputy Prime Minister Ozkan from Ecevit's own DLP, as well as Deputy Prime Minister Mesut Yilmaz, the leader of the MP. With Ecevit effectively turning a deaf ear to all such reports, including, it has been claimed, a confidential memorandum conveyed directly to him in early February by the military, Sezer clearly felt compelled to raise the issue at the highest level. According to the leaked account in the Turkish newspaper, *Hurriyet*, Sezer opened the meeting by asking Ecevit bluntly why he was "disturbed by action against corruption." Claiming that Ecevit's earlier criticism of his activation of the State Inspection Board to investigate the Banking Regulation and Supervision Agency (BRSA) and the public banks was designed to undermine him, Sezer continued, "Turkey's primary problem is corruption and you are failing to tackle it decisively. All of your ministers are accused of corruption. As soon as the investigations reach the political level you block them. You have tried to impede the prosecutor in White Energy. This is no way to tackle corruption." Apparently stunned by the onslaught, Ecevit asked if Sezer was finished. According to the newspaper *Radikal*, Sezer replied, "No. I have the files here. They contain the names of a number of ministers. You have not managed to dismiss a single minister. You are sitting on mud. If you cannot clean up, let us do so." Although Ecevit then got up and left with Yilmaz, Ozkan apparently stayed on to argue with Sezer and to accuse him of ingratitude toward the coalition parties that had ensured his election before also walking out.

The NSC row was reminiscent of the confrontation between the military establishment and the Islamist-led coalition at the February 1997 NSC meeting, which eventually led to the collapse of the government. The current confrontation, this time between Turkey's two top civilians, has placed the issue of corruption at the top of the Turkish agenda, although attention in the country, as well as outside, has inevitably been diverted to the financial crisis. Despite his own reputation for honesty, Ecevit has chosen to ignore serious allegations of corruption by his close colleagues or their associates in pursuit of the elusive goal of "stability." Ironically, his inexplicable and enduring loyalty to Ozkan and Yilmaz, under whom he served as deputy prime minister until the Yilmaz government was brought down by the Turkish Grand National Assembly (TGNA) over banking corruption allegations in November 1998, has now emerged as a primary cause of Turkish instability. With opinion polls suggesting that more than 80 percent of the Turkish people are behind Sezer, however, it is likely that the fight against corruption will be maintained, notwithstanding the understandable discomfort of the current government.

UNCERTAIN GOVERNMENT, DISGRUNTLED CITIZENS

The crisis and the subsequent devaluation have definitely sapped the confidence of the coalition. Its cohesion has also been undermined by the unseemly jockeying for advantage, led by Yilmaz, after the devaluation. As a number of prominent figures in the MP publicly called for the resignation of the government or Ecevit, Yilmaz tried to wrest control of the economy for his party by arguing that the distribution of the economy-related ministries among the coalition partners prevented rapid decisionmaking. While Yilmaz may reportedly have come close to persuading the vacillating Ecevit, his gambit was effectively blocked by Deputy Prime Minister Devlet Bahçeli, the leader of the National Action Party (NAP), on his return from his first foreign visit to Turkmenistan. There was also resistance from within the normally docile DLP with TGNA Deputy Speaker Uluc Gurkan reportedly going so far as to accuse the MP of instigating the crisis in order to take advantage of it.

After days of wrangling and uncertainty, Ecevit first said, "Any change in the government will damage our country" and then pushed his reluctant partners to accept the appointment of Dervis. But Dervis's inclusion, reportedly on the recommendation of Fischer, will not ensure calmer waters in the government. Instead of being named "economic supremo," as Ecevit apparently wanted, Dervis has only

been given control of the parts of the economy that were already under the control of DLP ministers. With the NAP and the MP, which opposed his nomination, retaining control of the other economic portfolios, Dervis may find that achieving a consensus within the government will be as difficult as reaching an agreement with the IMF on an economic program. The enormity of his task was highlighted by the immediate resignation of Zekeriya Temizel, the head of the BRSA — heavily involved in the painful restructuring of the banking sector — after it was placed under Dervis's supervision.

An opinion poll published after the devaluation found that 55 percent of the public wanted the government to resign, while the combined percentage of those still willing to vote for the coalition parties had dropped to only 18 percent. However, the three partners who came into office after the April 1999 elections, have been arrogantly complacent, not only because they have been able to manipulate the mass media but also because the current configuration of the Turkish political system does not permit an alternative government formula to emerge within the TGNA. The two other parties represented in the TGNA, the Islamist Virtue Party, which is still facing the possibility of closure, and Tansu Ciller's True Path Party, remain confined to seemingly permanent exclusion from office. Consequently, the government's rapid loss of authority and public confidence has begun to create the kind of vacuum that has all too often been filled by extraparliamentary Turkish solutions in the past.

Meanwhile, public discontent is building up dangerously as price hikes on basic goods and services follow the devaluation. While the government was typically trying to gloss over the problems, Sakip Sabanci, the head of Turkey's second-biggest conglomerate, bluntly declared, "The people were impoverished by 40 percent overnight." In the circumstances, the government could be forgiven for seeing the nine-day long Feast of the Sacrifice holiday, which began on March 2, as a welcome respite from public pressure. Most Turks, however, were not able to enjoy the holiday because of unpaid wages and mounting bills. If a miraculous formula is not found by Dervis and the government soon, it is possible that the people will take their discontent to the streets after the holiday.

TOUGH CHOICES FOR THE IMF AND THE UNITED STATES

As the recent events demonstrated all too vividly, the current Turkish government has been unable to cope with its economic problems. The crisis also underlined the inadequacy of the standby agreement signed with the IMF in 1999. Having risked its shaky global reputation in Turkey, the IMF clearly felt that it had no choice but to provide additional credits in December. However, with Turkey now looking for the commitment of even greater resources — Ecevit has talked about a rescue package of \$25 billion — the IMF finds itself in a difficult position. While it will not abandon Turkey, the IMF is certain to insist on the urgent implementation of long-promised measures - above all bank reforms - before providing additional credits. In any case, given the growing dimensions of the Turkish crisis, the IMF is unlikely to make any moves without full consultation and agreement with the United States.

The new United States Administration is also facing a difficult choice. Although Washington and Ankara have failed to fashion a blueprint for cooperation to replace the certainties of the U.S.-Turkish alliance in the Cold War era, the Clinton Administration was indulgent towards Turkey as an important ally. While the Bush Administration will be equally well disposed toward Turkey, the reservations expressed by President Bush, Treasury Secretary O'Neill, and White House Economic Adviser Lindsey on previous IMF bailouts in Russia and Mexico are likely to temper the enthusiasm for immediate action or assistance. Moreover, the new administration still does not have its full national security team in place and has not completed its review of policies.

Parallel to its global economic reservations, the Bush Administration faces a dilemma as it weighs the short-term advantages of demonstrating solidarity with Turkey, despite the demonstrated mismanagement and alleged corruption of its current government, against the long-term costs of ignoring growing corruption. The row at the NSC has shown in the clearest possible way that Turkey may finally be on the verge of tackling the web of corruption weaved by a powerful quadrangle of politicians, bureaucrats, businessmen, and media moguls, which has long suffocated its development and the completion of the process of integration in the Western community of nations. It is vital that the Bush Administration recognizes and supports, in contrast to its predecessor, the nature and implications of this monumental struggle and ensures that its good intentions toward an ally are not abused to obtain assistance to maintain a corrupt status quo. Ultimately, it will be the Turks themselves who will have to put their house in order and unless their struggle against corruption is successful and Turkey achieves genuine transparency, no amount of external financial or political assistance will be sufficient.

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