

Durmuş Yılmaz: The role of competition policy and practices in attaining macroeconomic objectives

Speech by Mr Durmus Yilmaz, Governor of the Central Bank of the Republic of Turkey, on the occasion of the 11th Anniversary of the Turkish Competition Authority, Ankara, 26 March 2008.

* * *

Ladies and Gentlemen,

First of all, I would like to greet you all. We have convened here on the occasion of celebrating the 11th Anniversary of a distinguished institution of Turkey. The Turkish Competition Authority has served its critical function in the development process of Turkey with the studies it has conducted. Let me take this opportunity at the very beginning of my speech to say that I believe the contributions of the Competition Authority to Turkey's development will continue in an increased capacity in the upcoming periods.

The main objective of public policies is to increase prosperity. Under the current circumstances, where economies are becoming increasingly interrelated, raising the level of prosperity of our country is contingent on increasing the share it gets from the global value added.

In the post-2001 period, the Turkish economy grew by approximately 7 percent on a year-on-year basis and considerably increased its share in the world export market. During this period, the private sector was the engine for growth, with the greatest contribution from the industrial sector. In the 23-quarter periods of uninterrupted growth process, private sector investments increased by 150 percent in real terms. Exports, which had been USD 31 billion at end-2001, reached USD 107 billion by end-2007. Moreover, Turkey has attracted more than USD 40 billion-worth of foreign direct investments in the last two years.

The complementary effects of macroeconomic and microeconomic policies are observed in economic progress. Monetary policy focusing on the achievement and maintenance of price stability as well as resolute budget implementations has played a critical role in the establishment of macroeconomic stability. At the same time, reforms towards a more robust banking sector structure, adjustments for an improved investment environment, privatizations, liberalizations in basic infrastructure sectors and improvements in the regulatory and supervisory functions of the public sector have all led to a significant improvement in the production, investment, competition and business environment of Turkey. Thus, in the last two years, Turkey moved up a total of 18 steps and ranked 53rd among 131 countries in the Global Competitiveness Index prepared by the World Economic Forum.

Studies made indicate the necessity of reforms in the microeconomic level to maintain high and sustainable growth rates in an environment of macroeconomic stability. Achievements made both in the fight against inflation and in easing the budget deficit and public debt were only made possible with great effort and sacrifices. However, the road ahead calls for more effort. We have to use our resources more efficiently in order to converge with the developed countries. To that end, investments in human capital aimed at improving the quality of the labor force in our country should be intensified and competition should be enhanced through effective regulations and implementations, especially in the goods market.

The Competition Authority is one of the main institutional building blocks of the "open economy growth model" implemented in the period after 1980 and is based on strengthening the market economy.

Competition policies and price stability, which is the core objective of the Central Bank, are strongly related. In an environment where competition conditions are ensured, monopolistic market behaviors will not be possible. Simplifying the entry and exit of firms to the various

sectors and increasing transparency are the main factors preventing pricing habits that are based on a high profit margin.

Additionally, due to pressures from both domestic and foreign competition, firms choose to implement strategies with the aim of increasing productivity, which in turn triggers innovation and technological development and contributes to the acceleration of the potential growth rate of our country. If firms increase profitability through measures that decrease costs instead of increasing prices, our country can reach higher growth rates in an environment of low inflation.

Various instruments can be utilized to establish an effective competition environment in an economy. The most outstanding of these can be listed as: establishing macroeconomic stability, liberalization of foreign trade, facilitating firms' – including companies owned by non-residents – entry into and exit from sectors, easing tax and other public burdens, establishing an effectively-operating regulation-supervision structure, preventing unregistered economic activity, ensuring transparency and preventing monopolistic behaviors by reinforcing the regulatory and supervisory institutional structure, ensuring transparency in the public purchases of goods and services and ensuring an effectively-operating judicial system.

Significant progress has been made in these areas recently. However, there still is more to be done.

I believe that the concept of competition should be explored not only using general indicators but also at the level of sub-items. Achievements have been made in lifting the hurdles before the liberalization of foreign trade and entry/exit of new firms to the sectors. However, the studies conducted by the Central Bank show that the foreign competition pressure exerted by imports is not enough to reduce the price-cost margin in the Turkish manufacturing industry. This is the case in sectors populated by firms with high market shares and thus with high concentration ratios. It is observed that in sectors lacking a well-established competition environment, the competition pressure exerted by imports is relatively low and the downward pressure exerted by imports on domestic prices is not strong enough despite the high share of imports.

Another example revealing the significance of the competition policy for the Central Bank is related to the unregistered economy. As you all know, unregistered employment is about 50% in our country. This rate is higher in agriculture, construction and the services sector, where inflation is relatively higher. Unregistered economic activities prevent firms from attaining the most efficient scale of production and producing at the lowest unit cost. Firms failing to attain the lowest cost scale price their products at a relatively higher level. One of the factors influential in this is the financial burden brought about by registration procedures. In order to remain unregistered, firms are not willing to grow in scale. They also abstain from applying for bank credits and delay technological renovations due to financial hardship. On the other hand, the competitive power of registered firms is eroded against their competitors, which take advantage of remaining unregistered. Besides, growing in scale becomes harder for these registered firms.

Major reforms were made in Turkey in 2003 to improve the business environment. The most remarkable of these are the regulations to reduce the procedures in starting businesses and to ensure that all the required transactions are carried out under the body of a sole authority. As a matter of fact, the results of the "Doing Business" report by the World Bank reveals that our country ranks fairly high compared to other countries in terms of the duration for starting businesses, reservation of ownership, enforcing contracts and paying taxes. The concrete consequences of these reforms are apparent in the number of newly launched businesses in the period following the year 2003. However, as pointed out in the same report, Turkey is at the bottom of the list in terms of costs for starting businesses (issuing licenses and permits after starting the business), regulations for firms exiting the industry, licensing procedures, ease of recruiting and employing workers.

We can list transport vehicles, white goods and consumer-oriented electronic products such as radio and television as the sectors where Turkey's competitive power is relatively high at present. The increased market share of China and India in these sectors poses a potential risk for the Turkish economy. In response to these risks, some structural reforms oriented towards domestic markets have been made, particularly during the process of Turkey's accession to the EU. These regulations aim to ensure the integration of the Turkish economy with the EU on a sectoral basis and to strengthen the competitive power of our firms.

It is not merely the relatively low labor costs that allow our firms to assume a position as important actors in international markets. Providing a stable macroeconomic structure for our economy is a must, but it is not enough. The qualified manpower of our country should be increased, our firms should be institutionally open to new developments and our industry should also adopt a structure that is not only demanding but also producing technology. To this end, it is of great importance to implement well-designed microeconomic reforms decisively.

Competition policy is certainly one of the cornerstones of these reforms. Encouraging the entry of new firms equipped with the latest technology and institutional structure into the market constitutes one of the pillars of a well-designed competition policy, whereas the other pillar is to facilitate the elimination of sluggish firms, which have difficulty adapting to changes. In a competitive environment, firms will begin to allocate more resources to activities focusing on productivity gains and enriching the product range. It is clear that the ability to access, produce and use information is very important nowadays. In such an environment, only those firms, which closely follow the changes in consumer tendencies, have flexible organizational structures, are institutionalized, are ready to cooperate with other firms and their research units, and draw up their resource allocation plans with a long-term perspective aimed at enhancing the production capacity, will prevail in the arena of global competition.

To sum up, in the recent period, important steps have been taken to create an efficient competition environment in the Turkish economy. Indicators such as the growth rate, the increase in productivity, direct foreign capital inflows and the number of new firms reflect the outcomes of these steps. However, there are still many reforms and regulations to be made. In this framework, it is important that policies regarding the enhancement of the competition environment go beyond general implementations and are established by taking into account the sub-items and their interaction with each other. There is no doubt that information sharing and cooperation among public institutions make up an important part of these policies. Naturally, the Turkish Competition Authority and the Central Bank are among these public institutions. Strong relations among public institutions including the last two are critical for the Central Bank to reach price stability and for Turkey to attain a higher level of prosperity.

Before ending my speech, I would like to reiterate my belief that the Turkish Competition Authority will further contribute to the level of prosperity in Turkey in the upcoming years. I would like to thank everyone who had a hand in the organization of this conference and for your attention.