

THE BROOKINGS INSTITUTION  
CENTER ON THE UNITED STATES AND EUROPE

SECOND ANNUAL SAKIP SABANCI LECTURE  
TURKEY : EMBRACING EAST AND WEST

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**Introduction:**

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**Moderator:**

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**Lecturer:**

THE HONORABLE PAUL WOLFOWITZ

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## P R O C E E D I N G S

MR. GORDON: Ladies and gentlemen, good morning. I am Phil Gordon, the Director of the Center on United State and Europe at the Brookings Institution. It is a great pleasure for me to welcome you to the Second Annual Sakıp Sabancı Lecture.

It is nice to see so many of you here. I, obviously, can't acknowledge all of the distinguished guests by name, but there are many in the diplomatic community. I, especially, want to say a word of thanks to Güler Sabancı, the Chair of Sabancı Holdings and the niece of Sakıp Sabancı and also the Chair of the Board of Trustees of Sabancı University which is our partner in all of this, and Güler Sabancı is the inspiration behind this collaboration that we are really pleased to move forward with.

Also, there is a very distinguished delegation of scholars and journalists from Turkey with the Sabancı Group; including Professor Ahmet Aykaç is with us on the podium this morning.

As I think you know, this lecture, we launched last year to honor the memory of Sakıp Sabancı, a leading Turkish intellectual/businessman/philanthropist, but also to draw attention to the issue of Turkey and the U.S.-Turkey relationship which is something that is very important to us at Brookings. We have an active Turkey program under the direction of Ömer Taşpınar, and this Sabancı lecture is an integral part of that.

In just a moment, I will ask Brookings' President, Strobe Talbott, to introduce our speaker, and we really couldn't have a better speaker on this set of issues than Paul Wolfowitz, but just one word to start about the proceedings.

First, we not only have this terrific group that is filling the room here, but like last year, we have a live video link to Istanbul, to Sabancı University. I will test it now. The Dean of Sabancı

University, Tosun Terzioglu, will be moderating the discussion on the Turkish end, and let me check in with Tosun and see if he can hear me clearly because what we want to be able to do is take questions and comments from the students at the university, and professors.

Tosun, can you hear me? There is a bit of a delay with this link. So we will have to give him a second, and the technicians will work on that as we are doing it. But I assure you, we will be in touch with Sabancı University, and we will also be viewed in Turkey. Both NTV and CNN-Turk are carrying the lecture, underscoring a great interest in these events there.

Second, in addition to the live link to Turkey, another aspect of our event today is, following the lecture, we will have an awards ceremony. We also last year, if you remember, announced we launched the Sabancı International Research Award for the best essay on Turkey in the world, and we were delighted to receive many, many impressive submissions, nearly a hundred. Following the lecture and the question and answer period, Güler Sabancı will preside over a brief ceremony. We have a distinguished international jury with us today which helped choose the winners, and we are honored to have all of the winners with us, and they will come up on the stage and receive their awards.

We have a great program to look forward to, and I am anxious to get on with it. So I will turn the floor over to Strobe Talbott for the introduction, and I remind you all, please, to turn off your cell phones. Thank you.

MR. TALBOTT: Thanks very much, Phil. I would like to add to what Phil has already said, my own greetings to all of you here today in Washington as well as to our friends and colleagues in Istanbul.

I would also like to echo the pride that Phil has expressed on behalf of Brookings, that we

should have the honor of hosting a lecture series in the name of Sakıp Sabancı. He clearly, as you have already gathered from what you know and from what Phil has said, was a man of very, very broad vision indeed, a true citizen of the world. I might say that having gotten to know his niece, the same can be said of Güler Sabancı.

Our intention at Brookings has been to use this forum in order to do justice, not just to the Sabancı name but also to the importance of Turkey, the importance of Turkey in its own right, in its immediate region, in Europe of which it deserves to be a full member in every sense, and also Turkey in its relations with the United States.

The United States and Turkey have a shared agenda. That includes issues of regional peace. It includes the issue of EU enlargement continuing on a non-discriminatory basis. It includes the issue of energy security, counterterrorism, the cultivation of the principle that cultural diversity is, or at least should be, a source of strength for the international community and for an interdependent world. Or as somebody who combines both realism and idealism, as our speaker today does, might put it: The United States and Turkey can and should work together to bring about a concert of civilizations.

For all of these reasons, the fundamental strength of the U.S.-Turkish relationship, as well as the current difficulties that the relationship is experiencing, are of much more than bilateral significance. For this lecture, we sought to find somebody who could speak with an authoritative American voice, someone with a truly global perspective and with truly global experience, and also someone with deep knowledge of Turkey and an appreciation of its accomplishments, its prospects for the future, and the challenges that it faces.

We quite simply could not be more fortunate than in having Paul Wolfowitz agree to take

time out from his extremely busy schedule to be with us today. During his 24 years in government, Paul worked for seven Presidents of the United States. Paul is a rare combination. He is both a public servant and a public intellectual. He is an educator as well as a policymaker. He is a scholar as well as a statesman. He has been ambassador to the world's largest Islamic country, which is to say Indonesia.

I am glad to say that he has been a friend to many of us at Brookings, and as Deputy Secretary of Defense, his previous job, he delivered a powerful and influential speech at Brookings on U.S. relations with the Islamic World. He is also, I might add, a former neighbor of Brookings. As Dean of SAIS, he worked just a few doors away.

Paul is now nearing his one-year anniversary as the President of the World Bank. In that short period of time -- although, Paul, it probably doesn't seem that short to you -- he has already put his mark on that great institution. He has put new emphasis on fighting the scourge of corruption. He has taken a systematic look at what the engine of growth really is and how it works, so that it can lift countries out of poverty. As you are about to hear, Paul has thought a great deal not only about the world as a whole but he has thought a lot about Turkey and its pivotal role in the world.

Paul, you do us honor by being here today. Welcome back to Brookings and welcome to the podium as the lecturer for this year's 2006 Sakıp Sabancı Lecture. Thank you very much.

(Applause)

MR. WOLFOWITZ: Strobe, thank you for that very warm and kind introduction. The only proper response to that is the one that Lyndon Johnson gave: I just wish that my late parents were alive. My father would have been so proud, and my mother would have believed it.

I am here to talk about 30 years of my own experience with Turkey, 30 years of progress. I was thinking as you were describing the scenario, it is not just Turkey that has changed in 30 years. We couldn't have had this kind of simultaneous lecture/conference in Istanbul and Washington 30 years ago. We also wouldn't have had to ask people to turn off their cell phones 30 years ago. So it is not all progress.

But I hope you have, thank you for that. Thank you, Strobe. Thanks, Phil Gordon. Thank you, Güler Sabancı and Professor Ahmet Aykaç. Let me also say to the students from Sabancı University who are joining us by video conference from Istanbul: *Sayın Arkadaşlar Merhaba*. For those of you who don't understand Turkish and for those of you who don't understand my Turkish, that means: Hello, friends.

I am very pleased to be with you today to celebrate the life of Sakıp Sabancı. He comes from a generation of accomplished individuals who built the flagship enterprises of modern Turkey, groups such as Sabancı Holdings, Koç Holdings, and the Has enterprises to name just three. I mention them because these individuals and the companies they founded were not just enterprises. They were also philanthropic leaders and leaders particularly in the field of education, committed to improving people's lives and investing in the future of Turkey's children.

The foundation of Sabancı University, already one of Turkey's top universities, is an enduring symbol of that generation's dedication to its country. So I am particularly pleased to have the opportunity to talk to Sabancı students today and to hear from them.

I first visited Turkey almost exactly 30 years ago in December of 1996. I still remember the time; it made a powerful impression on me. I expected, when I arrived, to see a country that

was much more like its neighbors in the Middle East than its neighbors in Europe. Instead I saw a country that was embracing the best of both worlds, a country that took pride in its rich civilization and Islamic heritage, and at the same time, a country that was moving toward becoming a part of modern Europe. Turkey has the bad luck of being in a difficult neighborhood, but its pursuit of progress and prosperity could serve as an inspiration and even a model for its neighbors.

When Atatürk founded the modern Turkish republic, he envisioned a modern industrial future for his country. He embarked on wide-ranging social, political, and economic reforms; reforms that helped put Turkey on the road to democracy and brought about remarkable changes. As we have seen from the brutal killing of the Turkish judge by a religious fanatic just last week, there are times when that quest for modernity may be misinterpreted by some as being at odds with the Muslim religion. But secularism and respect for religion in Turkey have co-existed for 80 years, and I am confident that Turkey's longstanding commitment to democracy will protect the country's unity and diversity.

Notably, since its early years, Turkey has been at the forefront of promoting equality for women. Atatürk argued that Turkey would never catch up with the rest of the world if they modernized only half of their population. As a result, Turkey granted women the right to vote and stand for public office as early as 1930. That was 14 years ahead of France and 41 years ahead of Switzerland. At the time, Turkey stood second only to Finland in the percentage of women in its Parliament.

I have gone back to Turkey many times since that first visit 30 years ago, and the pace of progress over those years has been stunning. Today, the people of Turkey enjoy significantly

higher living standards and significantly more opportunities. Back then in 1976, when many of the parents of today's Sabancı students were students themselves, the per capita income was \$1,900 a year. Today, it is two and a half times that amount. Back then, the average Turk lived 58 years. Today, the average Turkish citizen can expect to live to 70. A generation ago, infant mortality stood at 15 percent. Today, that figure has been brought down to below 3 percent, although that is still too high. And in the 1970s, only one in five teenagers was enrolled in secondary education. Today, the numbers have reversed, and four out of five are enrolled in high school.

But behind that panoramic view of progress, Turkey has also faced its share of setbacks. We need only turn to the history of recent years to know that. After a period of economic boom in the 1980s when trade, finance, and private enterprise flourished, Turkey's economy started to weaken. Even though it was growing by as much as 4 to 5 percent per year up until the late 1990s, Turkey suffered from extremely high inflation, huge fiscal imbalances, and a buildup of systemic risk in the banking system.

All of that came to a head in the crisis of 2001 that sent the economy reeling. The banking system virtually collapsed, and scores of enterprises went bankrupt. In just one year, from 2000 to 2001, the average per capita income declined by a full 13 percent. Unemployment nearly doubled. The construction sector alone lost more than half a million jobs in half a year.

But the people who suffered the most were those who were working in what is called the informal sector. As in many countries around the world, a disproportionate number of the poor rely on jobs in the informal sector to make a living and to feed their families. Some of the poor were forced to pull their children out of school because they could no longer cover out of pocket



education-related expenses. So they weren't just losing income. Their children were losing their future. They were losing opportunities they need to reach their full potential.

When you think about the severity of that crisis of 2001, Turkey's recovery in the years since then is nothing short of remarkable. For the past four years, the Turkish economy has been growing an average of 8 percent a year which puts it among the fastest growing economies in the world. Turkey has brought inflation down below 8 percent. That is dramatic progress from the 1990s when inflation fluctuated between truly astronomical levels, between 55 percent and over 100 percent. Now citizens can plan for their future without fearing that inflation will rob them of their savings. And, more importantly, Turkey has emerged from that crisis as a stronger nation and as a leading reformer that many countries in the neighborhood and around the world can learn from.

As the President of the World Bank Group, I am very proud to say that Kemal Dervis, one of our alumni, left his job at the World Bank to serve his country in the immediate aftermath of the crisis. As Minister of the Economy, he helped lay the foundation for those reforms, and his successor and my friend, Ali Babacan, has been playing a vital role in carrying out those reforms since 2002. In the wake of the crisis, and I believe as a sign of a maturing economy, the people of Turkey have also become increasingly vocal in their calls for banking reform, stronger corporate governance, and transparency in public spending.

Economic recovery was possible because Turkey had the courage to adopt bold structural reforms. Rigorous regulations in banking, energy, and telecommunications were introduced. Agricultural subsidies were cut drastically, something that is painful in any country, and they were replaced instead with direct income support for farmers, a much more rational system.

Public sector governance was improved, making public spending more transparent.

But none of this should be cause for complacency. None of it can be taken for granted. The recent cautions in the IMF report is a reminder, if any was needed, that this kind of discipline and this kind of courageous decisionmaking is still essential for Turkey to maintain its economic momentum.

Even with the spectacular growth of the last few years, unemployment in Turkey remains persistently high. Between 2002 and 2005, it hovered over 10 percent, and if anything, it seems to have increased in the early part of this year. In recent opinion polls, the Turkish public has ranked unemployment as the highest priority for their country by a margin of more than two to one over terrorism or any other challenges. People who want to work and give their children a better future need to be given that opportunity.

When I met Prime Minister Erdogan last summer, he, too, raised unemployment as his most serious concern. He was concerned particularly about the many people, especially women, who haven't entered the labor force at all. In most countries, at least half the working-age population is employed. The average for the European Union was 65 percent in 2004, but in Turkey in that same year, only 44 percent of the working-age population had jobs. That gap poses one of the biggest challenges to Turkey's aspirations to join the European Union. To bring employment rates up to the EU average by 2010, Turkey would have to create 10 million new jobs in the next six years.

The unemployment challenge is even greater when we consider the gap between women in Turkey and women in Europe. Only one out of four Turkish women was employed in 2004 compared to 57 percent in the European Union. That is not a trivial concern. Atatürk's words

about the importance of not neglecting half your population ring true of many countries around the world today. No country can attain successful development if half its population is not achieving its full potential.

I believe that today Turkey is on the road to an exciting but also challenging journey to become a member of the European Union. I want to briefly touch upon what I think are two of the top priorities that Turkey needs to focus on, both to harness growth and to move closer to Europe.

The first priority is education. Turkey's richest resource is its people. Investing in a good quality education is an opportunity to invest not only in an individual but in an entire nation. As a former dean of an academic institution, this is an institution that is close to my heart. Since we have students from Sabancı University with us today, I would like to make a few particular observations about that subject.

We live in a world where the competition for ideas has never been greater. A country's natural resources are no longer sufficient to achieve successful development. They aren't even the most important thing. The level of education in the workforce is equally, indeed almost surely more, important.

The good news is that Turkey has already made some important gains in improving access to education. In just the first six years after the introduction of the Basic Education Law in 1997, net enrollment in primary education increased by a million students, reaching the 90 percent level. But if you think about it, that still means that 10 percent of Turkish children are not enrolled even in primary school and many of those are girls.

More than half of Turkey's high school students still perform at the lowest international

standards. Instead of learning to ask insightful, incisive questions, students are too often trained to give standardized answers on selection examinations. That won't work in today's world. The labor market today requires increasingly complex skills in thinking, communicating, and technology. Not enough schools and universities are preparing that kind of highly skilled graduate. That only happens when schools provide not just education but quality education. Sabancı University is doing just that.

The private sector, indeed, can act as a valuable partner in bringing the resources needed to bring a better quality of education at all levels to more students in Turkey. That will help not only the students but will also help businesses by giving them access to more productive and innovative workers.

About one-fifth of global education spending already comes from the private sector, and that proportion is growing. I am pleased to know that the private sector in Turkey is actively involved with improving access to education. Sabancı University is one important example, but Koç Holdings also founded Koç University and Kadir Has has established Kadir Has University and the TOBB founded ETU University.

I am told there is a little bit of competition among you. I think that is just great. What a great area to be competing in.

The second priority for Turkey is the need to cultivate a healthy private sector to create much needed jobs. A strong private sector, as we have seen around the developing world, is the real engine for change and growth and job creation. While Turkey lies in an oil-rich region, evidence from the last half-century tells us that oil is not the engine of growth. The technical achievements of resource-poor countries in East Asia prove that. Korea, for example, has by far

the largest number of internet subscribers as a percentage in the world, and 100 percent, 100 percent of Korean schools are connected to the internet.

Turkey, too, has invested in its future in innovation and modernization rather than relying on limited natural resources. It channeled its energy toward building a strong industrial base to drive that growth. Today, 95 percent of Turkey's exports are industrial products. In fact, that strong industrial base helped them dramatically increase exports after the 2001 financial crisis and helped their economic recovery.

So it comes as no surprise, I think, that investors are now starting to pay attention to Turkey, particularly as an investment bridge between Europe and Asia, between East and West. In 2005, foreign investors brought nearly \$10 billion into Turkey's economy. That is a significant increase from previous years when foreign investments were chronically low, but that still represents only about 2.5 percent of Turkey's GDP and falls far below the expectations for a successful middle income developing country.

We believe that the percentage of foreign direct investment could and should rise to 4 to 5 percent of GDP, which would mean reaching levels of \$15 to \$20 billion in the years ahead. But to do that, the business environment in Turkey needs to improve, and I am not just talking about the environment for foreign investment. Indeed, domestic investment is perhaps, in general, the more important engine of growth, although both matter and both are affected by many of the same factors. Investors, whether they are from Turkey or from other countries, look for an environment where they can invest their money reliably, dependably, and know that their efforts and the risks that they take will receive reasonable returns.

By World Bank estimates, if Turkey were to improve its business environment, it could

reduce unemployment by anywhere between a full percentage point or as much as four percentage points.

Each year for the last four years, we have been issuing a publication called the *Doing Business* report. That report ranks 155 countries worldwide according to the environment they provide for business. It has become useful tool for our partners to pinpoint specific obstacles to investors and to push for legislative reforms to enhance the business environment. It is not really a guide to foreign investors. I doubt any serious foreign investor would make their decision about whether to invest in Turkey or any other country based on what they find in that report. It is really a guide to government officials to tell them the kinds of things they need to change if they want the foreign investors to come and look at their country, or their local investors who are trying to start businesses.

I have been pleased to see how many foreign officials that I have met with have understood it that way. I met with the Finance Minister of a very important middle income developing country about four or five months ago, and my staff told me he wanted to talk about the *Doing Business* report, and they thought he was going to complain about the fact that his country was ranked around the middle of the 155 countries. He didn't complain at all. He said: Thank you for what you have done. You have called attention to the problems in our stock exchange law, and it has enabled me to have the clout with my own congress to get it changed.

That is the kind of help that we hope we can provide. So keep that in mind as I tell you, unfortunately, in last year's *Doing Business* report, Turkey ranked number 93 out of 155 countries. That is bad news, but it is also good news because it tells you that there is a lot that can be changed and probably changed relatively easily -- I don't underestimate the difficulty -- to

improve the business climate and to increase investment in Turkey.

The latest report, for example, tells that people trying to start a business in Turkey need 28 percent of their average annual income to start a new business. That compares to zero in Denmark, 5 percent in Romania, or 10 percent in Chile and Brazil. Twenty-eight percent, by the way, of Turkish per capita income may not be a big obstacle to any multi-national firm, but 28 percent of per capita income for a poor Turk trying to start a small business is close to an insuperable obstacle.

Another obstacle is it takes 232 days to obtain a license in Turkey. That compares to 147 as the average among OECD countries. It takes Turkish entrepreneurs 10 signatures to export goods, 20 signatures to import goods. That compares to just three signatures that OECD entrepreneurs need for imports or exports, a terrific barrier to trade, and we all know what some of those signatures probably involve.

The message here is clear. If it costs too much to start a business or if you have to untangle too much red tape to get there, then many businesses just won't get started. Many Turkish citizens will be denied job opportunities, and their children will be denied their future.

I am proud that the World Bank Group has been a partner in Turkey's efforts to bring itself closer to EU standards, not only in education but also in the private sector and in health. Our lending program of about \$1.7 billion per year has been designed to support Turkey's EU aspirations, and we have been coordinating closely with EC to draw from the experience of other countries that have joined recently. Through World Bank support, about 2.3 million Turkish citizens receive conditional cash transfers so that children in poor families can go to school and receive regular health care. About 4,000 small local projects are being implemented to generate

jobs and income throughout the country, and hundreds of companies have received credits to increase their exports. With Bank assistance, about 11,000 housing units, supporting schools, and health care facilities have been reconstructed in communities affected by the 1999 earthquake. The International Finance Corporation, the private sector arm of the World Bank Group, has invested \$109 million in the social sector alone so that people can have access to more high quality medical care and education. The IFC is also working with the Government of Turkey to apply international best practices in public-private partnerships in both health and education.

When Atatürk was contemplating his country's future in the early years of the republic, he said, "The success of what we have won until today has done no more than open a road, a road for us towards progress and civilization. It has not yet brought us to progress and civilization. The duty falls on us and our grandsons to advance unhesitatingly in this road."

Turkey has traveled a long journey over the past eight decades, reconciling its rich traditions with its aspirations to modernity to bring progress and prosperity to its people. The reforms of recent years in the private sector and the finance sector and the education sector give the Turkish people new opportunities to improve their living conditions. They will find it easier to stay healthy, to obtain an education, to find a job, to make a living, to give their children an opportunity for a better future, and these reforms will also bring Turkey closer to its future in the European Union.

While there is a long agenda of reforms ahead, Turkey can be held up as a successful model to many countries in the world and should be saluted for the balance it is achieving in embracing both East and West. Turkey's membership in the European Union will enrich Europe



just as much as it will enrich Turkey. Turkey is bringing the proud legacy of a centuries-old civilization into a modern world to create a stronger, stable, and richly diverse global community.

For all of that, we can say thank you, or perhaps we should say it in Turkish: *Cok lessekur ederim*. Thank you.

(Applause)

MR. GORDON: Thank you very much for such a thoughtful speech on so many levels. For those of you interested, as I know I will be, the speech will be put on the Brookings web site as soon as we can. Because it is so rich, I think people will want to look at the words.

Let me check in again with Dean Terzioglu in Istanbul. I think he can hear me now. Maybe what we will do, with your indulgence, is take our first question from Istanbul. Tosun, can you hear me now? We will give the satellite a minute.

MR. TERZIOGLU: Thank you, Phil. We have been getting a good transmission from you. We were hearing you loud and clear. I would like to thank Mr. Wolfowitz again.

(Speaking in foreign language)

MR. GORDON: Thank you. Tosun, if you would, let me take a first questioner here from Washington. You line up a questioner and be ready, and after the first answer, we will come back to you. Who would like to begin? The gentleman right here in the aisle, and please introduce yourself before you ask your question.

QUESTIONER 1: I am Sadil Chako (?). I started working for the World Bank Group in 1993. Thank you, Mr. Wolfowitz, for a really wide-ranging, very interesting speech, an informative speech on reforms in Turkey.

I want to ask about reforms in the Bank as they relate to the reforms in developing countries. In particular, I would like to ask about protections against retaliation against whistleblowers. I think the value of whistleblowers has been recognized in the post-Enron era. The recent report commissioned by the Bank written by Professor Robert Vaughn provides evidence that reforms that were promised by Mr. Wolfensohn as early as 1998 have simply been ignored by many in senior management.

Recognizing that you insist on countries like Chad and, of course, Turkey implementing the commitments that they have made to the Bank, what changes will you make to ensure the Bank follows through on its commitments and its obligations, recognizing that the multi-lateral privileges and immunities prevent or can be used to block requests to documents and witnesses by shareholders, stakeholders, and indeed courts? Thank you.

MR. WOLFOWITZ: You realize that question is of enormous interest to me and to you and probably no one else in this room, or maybe a few other Bank staff that I see around the room. Look, it is very important. I am not trying to make fun of you. I am not going to give you a full answer because I don't think most people want to hear, but you are entitled to one.

I believe whistleblower protection is important even if it hadn't been promised. We are working on a full reform of the conflict resolution system, and that needs to be an important part of it. I hope you will be happy with the answers that will be coming forward in the next month or two.

I think every organization needs to make sure. Now this is something that should be of general interest. Let me put it on this level. Whether it is the World Bank, whether it is the Turkish Government, whether it is private corporations, bad news doesn't tend to flow up to the

top very easily. People are all ready and always willing to brag about their successes.

There was Admiral Hyman Rickover who was a remarkable leader, actually really more of an industrial manager than an admiral, who was once said, you should never try to execute anything through an organization outside of the normal organizational structure. You should never expect to learn anything through the normal organizational structure.

So whistleblowers are essential, and that is not just at the World Bank; it is everywhere. Whistleblowers need to be protected, and we will figure out how to get it done in our institution.

I don't mind the question. I just wanted to keep the answer short.

MR. GORDON: Great, Tosun, we will go to Istanbul for a question from there.

MR. TERZIOGLU: Thank you, Phil. I will take the first question.

QUESTIONER 2: My name Val Gavin (?). I am with the Turkish NTV.

Mr. Wolfowitz, you didn't go into world politics too much in your speech. Referring to the title of your speech, of your lecture, I would like to ask you this. It is good to have bridges between different political cultures, but it seems that the traffic in political terms is going one way, in one direction, West to the East, and not necessarily values are meant to be transported by this bridge, but we also see some reaction to the U.S. presence in Iraq and the talk of a possible strike to Iran as well as the reaction of the Eastern societies to the United States. Regarding all these factors, don't you think that this bridge faces the danger of being blown up some day, and also why some Republican friends of yours maybe nowadays aren't very much keen on seeing Turkey in an intermediary role regarding the issue of Iran as well as the Government of Hamas, for example, in the Middle East? Thank you.

MR. WOLFOWITZ: I think I would rather answer your question. Let me make a stab. I

mean there is a lot there.

You have to understand I am not a spokesman for the U.S. Government at all. I am the head of an institution with 184 member countries, and I do my best to represent them in their interest in the World Bank as an institution to promote economic, to promote development. I guess we tend to say economic development, but it is more than just economics. In fact, I think increasingly people have learned that the line isn't simple.

Look, there is no question that there are people who would like to blow up that bridge, and I referred to the killer the other day who coldbloodedly murdered a judge. Those people are out there. I think you are underestimating the extent to which huge numbers of people in the Western World are interested in learning from the East. The East, of course, is a huge, broad category. It includes your immediate neighborhood; it includes things as far away as China and Japan.

The degree of international understanding compared to when I was the age of these Sabancı students has just grown by leaps and bounds. Perhaps, to some extent, that is what produces the kind of fanaticism that I referred to because some people see that and they react against, and I can't tell you why they react against it. I think there is an element that only a psychiatrist could account for. But I do think that one thing that can lead them down the wrong road is seeing great gaps between the rich and the poor, great facts in the world that look to reflect a kind of injustice. It is one of the reasons why I believe it is very unhealthy for the world that 600 million people in Africa are going backwards when in large parts of the world, including large parts of the developing world, we are seeing great advances and great reductions in poverty.

That is why I think the course that Turkey is on is such an important model. I think the more successful Turkey can be, the clearer it can be that you don't need to be a Christian country to be successful in this world, the clearer it can be that you can combine Islam and a modern developing economy, a modern successful economy. This is going to be challenged. It is going to be challenged by a lot of people for a lot of reasons. I don't underestimate the difficulty, but I think, and I have said this many times before, it is Turkey's misfortune to be located at the center of so many stresses and tensions, geographic and cultural.

It is our great fortune, in my opinion, that a country with Turkey's modern vision, with Turkey's deep, deep traditions, and with the courage of so many Turkish leaders is at that bridge point. I think we all need to not take it for granted. We need to work to make it succeed.

MR. GORDON: Thank you. No one can accuse Brookings of lining up softball questions for our speaker. Let me tell you we take them as they come, and let me take one from Washington before we go back to Istanbul. Here in the second row if you would please introduce yourself. The microphone is on the way.

QUESTIONER 3: Leti Insul (?), NTV again. The latest volatility in the markets has affected Turkey more severely than others. Why and what should Turkey do?

MR. WOLFOWITZ: I suppose if I were really an expert on this, I would go and take another job and then come back as a billionaire.

I think there is no substitute for continuing the basic discipline, monetary discipline and fiscal discipline that were the source of recovery from the previous crisis. It is the fear that inflates. When you have had such crippling inflation for so long, it doesn't take a lot to get people afraid that it is coming back. When so much depends on keeping fiscal discipline, people

react at the first signs of that starting to slip. I believe that was the spirit of the warning that the IMF gave in its report recently, and maybe some investors overreact to that report, but I think the important thing is I think Turkish officials should take it seriously.

What I feel more confident about, more expert about, is what I spoke about in my speech, which is Turkey's long term success is not going to come from continuing heavy government-supported industrial policy. I think it is going to come from creating the kinds of citizens that can compete in a knowledge-oriented economy, and there is no reason Turkish citizens can't, freeing the Turkish private sector from some of this crippling, suffocating maybe is a better word, over-regulation that I think is holding down Turkey's growth. The way to really be secure against what are going to be inevitable fluctuations and even perhaps crises in the world economy is to have strong underlying economic foundations yourself, and Turkey is part way there, but there is still more work to do.

MR. GORDON: Great, let's go back to our friends in Istanbul. Tosun?

MR. TERZIOGLU: Thank you, Phil. I will take another question.

QUESTIONER 4: Dr. Wolfowitz, this is Mihram Bergey from CNN Turk television.

About two years ago you gave an interview which was broadcast on CNN – Turk, which caused many headlines in Turkey, where you criticized Turkey and with rather hard words the Turkish government and Turkish people. When you were at the Pentagon, you were reading with Pentagon eyeglasses, some sources say, and now that you're at the World Bank, you're reading with the World Bank's eyeglasses. Meanwhile you're praising Turkey and you are fully in favor of Turkey. Now why this change? Is it a change of idealists, a change of eye glasses, is it a change of force, or is it because Turkey is achieving important things, or that you may have left

your old hard feelings behind? Thank you.

MR. WOLFOWITZ: It was a little hard to make out your question from here, but I think I heard it.

Basically, I haven't changed at all. I have always believed that Turkey is a very important partner to the United States, to Europe, and now I would say to the World Bank and for the reasons I said in my speech, and that doesn't mean you agree about every particular issue. But I think Turkey's influence in general has been a very positive one and why I say, (speaking in foreign language). Thank you.

MR. GORDON: We have time for one more round of questions. Let me take Yasemin Çongar from Washington, and Tosun, we will go back to you for one more after that. The second row, please.

QUESTIONER 5: Thank you, Yasemin Çongar, Milliyet and CNN Turk.

Mr. Wolfowitz, when you look back at your days at the Pentagon as the Deputy Secretary of Defense, is there anything you would have done differently in your dealings with Turkey in the period going to the Iraq War? Is there any part you would have talked about more? Is there anything you would have explained maybe better to the Turks? When you look back, do you self-criticize at all?

MR. WOLFOWITZ: There is too much to do looking forward, frankly, and that is where you can fix things, and that is where you can do things. I remember many conversations with Turkish officials, including the Prime Minister, expressing concern about the impact of the situation in Iraq, before the war, on the Turkish economy. Turkey's involvement economically in Iraq now is a very big factor for both countries, and I think an extremely positive one and one

that I hope will continue and will grow and will strengthen.

I think whatever differences anyone may have about the past -- I don't think anyone in their right mind could want anything other than this new Iraqi Government to succeed. I think Turkey can do a lot to help make that happen, and Turkey will be better off and live in a better neighborhood as a result.

MR. GORDON: Thank you. In Istanbul, Tosun, do you have a final question for us, please?

MR. TERZIOGLU: Yes, we have. Thank you.

QUESTIONER 6: Hello Mr. Wolfowitz. My name is Genghis Param, and I am a student in the Economics Program at Sabanci University. And it has all been very interesting for me today to listen to your lecture, because during my studies in this year I have focused on the strategies of the IMF and World Bank through the years after their establishment after the Second World War. And my question is, we know that in today's global economics, the economies of many countries are interrelated. That is to say, for example, the boom of one sector in one country can lead to the decline in the production in another country. As we know that the World Bank's aims not to achieve growth in not only one country, but in many countries of the world. Sometimes I think the interests of these countries can make a big contrast, and the World Bank may have to decide which countries to favor and which ones to not be supportive of or which countries to support more. I am curious about how does the decision mechanism, how the decision mechanism of the World Bank decides in such situations. I mean for example, the World Bank may play a role in one sector of a country, but that might lead to a decline in the production of a really important sector in Turkey. And also you mentioned that Turkey's growth



and build up is a role of the World Bank? For example what do you do, or how do you establish such strategies? Thank you very much.

MR. WOLFOWITZ: It is a very rich question. The premise is that there is a lot of sort of potential conflict between the various countries that we work with. I think there is much less than maybe you think. I think one place where there is at least superficially a conflict, and that is between the rich countries and the poor countries when it comes to trade and agriculture.

We have been very clear and very outspoken that we think the present international trading system is very unfair, biased in sometimes absurd ways toward protecting inefficient agriculture in the United States and Europe and Japan at the expense of opportunities for poor farmers in Africa and Latin America and Asia. You say that is perhaps a conflict. We have no doubt which side of that issue we are on because our job on behalf of the rich countries as well as the poor countries, our job is to help reduce poverty in this world.

But the truth is I don't think it is really a conflict between the poor countries and the rich countries. I think it is a conflict between most of the people in the world and a few people who are benefiting quite unfairly from sometimes absurdly high subsidies. The average subsidy to a cotton farmer in the United States, I believe, borders on a quarter of a million dollars. That is paid by American consumers and American taxpayers, and it comes at the expense of cotton farmers in Africa. I could say similar things about the protection in Europe and the protection in Japan.

A lot of the investment that we do is in the areas like the ones I mentioned, like education, like health, and I don't think that having a better educated population in Africa is going to hurt Turkey. To the contrary, it is going to be to Turkey's benefit and vice versa. There are an awful

lot of win-win situations here.

Now, yes, I guess the premise of your question might be if we decide to invest in a particular kind of manufacturing in a particular country, it will give that country an edge over someone else. Mostly, by the way, we try to just support a particular country's development strategy.

But, frankly, if a country came to me and said: Look, we want a World Bank loan to build up industry X; I would ask them: Well, why are you so sure that the government knows that Industry X is where you ought to be investing?

The Prime Minister of Egypt who is a former businessman told me about the success in Egypt of their aircraft parts manufacturing sector. He said: Who would have guessed that Egypt could produce aircraft parts competitively?

No government official figured that out. Private business people figured it out, and that is why I come back to what I said is so important in my speech. I think the more we, as governments and institutions, give individuals the opportunity to find the opportunities and to use their hard work and their talents and risk their wealth to build on those opportunities, we will create more for everybody. Instead of having to fight over who gets which slice of the pie, we will have a pie that is much bigger, and that should be the goal.

MR. GORDON: Thank you very much.

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