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CHAPTER I

The Turkish economy and its growth: an overview

I. Introduction

The Turkish economy underwent profound changes from the end of World War II to 1971. Real national income more than tripled, while the Turkish population increased from 20 to 36 million. The resultant increase in real per capita income and government efforts to accelerate development led to an increase in the share of GNP allocated to capital formation: from 9.7 per cent in 1948 to 21 per cent in 1970.[1] The share of agriculture in GNP fell from 51.3 per cent in 1948 to 29.1 per cent in 1970, while that of industry rose from 10.1 per cent to 17.5 per cent.

The purpose of this study is to examine the relationship of the Turkish foreign trade and balance-of-payments experience to Turkish economic growth. Obviously a country's growth is the outcome of a host of interacting factors, both positive and negative. No analysis of the role of any one factor can be undertaken without reference to these others. This chapter is therefore intended to provide an overview of the Turkish economy and its growth and to place the foreign trade sector in perspective. In the next four sections of the chapter the structure and growth of the Turkish economy and the major government policies influencing growth are discussed. A fifth section provides a summary of the chronological development of the Turkish foreign trade regime, which will be the subject of more intensive investigation in later chapters, and a final section of Chapter I indicates the plan of the work as a whole.

II. Turkish economic growth prior to 1950

The year 1950 will be used as a starting point in studying the relationship of the foreign trade sector and economic growth. Several reasons led to the

1. Throughout this book 1971 will be taken as the terminal year of the study, apart from a few references to developments in the early part of 1972 (see Appendix C). Use of an earlier final year will signify that later data are not available as of the summer of 1972.

choice of that year: by 1950, Turkey had recovered to a large extent from the extreme abnormalities of the early post World War II years; the availability and reliability of data decreases sharply as one goes further back in time; a new government was elected in 1950, one whose economic policies were important in shaping Turkey's economic growth throughout the subsequent decade; and since 1950 preceded the balance-of-payments difficulties which later emerged, use of 1950 as a starting point permits the analysis of factors which led to those difficulties.

Although the decade of the 1950's contrasts sharply with the earlier decades of the Turkish Republic, the earlier period was formative. The Turkish Independence movement started in 1919 as the Ottoman Empire dissolved, and led to the establishment of the Turkish Republic in 1923, the dominant figure in this evolution, from 1919 until his death in 1938, being Kemal Atatürk.

The 1920's constituted a period when Atatürk and his associates were concentrating primarily on forming the political and social structure of the new Turkish nation and on setting the outlines of the republic's foreign policy. With occasional exceptions, there was little conscious economic policy relating to development goals, although the transport system was nationalized and a State Monopolies Agency (alcohol and cigarettes) was established. The latter was intended primarily as a means of raising revenue. Insofar as there was conscious economic policy aimed at economic growth, it consisted primarily of relying upon private enterprise to provide it.[2]

The decade of the 1920's saw numerous reforms: Turkey switched from the Arabic to a modified Latin alphabet, purdah and the fez were abolished, and the state was declared secular rather than religious.[3] Partly because of the disruptions, especially the cross-migration of Greeks and Turks associated with the end of the war with Greece, partly because of debt-servicing obligations, and partly for other reasons, it appears that per capita disposable income in Turkey hardly changed during the 1920's.[4]

The new Turkish Republic had little control over the foreign trade regime before 1929. The Sultans under the Ottoman Empire had sold to foreign powers the rights to impose taxes and tariffs (the Capitulations) in exchange for various considerations. The Sultans had simultaneously accumulated huge debts, settlement of which was not made until 1923 with the Treaty of

2. For a fuller account of government economic policy during the period, see James W. Land, "The Role of Government in the Economic Development of Turkey, 1923 to 1963," *Rice University Program of Development Studies, Paper No. 8,* Fall 1970.
3. See Kemal H. Karpat, *Turkey's Politics – the Transition to a Multi-Party System,* Princeton University Press (Princeton) 1959, Chapters 2 and 3.
4. Z.Y. Hershlag, *Turkey: The Challenge of Economic Growth,* E.J. Brill (Leiden), 1968, p. 58.

Lausanne. Under this treaty, Turkey was obliged to permit the Capitulations to continue until 1929 and to repay a fraction of the Ottoman debt amounting to TL 129 million – which can be compared with total export earnings in 1923 of TL 85 million. Throughout the 1920's the new government found itself saddled with massive debt-servicing obligations but with little control over its ability to service them. The Ottoman debt was renegotiated sporadically throughout the 1920's and early 1930's, but not without embarrassment for the government on each round. As will be seen below, foreign indebtedness has continued to be a problem for the government of Turkey throughout its existence. Memories of the Capitulations and of the Ottoman debt settlement are undoubtedly an important influence on Turkish foreign trade policy.

The free enterprise orientation of the Turkish government ended with the Great Depression. The very slow rate of increase in per capita income throughout the 1920's contributed to general skepticism about free enterprise. The end of the Capitulations increased the government's range of policy alternatives, while the decline in export earnings attendant upon the Great Depression virtually forced a shift in economic policy.

The government shifted to the economic philosophy usually called "Étatism", a concept never clearly articulated.[5] The main thrust of this movement was that government-owned enterprises should be started in an effort to raise living standards, and that these enterprises should be the major stimuli to economic growth. It was during the 1930's that State Economic Enterprises (SEEs) were started in the industrial field. Two Five Year Plans were formulated.[6] These plans endorsed infant industry protection and placed emphasis on the development of domestic textile, chemical, sugar, building materials, coal, iron and steel, paper and cellulose, and other industries, primarily through government enterprises. SEEs have played an important part in Turkey's economic growth since the 1930's. The First Five Year Plan was implemented, but the Second was not implemented owing to the outbreak of World War II.

Hershlag estimates that Turkey's income per capita increased by 19 per cent in constant prices during the decade from 1929 to 1939, about 1.7 per

5. For a discussion of Étatism and its origins, see Osman Okyar, "The Concept of Étatism," *Economic Journal,* March 1965.
6. These five year plans generally focused upon industrial development, and were not comprehensive of all sectors of economic activity. They should not be confused with the Five Year Plans of 1963–1967 and 1968–1972, which are called the First Five Year Plan (FFYP) and Second Five Year Plan (SFYP), respectively. The first five year plan of the 1930's started in 1934. The second started in 1939, but was not really implemented, as World War II broke out. See Bernard Lewis, *The Emergence of Modern Turkey,* 2nd Edition, Oxford University Press (London), 1961, pp. 268–70, and p. 296.

cent annually.[7] Some progress had thus been made toward the goal of economic growth and higher living standards on the eve of World War II. However, growth had been slow and per capita income, by European standards, was very low. Contrasted with nations which achieved independence after World War II, Turkey's head start consisted primarily of the political and social changes which had been accomplished rather than of solid progress on the economic front.

The already high level of government intervention was increased with World War II. And despite substantial tax increases, the disappearance of foreign sources of supply and increased government expenditures simultaneously led to rapid inflation. Although some industries' output increased markedly, supply bottlenecks prevented rapid expansion in most. James W. Land estimates that the entire period of 1933–1948 saw an average annual growth of income of three per cent annually, but only of two per cent per annum from 1938 to 1948. This slower rate of growth during the latter period is generally attributed to stagnation during the War years.[8]

There was some relaxation in controls over international trade after the War, and to adjust for the rapid wartime inflation, the Turkish lira was devalued in August 1946, from TL 1.28 per U.S. dollar to TL 2.80 per dollar.[9] Work was begun on a five year plan in the summer of 1946. However, in the rapidly changing economic environment of the late 1940's the plan was not implemented. Simultaneously, political changes were occurring in Turkey. Étatism, which implied widespread government intervention in economic activity, continued to be the underlying economic ideology. In 1950, the Republican Party – historically Atatürk's – was defeated, and the Democratic Party under Menderes, elected.[10]

III. Development planning and economic policy, 1950 to 1970

Economic policy during the 1950's

Most writers have cited economic factors, and in particular the rejection of detailed controls and/or Étatism, as a major factor in the Democratic Party's victory.[11] However, all major political parties during the 1950 campaign

7. Hershlag, *op. cit.* (Note 4), p. 121.
8. See Land, *op. cit.* (Note 2), pp. 8 ff.
9. The cost of living index in Istanbul stood at 101.4 in 1939 (1938 = 100) and rose to 354.4 by 1945. *Overseas Economic Surveys – Turkey,* His Majesty's Stationery Office (London), 1948.
10. See Karpat, *op. cit.* (Note 3), Chap. 8 for a fuller discussion.
11. See, for example, *ibid.*, and Lewis, *op. cit.* (Note 6), pp. 312 ff.

attacked the network of detailed controls and high taxes that had arisen under the banner of Étatism and campaigned for a greater scope for private enterprise. Menderes had campaigned on a platform that actually included selling many of the SEEs to private firms.

But such a sale did not transpire: there was political protest against selling the profitable ones, and no willing buyer for the unprofitable SEEs. Indeed, the SEEs expanded their share of industrial activity during the 1950's. In 1950 when Menderes gained power and hence Étatism theoretically ended, 63 per cent of value-added in Turkish industry originated from private firms and 37 per cent from SEEs. By 1960 when Menderes' government fell, 52 per cent of industrial value-added originated in the private sector and 48 per cent in the public.[12]

The main reason for this outcome appears to have had little or nothing to do with economic philosophy. Rather, initial attempts to sell the SEEs met with strong political objections. After the crop failure of 1954 the SEEs became a useful instrument for attaining government objectives when the approach of 1950–1953 appeared to have failed. The SEE investments increased rapidly, financed by Central Bank credits; the SEEs thus grew relatively faster than the private sector during the 1950's.

Economic policy during the years of the Menderes government can be divided into three periods. The first, from the election until 1954, was a period during which emphasis was placed upon increasing agricultural production. The second, from the massive crop failure of 1954 until August 1958, was characterized by domestic and foreign economic difficulties and economic policy consisted largely of *ad hoc* measures to counter them. The third period, starting with stabilization program and *de facto* devaluation in August 1958, came to an end with the Revolution of May 1960.

It should be pointed out before examining each of these periods that the common denominator of economic policy during the 1950's was lack of coordination. Prime Minister Menderes had a "seeming phobia about any aspect of economic planning"[13] which led to a lack of any clearly formulated overall economic policy, even for government expenditures.[14] Thus the pe-

12. See Land, *op. cit.* (Note 2), p. 29, Table 6 for the underlying data.
13. Walter F. Weiker, *The Turkish Revolution 1960–1961*, Brookings Institution (Washington) 1963, p. 12.
14. In 1953, a report by Hollis B. Chenery, George E. Brandow and Edwin J. Cohn, *Turkish Investment and Economic Development*, Foreign Operations Administration Special Mission to Turkey (Ankara), December 1953, was prepared under American auspices, calling attention to the inflationary danger and to the need for better coordination in virtually all aspects of government expenditure policy. "...The fact that it discussed at all the inflationary situation prevailing in Turkey was said to be representative of its negative approach. All Turks who had in any way helped in the preparation of the report were frowned upon and the few copies which had been

riods are characterized more by changes in economic conditions to which the government responded on a case-by-case basis rather than by consciously formulated and enunciated policy shifts.

1950 to 1954. The first three years of the Menderes regime were marked by a rapid expansion of agricultural output and a substantial increase in governmental infrastructure investments. The resulting boom also led to a buoyant economy generally, as demand grew rapidly in response to increases in agricultural income. Increases in agricultural production, especially of wheat and other grains, resulted primarily from extending the area under cultivation. Rapid output increases were accompanied by a decline in wheat yields, since much of the additional land was submarginal.

The government seems to have adopted the view that emphasis upon agricultural expansion was the best policy for economic growth. Several factors evidently contributed to this emphasis. (1) The political support for the Menderes regime originated largely from the peasantry; thus Menderes and his government gave priority to road-building and other investment projects within the rural sector. (2) Menderes' commitments to free enterprise and the pricing system were more consistent with agricultural price supports and other pricing incentives (liberal credit policies, etc.) than with direct intervention.[15] (3) In post-war Europe, where food shortage was perceived to be a major problem, Turkey was urged during Marshall Plan consultations to focus upon expansion of food output.[16]

The foreign exchange regime was very liberal during the years 1950 to 1953. With rapid increases in agricultural production, exports expanded sharply – as did also imports (see Table I-6 below) – since demand for both investment and consumption goods imports increased. By the end of 1953 the government was forced to impose controls over imports and exchange control was introduced in response to mounting short-term indebtedness and a large current account deficit. Domestic economic policy, however, did not basically shift until 1954, when a massive crop failure occurred.

1954 to 1958. Agricultural production dropped 20 per cent between 1953 and 1954, largely as a result of bad weather. By that time opportunities for rapid increases in agricultural output through extensive investment had largely ceased; but the massive crop failure sharply focused attention on the

circulated were confiscated by the Government...": *Public International Development Financing Research Project of the Columbia School of Law. Report No. 3* (New York), 1962, p. 18.

15. Columbia School of Law, *op. cit.* (Note 14), p. 11.
16. Reşat Aktan, *Analysis and Assessment of the Economic Effects Public Law 480 Title I Program Turkey*, no publisher indicated (Ankara), 1964, p. 36.

inherent difficulties of reliance upon agriculture. Meanwhile, the inflationary pressures resulting from financing agricultural price-support operations were intensified with the decline in agricultural output.

Government policy became increasingly interventionist, with continued resort to additional direct controls. Emphasis upon agricultural development was reduced. The balance-of-payments pressures which had emerged in 1952 and 1953 intensified. Thus on both the domestic and foreign fronts detailed government regulation and intervention in economic activity replaced the rather more liberal economic policies of earlier years. The years 1954 to 1958 were ones of increasing inflation, continued balance-of-payments difficulties and other economic problems.[17]

1958 to 1960. In August 1958 the government embarked upon a Stabilization Program with a *de facto* devaluation of the Turkish lira and an attempted halt to inflation. Tight credit ceilings and other measures taken in consultation with creditor countries resulted in a sharp drop in the rate of inflation, but by late 1959 the government began relaxing its credit and expenditure policies. In May 1960 the Menderes government was overthrown by a group of military leaders.[18]

Economic policy during the 1960's

A major motive for the takeover that ended the Menderes era appears to have been the fear that the government was reverting to the inflationary policies that dominated the pre-1958 period. The military intervened and appointed a civilian government which ruled for eighteen months, until elections were again held under a new Constitution.

The Republican Peoples' Party gained power in a coalition government after the elections of 1961. The Justice Party won the election in 1965 and was in power until April 1971. The Republican Party has advocated economic planning, a large role for government economic activity, and has been somewhat more suspicious of private enterprise, whereas the Justice Party assigned a greater role to the private sector. Nonetheless, economic policy had a considerable continuity throughout the 1960's that was in marked contrast to the 1950's. One of the major commitments of the revolutionary government was to greater coordination of economic policy. A State Planning Organization (SPO) was established, and its role was defined in the new Turkish Constitution.[19] Work began almost immediately on a comprehensive Five

17. The characteristics of this period are discussed more fully in Chapter II, below.
18. See Chapter IV, below, for a fuller discussion of the period.
19. See Chapter V, below, for a fuller discussion of the State Planning Organization and the role of planning in the 1960's.

Year Plan which officially began in 1963.[20] The Plan was implemented and its successor, the Second Five Year Plan of 1968 to 1972, marked a continuation of planning although with greater emphasis upon incentives to the private sector.[21]

Both Plans have adopted a target growth rate of 7 per cent annually. Each laid down sectoral targets which assumed importance in government investment policies and in setting incentives for the private sector. The development of Turkish industry has been stressed in each Plan, with particular emphasis upon the development of new industries. As such, import-substitution goals became a conscious element of development policy.

The important point for present purposes is that during the 1960's the foreign trade regime was viewed as one of the instruments to be used to attain development goals. Although balance-of-payments difficulties often forced adjustments in the payments regime, those difficulties themselves were largely the result of the development effort and its implied import demands. "Foreign exchange shortage" was perceived as a bottleneck to growth, and the SPO has encouraged export promotion and emphasized import-substitution in response to that perception. Of course had foreign exchange earnings been greater it is likely that import-substitution would have been encouraged at a slower rate. Many of the side effects of the payments regime were undoubtedly the unintended result of greater-than-anticipated foreign exchange stringency, and detailed administration of the payments regime on occasion departed from the intent of the plans. Nonetheless, the Turkish foreign trade and payments policy of the 1960's can generally be regarded as consciously coordinated with development goals, in sharp contrast to the 1950's when policy was formulated on an *ad hoc* basis in response to individual events.

IV. Economic growth since 1950

Growth of GNP

Table I-1 provides basic data on the gross national product and its composition over the 1950 to 1970 period, and the behavior of real GNP, investment, and consumption is plotted in Fig. 1. Real GNP tripled between 1950 and 1970, for an average annual rate of growth of 5.7 per cent and an annual growth in per capita income of 3.0 per cent. Per capita income in 1970 was

20. *First Five Year Development Plan 1963–1967*, Government of Turkey, Prime Ministry, State Planning Organization (Ankara), 1963.

21. *Second Five Year Development Plan 1968–1972*, Government of Turkey, Prime Ministry, State Planning Organization (Ankara), 1968. At the time of writing, the *Third Five Year Plan 1973–1977* is in the final stage of formulation.

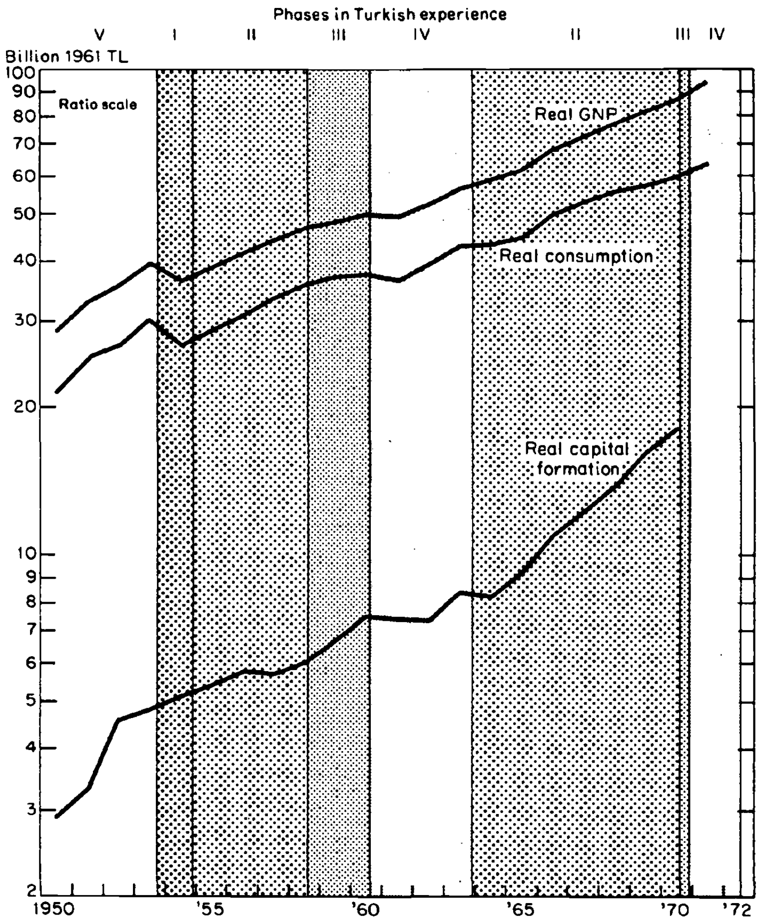

Fig. 1. Growth of real GNP, consumption and capital formation, constant prices, 1950 to 1971.

TL 3,764 or at the official exchange rate, $251. The Turkish population was estimated to be 35.7 million in 1970, having grown at an average annual rate of 2.7 per cent over the 1950–1970 period.

As can be seen, the growth of the Turkish economy has not been uniformly sustained over the entire period. Growth was extremely rapid from 1950 to 1953. Fluctuations in the growth rate have been associated with bad crop years (especially 1954) and growth was slowed down by the balance-of-payments crisis and readjustment that followed in the years 1958 to 1961. Thus net national product grew at an average annual rate of 7.5 per cent

Table I-1
Turkish GNP and its composition, 1948, and 1950 to 1971

	Current GNP (billions of TL)	GNP at 1961 Prices (billions of TL)	Per Cent Change from Previous year	Percentage Distribution			
				Private Consumption	Fixed Capital Formation	General Government Consumption	Net Exports
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1948	10.1	27.5	–	–	–	–	–
1950	10.4	28.5	–	75	10	16	–1
1951	12.3	32.8	15.1	78	10	14	–2
1952	14.3	35.6	8.5	75	13	17	–3
1953	16.8	39.6	11.2	76	12	15	–2
1954	17.1	36.1	–8.8	74	14	15	–3
1955	21.1	38.7	7.2	74	14	15	–2
1956	24.3	41.4	7.0	74	14	13	–1
1957	30.5	44.0	6.3	76	13	12	–
1958	36.1	46.3	5.2	77	13	12	–
1959	44.7	48.1	3.9	77	14	13	–3
1960	49.0	49.9	3.7	75	15	13	–2
1961	49.1	49.1	–1.6	74	15	14	–3
1962	55.2	52.1	6.1	75	14	15	–4
1963	63.3	56.1	7.7	76	15	14	–4
1964	68.0	58.9	5.0	73	14	14	–2
1965	73.2	61.6	4.6	72	15	14	–1
1966	85.7	67.9	10.2	73	16	13	–2
1967	95.2	72.1	6.2	73	17	12	–1
1968	105.0	76.9	6.7	72	18	12	–2
1969	117.1	81.7	6.2	70	20	12	–2
1970	135.6	86.4	5.8	69	21	12	–2
1971	173.5	94.3	9.1	67	18	15	0

Notes: a) SPO and SIS each have published GNP estimates since 1959. SIS's estimates are based on 1948 prices until 1961 and on 1961 prices thereafter. SPO estimates were used to provide opportunity for making comparisons with the real GNP series. The SPO estimates are based on SIS data, the difference being the estimate of agricultural production in 1958, and hence the weights used for estimating the growth rate in later years.

b) No estimate was made of inventory investment until the late 1960's. Consumption was estimated as a residual, and hence inventory accumulation was implicitly included in it. To maintain comparability, investment in stock, amounting to about one per cent of GNP, was included in the consumption data for later years.

c) 1971 data are provisional estimates.

Sources: Columns (1) and (2): SPO data, as given in *Economic and Social Indicators – Turkey,* U.S. Agency for International Development (Ankara), 1971.

Column (3): derived from column (2).

Columns (4) to (7): 1950 to 1968 from *Yearbook of National Accounts Statistics;* 1969 and 1970 from SPO 1971: *Yılı Programı* (Ankara), March 1971.

between 1948 and 1953 and only 2.7 per cent per annum between 1953 and 1961. Growth since 1961 has averaged 6.5 per cent.

Gross capital formation over the entire period has risen from 10 per cent of GNP to 20–21 per cent, while private consumption has fallen, in percentage terms, from an average of 75 per cent in the period 1950 to 1954 to 69–72 per cent in the last half of the 1960's.[22] Government consumption, of which a sizeable fraction is defense expenditures,[23] has also declined relatively over the period. As indicated in Table I-1, there has been an import surplus over virtually the entire period, reaching its peak in the first half of the 1960's. It is evident that part of the increase in the rate of gross capital formation originated from an inflow of foreign credits, especially in the years from 1959 to 1965. The bulk of these credits came from foreign aid, as will be seen below.

Gross capital formation

Table I-2 indicates the composition of gross capital formation, the most rapidly growing component of GNP. Several notable features of the Turkish

Table I-2
Composition of gross domestic capital formation (percentage distribution)

	1951	1955	1960	1965	1969
A. *Private sector*					
1) Dwellings	22.8	30.1	20.6	21.9	22.6
2) Other buildings	9.1	9.2	6.5	6.4	6.6
3) Other construction	1.1	0.7	0.6	0.8	0.5
4) Machinery and equipment	28.9	17.6	22.3	15.2	14.5
Total Private	61.9	57.6	50.0	44.3	44.2
B. *Public sector*					
1) Dwellings	1.2	0.5	0.3	0.9	0.7
2) Other buildings	10.4	10.7	11.4	13.7	14.0
3) Other construction	19.1	22.1	24.8	28.1	26.8
4) Machinery and equipment	7.3	9.1	13.6	12.9	14.3
Total Public	38.1	42.4	50.0	55.7	55.8

Note: Due to rounding-off of uneven fractions, totals may not add up exactly to those given in the table.

Source: *National Income, 1938, 1948–1970. Pub. No. 625,* State Institute of Statistics (Ankara), 1972.

22. But see Note b to Table I-1.
23. According to Frederick Shorter, military expenditures averaged 7.3 per cent of GNP over the fifteen-year period 1948–1962. See Frederick C. Shorter, "Military Expenditures and the Allocation of Resources," in Frederick C. Shorter (ed.), *Four Studies on the Economic Development of Turkey,* Frank Cass & Co. Ltd. (London), 1967, p. 43.

economy are evident from the data. First, the government's share of total investment is high, and has increased throughout the period, rising from 38 per cent in 1951 (1950 data are not available) to about 56 per cent in the late 1960's. Government investment has taken place not only in infrastructure but also through the SEEs in manufacturing, mining, and so on. A second notable feature of the Turkish economy is the very high fraction of total capital formation which originates in construction activities.[24] Only 28.8 per cent of gross capital formation, both public and private, was allocated to machinery and equipment in 1969. This figure contrasts sharply with percentages in other countries in 1968: Argentina, 45; Chile, 45; Greece, 40; Israel, 41; Italy, 36; Spain, 49; and Taiwan, 53.2.[25]

Composition of output by sectors

Table I-3 presents estimates of the sectoral origin of national income. The estimates are in 1948 prices for the years 1951 to 1961 and in 1961 prices for later years. Because of data unavailability, no attempt was made to convert to a comparable price basis for the two decades. The trends nevertheless stand out clearly. Agriculture's share in national income has gradually declined from 51 to 30 per cent over the two decades. Manufacturing has meanwhile grown more rapidly than GNP, rising from 9 per cent of national income in the early 1950's to 17 per cent in 1967. The share of other non-agricultural sectors has risen somewhat over the period.

Hence Turkey's comparatively rapid growth has been accompanied by a structural change as the relative importance of agricultural production has declined, although this factor still remains large.[26] The growth of manufacturing production has been relatively rapid, stimulated primarily by import-substitution.

24. It is generally believed that the unusually large fraction of investment in construction is attributable to Turkish tax law, which encourages new building. New residential buildings are exempted from tax for five to ten years, and even commercial buildings are exempt for three years. The tax rate for buildings thereafter is 0.3 per cent of assessed value, with rental income above TL 5,000 not subject to tax. Capital gains on buildings sold four or more years after construction, moreover, are tax-exempt. See R.A. Newberry, *Taxation in Turkey* (Istanbul), September 1964, and Hüsnü Kızıyallı, *Türk Vergi Sisteminin Ekonomik Etkileri*, State Planning Office (Ankara), 1965.
25. Data from *Yearbook of National Income Accounts*, United Nations, 1969, country-pages.
26. Turkey appears to have a strong comparative advantage in a number of agricultural commodities, including fresh fruits and vegetables and livestock, for which Western Europe is a natural market and the income elasticity of demand is high. Thus one would not expect the share of agriculture to decline with GNP growth as much as in some other countries.

Table I-3
Industrial origin of national income, 1951 to 1970 (billions of TL)

A. 1948 Factor Prices

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
Agriculture	5.5	5.8	6.4	5.1	5.6	6.1	6.2	7.3	7.3	7.4	7.2
Mining	0.1	0.1	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Manufacturing	1.0	1.0	1.1	1.2	1.2	1.3	1.4	1.4	1.5	1.5	1.5
Electricity, gas, water	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Construction	0.5	0.6	0.8	0.7	0.7	0.7	0.9	0.9	1.0	1.0	0.9
Wholesale & retail trade	1.1	1.2	1.3	1.1	1.2	1.3	1.4	1.5	1.7	1.7	1.7
Transport & communication	0.5	0.7	0.7	0.8	0.9	1.0	1.0	1.0	1.2	1.3	1.3
Financial institutions	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4
Private services	0.4	0.5	0.5	0.5	0.6	0.6	0.7	0.7	0.8	0.8	0.9
Dwelling ownership	0.3	0.3	0.3	0.3	0.4	0.4	0.5	0.6	0.6	0.7	0.8
Government services	0.9	1.0	1.2	1.2	1.2	1.2	1.4	1.5	1.6	1.6	1.8
Income from rest of world	−0.0	−0.0	−0.0	−0.0	−0.0	−0.0	−0.0	−0.0	−0.0	−0.0	−0.0
National income	10.5	11.4	12.7	11.5	12.3	13.2	14.0	15.7	16.3	16.7	16.7

B. 1961 Factor Prices

	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Agriculture	19.0	20.2	21.7	21.7	21.0	23.4	23.6	24.0	24.0	24.3
Mining	0.8	0.8	0.8	0.9	1.0	1.1	1.1			
Manufacturing	6.5	7.0	7.7	8.2	9.0	10.0	11.4	14.1	15.5	15.9
Electricity, gas, water	0.3	0.3	0.3	0.4	0.3	0.4	0.4			
Construction	2.9	3.0	3.2	3.5	3.7	4.1	4.5	5.0	5.4	5.7
Wholesale & retail trade	3.6	3.9	4.2	4.5	4.8	5.2	5.7	6.1	6.6	7.0
Transport & communication	3.4	3.7	4.0	4.2	4.5	4.9	5.2	5.6	6.1	6.5
Financial institutions	1.3	1.4	1.5	1.6	1.7	1.9	2.1	2.3	2.5	2.7
Private services	2.4	2.6	2.8	3.0	3.2	3.4	3.7	4.0	4.3	4.6
Dwelling ownership	2.3	2.4	2.5	2.7	3.0	3.2	3.5	3.8	4.2	4.6
Government services	4.4	4.6	5.0	5.3	5.7	6.2	6.7	7.3	8.0	8.7
Income from rest of world	−0.3	−0.3	−0.2	−0.2	+0.2	+0.5	+0.2	+0.2	+0.4	+1.2
National income	46.5	49.5	53.4	55.8	58.2	64.3	68.0	72.6	77.0	81.1

Notes: a) Provisional estimates for 1967 and 1968.
b) Preliminary estimates for 1969 and 1970.

Source: *National Income, 1938, 1948–1970, Pub. No. 625*, State Institute of Statistics (Ankara), 1971.

Table I-4
Exports, imports, and GNP, various dates

	1950	1952	1955	1958	1961	1963	1965	1968	1970
	(billions of TL)								
Exports	0.7	1.0	0.9	0.7	3.1	3.3	4.2	4.5	6.4
Imports	0.8	1.6	1.4	0.9	4.6	6.2	5.2	6.9	10.3
GNP	10.4	16.8	21.1	36.1	49.1	63.3	73.2	105.0	134.2
	(percent of GNP)								
Exports	6.7	6.0	4.3	1.9	6.3	5.2	5.7	4.3	4.8
Imports	7.7	9.5	6.6	2.5	9.4	9.8	7.1	6.6	7.7

Sources: GNP from Table I-1. Exports and imports from *Statistical Yearbook of Turkey 1968, Pub. No. 580,* State Institute of Statistics (Ankara), 1969; and *Aylık Bülten,* Central Bank, October–December 1971.

The importance of exports and imports in GNP is indicated in Table I-4. Imports have averaged about 8 per cent of GNP, while exports have declined somewhat in relative importance. The constancy of the import share reflects the fact that capital formation has a much higher import content than consumption and has grown much more rapidly than GNP. Thus despite the stability of the overall share there has been considerable import-substitution.

The relatively low share of foreign trade in Turkish GNP understates the importance of the trade sector in the Turkish economy. Because of the import-substitution which has taken place, Turkish industry is dependent upon intermediate goods imports, while there is a wide range of capital goods which are not produced in Turkey.

Moreover, Turkey is committed to joining the Common Market. Under a 1963 Protocol, the 1960's were a preliminary period during which Turkey received tariff-quota preferences on some of her major exports, but had no reciprocal obligations.[27] In July 1970 Turkey and the European Economic Community (EEC) formally concluded the preliminary period, and the first twelve-year stage of a twenty-two year transition period was embarked upon. After the completion of the two stages, Turkey will become a full member of the EEC under the terms of the agreement.[28] Thus Turkey will eventually harmonize her trade policies with those of other EEC countries. She is committed as such to a pattern of open economic development, at least in the

27. Vural Savaş, "Foreign Trade of Turkey and the European Common Market," in *Foreign Trade and Economic Development,* Economic and Social Studies Conference Board (Istanbul), 1968.
28. *Turkish Economic Review,* August 1970, p. 14.

long run. As will be seen below, there can be little doubt that that pattern will result in a higher share of foreign trade in GNP than has been the case over the past two decades.

Fiscal and monetary developments

As was seen in Table I-2, the government has been extremely important in Turkey's growth, not only in setting the environment for the private sector, but in its own investment activities. Moreover, there are key government enterprises affecting virtually every phase of economic activity: TMO (Toprak Mahsulleri Ofisi: Soil Products Office, a SEE) is a major purchaser of agricultural commodities and has established minimum prices for most major agricultural commodities throughout the period under review. Etibank, one of the first SEEs, controls and operates all mining output of copper, chrome, mercury, lead and sulphur.

Government policy therefore affects economic growth in all the usual ways and in addition contributes directly to it through the SEEs. It will be seen below, in analyzing various aspects of the Turkish experience, that the role of the SEEs has been important, not only in their own performance and growth but also in their financing. Because their operations are integrally intertwined with the government accounts and cannot readily be disentangled, meaningful data on government accounts are difficult to obtain, and such data as are available are difficult to interpret. At this stage, therefore, aggregate data which may be of some use in providing an overview of the Turkish economy are presented, although the reader is warned to interpret them with extreme care.

Table I-5 presents the basic data. The first column gives the money supply as of the end of each year. The money supply more than doubled during the period 1954 to 1958, reflecting primarily the Central Bank financing of SEE deficits.[29] The rate of increase in the money supply fell off markedly in the 1960-to-1965 period and rose again thereafter.

Central government expenditures over the 1950-to-1968 period rose from 13 per cent of GNP to about 20 per cent of GNP. Tax revenues have risen with expenditures, although a portion of government expenditures has been financed by aid flows, the sale of savings bonds and deficit financing. The increase in government expenditures has been partly responsible for the rise in the rate of capital formation, while the increase in tax revenues has been a significant factor in raising the savings rate.

The last columns of Table I-5 give the price indices for home goods and wholesale prices on a 1958 base. These indices are subject to several down-

29. This phenomenon will be explored more fully in Chapter II. Suffice it to say here that SEE accounts are separate from those of the central government budget.

Table I-5
Money supply, government accounts, and price level, 1950 to 1970

	Money Supply	Central Government: Expenditures	Central Government: Tax Revenues	Price Indices: Home Goods	Price Indices: Wholesale
		(billions of TL)		(1958 = 100)	
1950	1.59	1.300	1.312	42	48
1951	2.02	n.a.[a]	n.a.[a]	44	51
1952	2.42	n.a.[a]	n.a.[a]	47	52
1953	2.95	2.148	1.971	48	53
1954	3.37	2.507	2.222	54	59
1955	4.21	3.172	2.627	60	63
1956	5.36	3.455	2.999	74	73
1957	6.87	3.965	3.821	90	87
1958	7.42	4.887	4.430	100	100
1959	8.70	6.568	5.928	119	120
1960	9.26	7.204	6.096	117	126
1961	10.03	8.447	7.187	119	130
1962	10.96	8.940	7.625	125	137
1963	12.17	10.924	9.291	132	143
1964	14.00	12.483	10.060	128	145
1965	16.43	13.462	11.206	135	156
1966	19.78	16.008	13.389	146	164
1967	22.68	18.179	16.787	158	176
1968	25.97	20.893	17.567	163	185
1969	30.13	n.a.[b]	n.a.[b]	n.a[c]	195
1970	35.27	n.a.[b]	n.a.[b]	n.a[c]	207

Notes: a) The Land-SIS data are not available for 1951 and 1952. On a different definition, government expenditures and receipts were reported in *Statistical Yearbook of Turkey*, SIS 1968, p. 330, as:

	Expenditures	Receipts
1950	1.467	1.419
1951	1.590	1.645
1952	2.248	2.235
1953	2.294	2.272

b) SIS economic accounts are not yet available after 1968. Budget appropriations and tax revenues were:

	Expenditures	Tax Revenues
1968	21.612	16.240
1969	25.697	19.114
1970	28.860	24.060

From *Bütçe Kanunları*, Ministry of Finance.

c)Not published after 1968.

Table I-5 (continued)

Sources: Money Supply: *Aylık Bülten,* Central Bank, October–December 1971. End-of-year figures.
Government Accounts: 1950 and 1953 to 1962, James W. Land, *Economic Accounts of Government in Turkey, Pub. No. 566-17,* SIS (Ankara), 1969.
1963 to 1968: data kindly provided to the author by SIS.
Price Indices: Home goods index – Istanbul Chamber of Commerce index as reported in *International Financial Statistics.*
Wholesale price index: Ministry of Commerce index reported in *International Financial Statistics.*

ward biases: (1) the weights are those of 1938, and thus the rise in the price of manufactured commodities relative to agricultural commodities is under-weighted,[30] and (2) prices used in compiling the index are official prices in the many instances – especially in the 1955-to-1958 period – when commodities were subject to price controls. Hence there is every reason to believe that the index understates the actual degree of inflation, especially in the mid-1950's. But even by these figures the rapid inflation Turkey experienced in the mid-1950's is evident. The price level doubled between 1955 and 1959, according to the official index. The rate of inflation since 1960 has been considerably more moderate, averaging less than 3 per cent annually between 1960 and 1965 and about 6 per cent annually since 1965.

V. Payments regimes: delineation of phases

It is the purpose of the remainder of this study to focus upon Turkey's trade and payments regime and its effects upon and interaction with resource allocation and economic growth in the 1950-to-1971 period. Various aspects of the Turkish experience will be separately analyzed in later chapters.

To place each of these aspects in perspective it will be useful to start with an overview of the evolution of the payments regime in accordance with the phases outlined in the Foreign Trade Regimes and Economic Development research project. Although any demarcation contains some arbitrary elements, the best delineation appears to be:[31]

1950 to September 1953	Phase V
September 1953 to December 1954	Phase I
January 1955 to August 1958	Phase II

30. Sevil Korum, *Türkiyede Toptan Eşya Fiyatlari Endeksi,* Sevinç Matbaasi (Ankara) 1968.

31. See Appendix D-2 for definitions of "Phases" as used in the project.

August 1958 to August 1960	Phase III
August 1960 to December 1963	Phase IV
January 1964 to August 1970	Phase II
August 1970 to December 1970	Phase III
January 1971 to Summer 1972	Phase IV

1950 to September 1953: Phase V

A payments deficit was emerging during this period, but the conjunction of massive aid inflows (which covered 80 per cent of the net current account deficit between 1950 and 1955[32]), favorable world prices for Turkey's exports and the emergence of wheat exports obscured the underlying situation. Moreover a massive increase in imports, permitted under a fairly liberal trade regime, offset inflationary pressure that would otherwise have resulted in price increases. Table I-6 gives summary balance-of-payments data. As can be seen, imports virtually doubled between 1950 and 1952; the current account deficit in 1952 amounted to 3 per cent of GNP despite the fact that export earnings had risen by $ 100 million, or 40 per cent in the two-year interval.

The payments regime remained fairly liberal until September 1953. Exports were generally free from licensing requirements, although exporters were supposed to surrender all proceeds to the Central Bank within three months of the date of export, with the exception of proceeds from a few designated "minor exports" (about 3 per cent of exports by value) which could be retained for purposes of importing a specified list of goods not otherwise legally importable. Imports were all subject to license. Most goods, however, were on a "liberalized" list for which licenses were automatically granted. Some commodities were subject to global quotas, but these were the exception rather than the rule. Guarantee deposits were required against import license applications, but only in an amount equal to 4 per cent of the value of the license, and were subject to refund if the license was not granted within a month.[33] Foreign investment was encouraged, required little paperwork, and guarantees were given for repatriation of profits and capital.[34]

September 1953 to August 1958: Phases I and II

September 1953 saw the first moves toward restricting international transactions. It was decreed that all imports would be subject to "strict licensing."

32. *Economic Situation in Turkey, 1959*, OEEC (Paris), 1960, p. 30. Henceforth, this will be cited as OEEC, *Turkey, 1959*.
33. Imports on government account were excluded from these regulations.
34. For a summary of the regime during 1952 see *Fourth Annual Report, Exchange Restrictions*, International Monetary Fund (Washington), 1953, pp. 278–81.

Also, the provision that exporters could use their foreign exchange under certain conditions was abolished and in its place a *de facto* multiple exchange rate system was introduced. Subsidies of 25, 40, and 50 per cent were payable on certain exports, while taxes of 25, 50, and 75 per cent were levied on "nonessential" imports. This decree was quickly followed with another on November 1, which removed all items from the Liberalized List (for which licenses were then fairly automatically granted) except machinery, industrial raw materials and spare parts. Other commodities could be imported only if they were "needed for economic development" and import surcharges of 25 to 75 per cent were imposed upon them.

Thereafter the control system was subject to frequent modification. Both quantitative controls and multiple rates were generally used and subject to rapid changes. Buying rates by the end of 1957 ranged from TL 2.82 to TL 5.75 per dollar. Most imports, when licenses could be obtained, came at TL 3.995 per dollar (2.82 plus a 40 per cent exchange tax).

Despite the increasing surcharges and tighter controls, the Turkish balance-of-payments situation deteriorated almost continuously and Turkish short-term international indebtedness mounted. Export earnings fell steadily from a peak of $396 million in 1953 to $247 million in 1958. A sizeable black market developed and, as indicated in Table I-6, net errors and omissions became large and negative. Even so, the situation was so bizarre that the International Monetary Fund was warning readers of an estimated $100 million or more of unrecorded imports and other significant inaccuracies in the Turkish balance-of-payments records.[35] Finally, in the summer of 1958 import licensing was virtually suspended, and the Central Bank was unable to cover its immediate debt-servicing obligations. These circumstances left the government no choices other than declaring international bankruptcy or accepting foreign credits and the conditions attached to them. At that point the government chose to borrow and accepted a Stabilization Program as a condition for debt restructuring.

August 1958 to August 1960: Phase III

Turkey's international indebtedness was staggering when the Stabilization Program was agreed upon. It was estimated that as of December 1957 Turkey's foreign debt was $1,011 million,[36] contrasted with 1957 exports of $345 million.

The Stabilization Program had several parts: (1) alterations in the ex-

35. *Balance of Payments Yearbook, Volume 13,* International Monetary Fund (Washington), *Turkey,* p. 2.
36. OEEC, *Turkey, 1959, op. cit.* (Note 32), p. 30.

Table I-6
Turkey's balance of payments, 1950 to 1970 (millions of U.S. dollars)

	1950	1951	1952	1953	1954	1955	1956
Exports f.o.b.	262	314	363	396	335	313	305
Imports f.o.b.	252	354	489	468	421	438	358
Trade balance	11	−40	−126	−72	−86	−125	−53
Net goods and services	−42	−84	−182	−141	−159	−130	−25
Net donations	56	40	52	49	45	51	89
Net private capital	9	−30	43	141	76	12	−29
Net official capital	8	28	90	−49	28	113	7
Errors and omissions	−32	46	−3	0	10	−45	−42
	1957	1958	1959	1960	1961	1962	1963
Exports f.o.b.	331	247	363	336	365	399	395
Imports f.o.b.	346	284	433	422	448	567	588
Trade balance	−15	−37	−70	−86	−83	−168	−193
Net goods and services	−34	−84	−127	−117	−123	−235	−256
Net donations	67	91	91	91	99	105	78
Net private capital	−61	73	14	25	−34	50	−7
Net official capital	126	−47	86	−30	25	111	187
Errors and omissions	−97	−33	−64	31	33	−31	−2
	1964	1965	1966	1967	1968	1969	1970
Exports f.o.b.	433	479	494	530	498	537	588
Imports f.o.b.	475	505	639	608	688	726	850
Trade balance	−42	−26	−145	−78	−190	−189	−262
Net goods and services	−89	−30	−109	−87	−228	−179	−132
Net donations	23	21	27	29	70	46	62
Net private capital	58	−1	−8	−2	11	−10	78
Net official capital	20	39	109	127	193	192	129
Errors and omissions	−12	−29	−19	−67	−46	−49	−137

Source: International Monetary Fund, *Balance of Payments Yearbook* (Washington), various issues.

change-rate system, which (2) enabled an immediate inflow of imports; (3) removal of the source of inflationary pressure; and (4) restructuring and consolidation of Turkish foreign indebtedness. Substantial changes were also made in domestic monetary and fiscal policy. Multiple exchange rates were maintained, but primarily on the export side. A uniform TL 6.20 per dollar "exchange surtax" was imposed on all purchases of foreign exchange for imports, invisibles and capital transactions, thus giving an actual TL 9 per dollar exchange rate for payments abroad. Export rates were simplified, as all exports were divided into three classes with rates of TL 4.90, 5.60 and 9.00

per dollar. To allow some imports into the country, credits totalling $203 million were granted by the IMF, the U.S., and the OEEC. Simultaneously, the European Payments Union (EPU) advanced a credit of 25 million units of account. In addition there was considerable debt rescheduling, so that the total credit was in effect much larger. This enabled import licensing to resume. To remove the sources of inflationary pressure, the Turks were asked to balance the central government budget and to raise SEE prices (to eliminate SEE deficits; see below, Chapter II). SEE prices and civil servants' salaries were raised by about 20 per cent in May 1959, an action which was immediately reflected in the price level. But Turkish prices remained virtually constant through the end of 1961. Since that time Turkey has been a moderate-inflation country, never again experiencing inflationary pressures nearly as severe as those of the mid-1950's.

There was a sizeable short-term response to the Stabilization Program, resulting in a net shift in Turkey's balance of payments over and above the credits received, of over $200 million by the end of 1959. In this atmosphere the Menderes government introduced a clearly inflationary budget early in 1960. After the Revolution in May, however, the budget was substantially altered; one of the first acts of the new government was to devalue the Turkish lira officially to a new rate of TL 9 to the dollar and virtually all vestiges of a multiple exchange rate system were eliminated.

August 1960 to December 1963: Phase IV

This was the period during which the State Planning Organization developed and began implementing the First Five Year Plan. An indication of the degree of success of devaluation is that over the life of the FFYP export earnings exceeded their plan levels (and planned rate of increase) in each year. From $249 million in 1958, exports rose to $336 million in 1960 and $395 million in 1963 (just below the 1953 level).

With the rapid growth of export earnings and relatively slack import demand in the years 1960 and 1961 following the Revolution, the import control system was further liberalized. Bilateral payments agreements were terminated as they came up for renewal. Goods were transferred from the import Quota List to the Liberalized List (for which licensing was automatic), and goods previously not listed were added to the group of commodities which could be legally imported. While some deletions from the list of eligible imports were made, the motive appears to have been protection on newly-started domestic production rather than balance-of-payments strain. Although a 50 per cent tax was imposed on foreign exchange purchases for purposes of foreign travel, the motive again appears not to have been balance-of-payments considerations, but rather that of taxing luxury consumption.

Thus the early 1960's passed in an atmosphere of relatively little strain in the balance of payments. However, while the FFYP underestimated export (and other foreign exchange) earnings, it also underestimated import requirements and overestimated the likely magnitude of foreign aid. By the end of 1963 a payments deficit was re-emerging, with imports mushrooming to \$588 million in that year from \$284 million in 1958 and \$422 million in 1960.

January 1964 to August 1970: Phase II

A period of foreign exchange shortage followed. In 1963 and 1964 the government reduced the number of items on the Liberalized List, tightened quotas, raised guarantee deposit requirements, and imposed an import surcharge of 5 per cent on landed cost (equivalent to about 10 per cent of c.i.f. price) in an effort to control the flood of imports. Further steps toward tightening the import regime were taken in subsequent years.

Although imports fell sharply to \$542 million in 1964, the structural shifts the planners were attempting to effect – a higher rate of capital formation, more import-substitution, etc. – led to sharp increases in import demand, with the balance-of-payments situation remaining difficult throughout the rest of the decade. Premia (see definition in Explanation of Terms, Appendix D) on import licenses rose from virtually nothing in 1963 to 40–50 per cent of the value of the license by early 1965 and continued rising in later years.

Thus Phase II in the mid-1960's was entirely different from that in the mid-1950's. First, the lessons of the 1950's led to an extreme reluctance to resort to deficit financing: inflationary pressures were much smaller than in the 1950's. Whereas Phase II in the 1950's resulted from the generalized pressures of excess demand, the consequent shift in relative prices, and decline in export earnings, Phase II in the 1960's had its origins in a structural shift in the demand for imports resulting from an altered development strategy and the increased rate of capital formation.

The Turkish economy lurched through a series of increasingly severe payments difficulties and consequent mountingly restrictive regimes, with small breathing spaces in which things relaxed somewhat, from 1964 until devaluation in 1970. These difficulties very quickly led the Turks to develop export premia, a special tourist exchange rate and other measures to buffer the foreign-exchange-earning sector from the disincentive effects of the import premia that were emerging. In fact, an export rebate scheme had become law in 1963 but did not begin to become a significant element in export incentives until 1966.

Export earnings consequently rose in every year until 1968. Workers' remittances, encouraged by special premia, became a large and significant factor in foreign exchange earnings. But the growth of demand for imports increased even more rapidly, and the inflow of foreign aid did not. The licensing mechanism, dividing imports into Liberalized List goods for which licenses were automatically granted and quota goods for which licenses were issued up to a predetermined ceiling, remained unaltered on paper. In practice, however, licenses were granted only as foreign exchange was available and a backlog of applications emerged. Other devices were also used to restrict imports: the stamp duty was increased to 15 per cent in 1967 and 25 per cent in 1969 and guarantee deposit requirements rose to over 100 per cent of the value of licenses for many categories of imports. This latter, given delays and other requirements, was probably the equivalent of a 25 per cent duty on some classes of imports.

It was not until 1969 that speculation against the lira developed on a significant scale. In anticipation of elections in 1969, the government introduced an inflationary budget which resulted in a 10 per cent increase in the price level during 1969. Export earnings which had fallen off in 1968 barely reattained their 1967 level in 1969, and imports were simultaneously cut back in an effort to reduce the $228 million current account deficit which had been incurred in 1968.

August 1970 to December 1970: Phase III

In August 1970 the lira was devalued *de jure* to the new rate of TL 15 = $1 from its old rate of 9:1, and many of the devices introduced in the middle and late 1960's were either relaxed or eliminated. Thus the special tourist and workers' remittance rates were abolished, the stamp tax was reduced from 25 per cent to 10 per cent and guarantee deposit requirements were sharply decreased. Export rebates continued for non-traditional exports, and exchange taxes of TL 1 to 3 per dollar were imposed on traditional exports.

Unlike the situation in 1958, however, the response to devaluation was rapid and pronounced. There was, moreover, little interruption of domestic economic activity, although domestic prices rose sharply.

January 1971 to Summer 1972: Phase IV

With the rapid increase in foreign exchange earnings immediately after devaluation, Liberalized List import licenses were granted quickly and virtually automatically. Although exchange control continued, it was much less pronounced in its effects than in the late 1960's, and premia on import licenses virtually disappeared. Turkey's exchange reserves by the spring of 1972 exceeded $900 million, contrasted with $218 million in July 1970, while foreign exchange earnings were continuing to increase over their 1971 level.

VI. Plan of the book

In the following chapters various aspects of the Turkish experience will be examined. In keeping with the focus of the project on Foreign Trade Regimes and Economic Development, primary attention is given to three phenomena: Phase III from August 1958 to August 1960; the nature and effects of Phase II in the middle and late 1960's; and the resource-allocational and growth effects of the Turkish trade and payments regimes in the 1960's.

Part Two, consisting of Chapters II to IV, is concerned with the Phase III episode of 1958 to 1960. Chapter II contains an analysis of the factors leading up to 1958. In Chapter III an evaluation of the Stabilization Program is given. Chapter IV is devoted to tracing the results of the devaluation package.

Part Three, consisting of Chapters V to VII, evaluates Phase II of the mid-1960's. Chapter V concerns the role of planning in the 1960's and its interaction with the trade and payments regime. Chapter VI contains an analysis of the import regime and its administration. Chapter VII analyzes the determinants of foreign exchange earnings, with primary attention to export behavior.

Part Four focuses upon the resource-allocational and growth effects of Turkey's trade and payments experience. Chapter VIII is concerned with the microeconomic effects of Turkish foreign trade policies and with such evidence as is available about the income-distributional effects of those policies. Chapter IX evaluates the interaction between Turkish foreign trade and economic growth at a more macroeconomic level, and Chapter X summarizes the main conclusions of the study.

There are four appendices. Appendix A contains the details of the computations of effective exchange rates for exports and imports used throughout the book and Appendix B provides data underlying results reported in Chapter III. Appendix C reports briefly upon the devaluation of 1970 and its aftermath. Although insufficient time has elapsed for detailed analysis of the 1970 episode, the preliminary data are sufficiently interesting and suggestive to warrant at least brief mention. Appendix D is divided into three sections: (1) defines the general concepts used in the entire series; (2) delineates the "Phases" used in tracing the exchange control regimes; (3) lists important Turkish names, abbreviations, and acronyms used in the study.