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TURKEY

by **Anne O. Krueger**

UNIVERSITY OF MINNESOTA

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and Economic Development:
TURKEY**

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*A Special Conference Series
on Foreign Trade Regimes
and Economic Development*

VOLUME I



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*Relation of the Directors of the National Bureau to
Publication of the Country Studies in the Series on
Foreign Trade Regimes and Economic Development*

The individual country studies have not passed through the National Bureau's normal procedures for review and approval of research reports by the Board of Directors. In view of the way in which these studies were planned and reviewed at successive working parties of authors and Co-Directors, the National Bureau's Executive Committee has approved their publication in a manner analogous to conference proceedings, which are exempted from the rules governing submission of manuscripts to, and critical review by, the Board of Directors. *It should therefore be understood that the views expressed herein are those of the authors only and do not necessarily reflect those of the National Bureau or its Board of Directors.*

The syntheses volumes in the series, prepared by the Co-Directors of the project, are subject to the normal procedures for review and approval by the Directors of the National Bureau.

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Co-Directors' Foreword

This volume is one of a series resulting from the research project on Exchange Control, Liberalization, and Economic Development sponsored by the National Bureau of Economic Research, the name of the project having been subsequently broadened to Foreign Trade Regimes and Economic Development. Underlying the project was the belief by all participants that the phenomena of exchange control and liberalization in less developed countries require careful and detailed analysis within a sound theoretical framework, and that the effects of individual policies and restrictions cannot be analyzed without consideration of both the nature of their administration and the economic environment within which they are adopted as determined by the domestic economic policy and structure of the particular country.

The research has thus had three aspects: (1) development of an analytical framework for handling exchange control and liberalization; (2) within that framework, research on individual countries, undertaken independently by senior scholars; and (3) analysis of the results of these independent efforts with a view to identifying those empirical generalizations that appear to emerge from the experience of the countries studied.

The analytical framework developed in the first stage was extensively commented upon by those responsible for the research on individual countries, and was then revised to the satisfaction of all participants. That framework, serving as the common basis upon which the country studies were undertaken, is further reflected in the syntheses reporting on the third aspect of the research.

The analytical framework pinpointed these three principal areas of research which all participants undertook to analyze for their own countries.

Subject to a common focus on these three areas, each participant enjoyed maximum latitude to develop the analysis of his country's experience in the way he deemed appropriate. Comparison of the country volumes will indicate that this freedom was indeed utilized, and we believe that it has paid handsome dividends. The three areas singled out for in-depth analysis in the country studies are:

1. *The anatomy of exchange control*: The economic efficiency and distributional implications of alternative methods of exchange control in each country were to be examined and analyzed. Every method of exchange control differs analytically in its effects from every other. In each country study care has been taken to bring out the implications of the particular methods of control used. We consider it to be one of the major results of the project that these effects have been brought out systematically and clearly in analysis of the individual countries' experience.

2. *The liberalization episode*: Another major area for research was to be a detailed analysis of attempts to liberalize the payments regime. In the analytical framework, devaluation and liberalization were carefully distinguished, and concepts for quantifying the extent of devaluation and of liberalization were developed. It was hoped that careful analysis of individual devaluation and liberalization attempts, both successful and unsuccessful, would permit identification of the political and economic ingredients of an effective effort in that direction.

3. *Growth relationships*: Finally, the relationship of the exchange control regime to growth via static-efficiency and other factors was to be investigated. In this regard, the possible effects on savings, investment allocation, research and development, and entrepreneurship were to be highlighted.

In addition to identifying the three principal areas to be investigated, the analytical framework provided a common set of concepts to be used in the studies and distinguished various phases regarded as useful in tracing the experience of the individual countries and in assuring comparability of the analyses. The concepts are defined and the phases delineated in Appendix D.

The country studies undertaken within this project and their authors are as follows:

Brazil	Albert Fishlow, University of California, Berkeley
Chile	Jere R. Behrman, University of Pennsylvania
Colombia	Carlos F. Diaz-Alejandro, Yale University
Egypt	Bent Hansen, University of California, Berkeley, and Karim Nashashibi, International Monetary Fund
Ghana	J. Clark Leith, University of Western Ontario

India	Jagdish N. Bhagwati, Massachusetts Institute of Technology, and T. N. Srinivasan, Indian Statistical Institute
Israel	Michael Michaely, The Hebrew University of Jerusalem
Philippines	Robert E. Baldwin, University of Wisconsin
South Korea	Charles R. Frank, Jr., Princeton University and The Brookings Institution; Kwang Suk Kim, Korea Development Institute, Republic of Korea; and Larry E. Westphal, Northwestern University
Turkey	Anne O. Krueger, University of Minnesota

The principal results of the different country studies are brought together in our overall syntheses. Each of the country studies, however, has been made self-contained, so that readers interested in only certain of these studies will not be handicapped.

In undertaking this project and bringing it to successful completion, the authors of the individual country studies have contributed substantially to the progress of the whole endeavor, over and above their individual research. Each has commented upon the research findings of other participants, and has made numerous suggestions which have improved the overall design and execution of the project. The country authors who have collaborated with us constitute an exceptionally able group of development economists, and we wish to thank all of them for their cooperation and participation in the project.

We must also thank the National Bureau of Economic Research for its sponsorship of the project and its assistance with many of the arrangements necessary in an undertaking of this magnitude. Hal B. Lary, Vice President-Research, has most energetically and efficiently provided both intellectual and administrative input into the project over a three-year period. We would also like to express our gratitude to the Agency for International Development for having financed the National Bureau in undertaking this project. Michael Roemer and Constantine Michalopoulos particularly deserve our sincere thanks.

JAGDISH N. BHAGWATI
Massachusetts Institute of Technology

ANNE O. KRUEGER
University of Minnesota

Preface

The purpose of this study is to analyze Turkey's trade and payments regime and its effects upon Turkish economic growth. The book is not intended as a comprehensive study of the Turkish economy,¹ although a constant problem in writing it was to establish a dividing line between those factors affecting growth in general and those relevant for the analysis of interaction between foreign trade and growth. In limiting the discussion to the latter, I have been aware that the general reader may gain the impression that foreign trade is the central problem of Turkey's development. It is not. Agricultural productivity, education, population growth, organization of the State Economic Enterprises (SEEs*), political and social stability, as well as a host of other factors are also important: a comprehensive view of Turkish development is thus not to be expected from the present volume.

The justification for focusing exclusively upon foreign trade is twofold. Firstly, foreign trade is an activity over which government policy makers have had an unusual degree of influence. Unlike population growth, agricultural productivity and many other problems where government regulations and policies have been only one determinant of the outcome, government policies have been pervasive in their effects upon Turkish foreign trade. Insofar as those effects have been detrimental to Turkish development, a universally ac-

¹ The reader looking for such a study can refer to Edwin J. Cohn, *Turkish Economic, Social, and Political Change*, Praeger (New York), 1970.

* See Appendix D for lists of the abbreviations, acronyms, and specialized terms used in this volume.

cepted goal of Turkish governments and major political parties, alteration of those policies may provide a relatively inexpensive way to increase the effectiveness of Turkish development policy. And secondly, because economic growth is such a complex process it would be more fruitful to attempt to understand in some depth the trade-growth relationship rather than to cover, at a more superficial level, general economic growth.

Part One is designed as a brief introduction to the Turkish economy and its development, and the remainder of the book focuses on trade and growth relationships.

A few words must be said about the use of English and Turkish citations, and the nature of Turkish statistics. In Turkey, some documents are translated by the government, some are published in both Turkish and English in a single volume, some have been translated by unofficial sources, and many are available only in Turkish. Thus the texts of the First and Second Five Year Plans were published in both English and Turkish, as were the first several Annual Programs; the *Monthly Bulletin of Statistics (Devlet İstatistik Enstitüsü)*, published by the State Institute of Statistics (SIS*), has both an English and a Turkish title, and all column and row headings are in both languages; while the *Official Gazette (Resmi Gazete)* is published daily in Turkish, but is translated by private agencies into English.

How to cite various documents and, for that matter, how to quote them when more than one translation exists for the same word is a problem. The rule of thumb used here is the following: (1) standardized wording (as, for instance, "liberalized list") is used in the text, but the wording of official translations (as, perhaps, "liberation list," or "liberalization list") will be employed when it is so quoted in the translation; (2) when an English language translation or a document with an English title accompanying a Turkish title was employed as a source, the English title is cited; (3) when a Turkish language source was used (even if a translation existed but was not available to the author), the Turkish citation is used. Thus when the *Official Gazette* is cited, an unofficial English translation (usually from Turk Argus Ajansi) was used. Citation of the *Official Gazette* as the *Resmi Gazete*, however, indicates use of the Turkish source. English translations have been used in the text. Thus the Annual Programs of the State Planning Organization (SPO) in the late 1960's are not available in translation, and are cited as *Yılı Programı* in footnotes, but are referred to as Annual Programs in the text.

The nature of Turkish statistics presented more serious problems. Difficulties were threefold: (1) some series are simply not available; (2) many data are given by several sources, which are not always consistent and are sometimes scattered; and (3) many data are not available as a consistent series over time.

Little can be done when data are unavailable, although there are several

"manufactured" sets of data in the text. The means by which they were constructed are indicated at the appropriate points. More serious were the problems of locating data from widely scattered sources and deciding upon which to use or how to reconcile them. For example, SPO and SIS each produced national income statistics in the 1960's.² SPO's estimates had the practical advantages of use of a single deflator for the period since 1950 and consistency with the Plans and Annual Programs which are the major source of data. SIS however estimates national income by sector of origin from 1950 to the present (at 1948 prices until 1961 and at 1961 prices thereafter). The decisions between the two series were essentially pragmatic: SPO data were used for computations of Gross National Product (GNP), and SIS data for national income when referred to by sector of origin.

In addition to consistency between estimates from alternative sources, another problem is that many data are unavailable in a consistent time series. The determination of a set of figures for national income by sector of origin at constant prices is a case in point; quarterly money supply estimates are unavailable before mid-1959 on the International Monetary Fund (IMF) definition; accounting techniques for foreign exchange reserves were altered early in 1970 so that data before and after that data are noncomparable; and the home goods price index was no longer constructed after 1968. There are many other such instances where a series does not cover the entire period.

I have attempted to use the data where internal consistency over time was greatest, at the cost of leaving some inconsistency between series, of failing to use better available data, and of using series other than those most frequently cited in Turkey. I have included in the notes to the tables any known inconsistencies within a series, and have attempted to point out major inconsistencies between data in the tables and data presented elsewhere.

The advice and assistance of a large number of people have made this book possible. None of them bears any responsibility, however, for the errors which remain, nor for the conclusions drawn from the facts presented. Mr. Tercan Baysan, a graduate student at the University of Minnesota, assisted me at every stage of the study, even at the cost of delay in his own graduate program. I am deeply indebted to him for his willing and patient help with Turkish data and sources. His comments upon the manuscript and about Turkey have been useful throughout the study. Ashok Kapoor of the University of Minne-

2 In the summer of 1972, SPO and SIS agreed upon a common series for national income starting in 1962, which compilations differ from either independent series. The data were received too late for incorporation in this volume and would in any event have had to be linked with the SPO or SIS series for earlier years. In general the revised estimates do not appear to imply any significant differences in growth rates from the estimates presented in the text.

sota and Nuri Doğan of Robert College also assisted at various stages of the research.

My foremost debt is to my friends and colleagues at SPO, who not only were invariably willing to answer questions and help find data, but who also provided moral support. Hikmet Çetin's willingness to withstand interruptions despite an incredibly busy schedule went far beyond the call of friendship. His help in guiding me to people who could answer specific questions, his discussion of Turkey's economy, and his advice are gratefully acknowledged. Tefvik Can was invaluable in his advice and in providing data. Şadi Cindoruk, Güler Canalp, and Sevil Korum were helpful at any number of points.

I benefitted greatly from discussions with Cahit Kayra of the Ministry of Finance, who also provided a great deal of useful data. I cannot begin to mention all the other Turkish businessmen and government officials who patiently answered questions and helped me locate data. My thanks go to them all, and especially to İzzet Aydın of the Central Bank, Erhan İşil of the Ministry of Industry and Technology, Zeki Avrioğlu of SIS, and Türgüt Özoktay of the Union of Chambers of Commerce and Industry.

İbrahim Öngüt of the Industrial Development Bank of Turkey has been a valued source of insight and of data throughout the study. Much of the information on DRCs contained in Chapter VIII was obtained through him. He also read and commented upon portions of the manuscript, and I benefitted from discussions with him on numerous allied topics.

Several people were especially generous in contributing their time and knowledge on individual topics. Betty Yaşer of the AID Ankara was extremely helpful with government budget accounts. She read large portions of the manuscript and made many useful suggestions. Tuncay Akşit, also of AID, was especially knowledgeable on the import regime. He provided a great deal of data, answered numerous queries, and commented in detail upon an earlier draft of Chapter VI. While he bears no responsibility for remaining errors, his commentary improved the chapter vastly. Maxwell Fry of the City University of London read and commented extensively upon the discussion of inflation and monetary policy in Chapter II. At an early stage of the study, Baydar Gürgen, now at the IBRD, helped introduce me to Turkish data.

Several economists were helpful in general discussion, including Emre Gönsensay, Attila Sönmez, Selim Ilkin, and Besim Ustünel. Baran Tuncer of Ankara University and Osman Okyar of Hacateppe University read an earlier draft of the entire manuscript, and made valuable comments and suggestions throughout. Their efforts are greatly appreciated, and the manuscript is vastly improved as a result of their comments.

Several AID officials were extremely accommodating. Kenneth Kauffman of AID Ankara was generous with both his time and resources. Bradshaw

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The study was undertaken as part of the National Bureau of Economic Research project on Foreign Trade Regimes and Economic Development. I am grateful to the National Bureau for its financial support, which in turn was made possible in major part under a research contract with the Agency for International Development. All of the participants in the project commented extensively on various findings from the study. Hal Lary of the National Bureau read the entire manuscript and commented extensively. To Jagdish Bhagwati, codirector of the project, I am grateful not only for his detailed and incisive comments on the entire manuscript, but also for stimulating discussions over many of the issues involved.

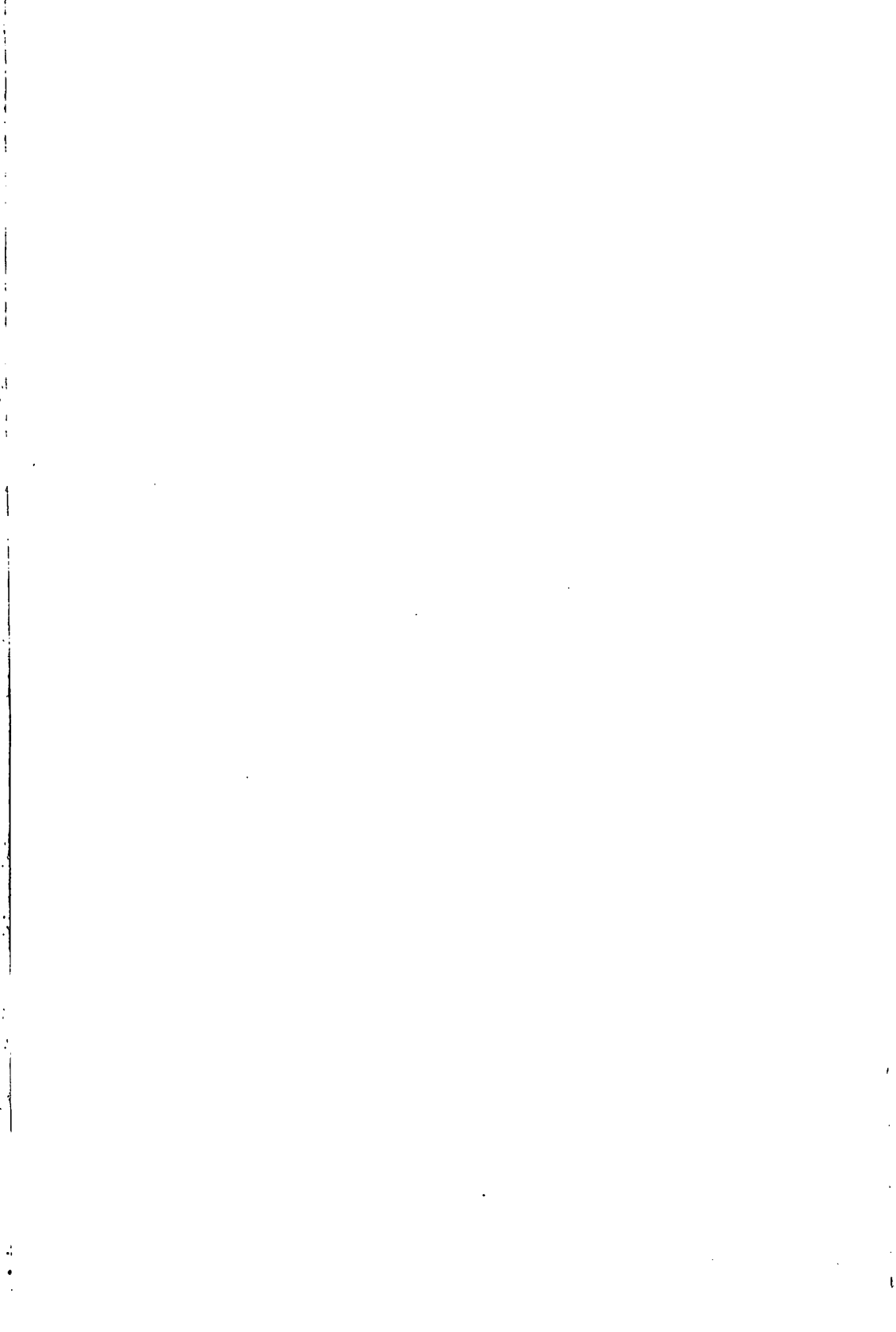
Betsy Frederick, assisted by Sandy Menssen, typed the entire manuscript. I am grateful to them both for their patience and forbearance throughout a trying time.

Anne O. Krueger
Minneapolis, Minnesota

Principal Dates

- 1919 Declaration of Independence of Turkish Republic.
- 1923 Treaty of Lausanne and settlement of the Ottoman debt.
- 1929 End of the Capitulations, under which foreign powers regulated Turkish tariffs.
- 1934 Inauguration of a Five Year Industrial Plan, and the start of developing State Economic Enterprises under a philosophy of *Étatism*.
- 1938 Formulation of a Second Industrial Development Plan; death of Atatürk.
- 1940 Abandonment of Second Plan due to disruptions associated with World War II.
- 1946 Devaluation of the Turkish lira: from TL 1.28 = \$1 to TL 2.80 = \$1.
- 1950 Elections give the Democratic Party, under the leadership of Prime Minister Adnan Menderes, a majority in Parliament. The Republican People's Party loses power for the first time since Atatürk founded it.
- 1953 Introduction of a *de facto* multiple exchange rate system.
- 1958 *De facto* devaluation from TL 2.80 = \$1 to TL 9 = \$1 (with exceptions) and inauguration of a Stabilization Program.
- 1960 Menderes is deposed in May 1960 by a group of military leaders. A new government is formed, called the National Unity Committee.
- 1961 Elections are held, and a new Constitution is adopted. The Republican People's Party forms a coalition government. Several different prime ministers follow.
- 1963 The beginning of the *First Five Year Plan*, 1963 to 1967.

- 1965 Elections give a majority in Parliament to the Justice Party, under the leadership of Prime Minister Demirel.
- 1968 The beginning of the *Second Five Year Plan*, 1968 to 1972.
- 1969 Elections return the Justice Party to power.
- 1970 Devaluation from TL 9 = \$1 to TL 15 = \$1 in August.
- 1971 Resignation of Prime Minister Demirel, at the insistence of the Turkish military. A government is formed under Prime Minister Erim in March. A second Erim government is formed in December. When the dollar devalues, Turkey maintains her parity with Western European countries, so the exchange rate becomes TL 14 = \$1.
- 1972 Resignation of Prime Minister Erim and formation of a new government, under acting Prime Minister Ferit Melen and then under Prime Minister Suat Hayri Urgüplü, with the backing of the Turkish military.



**Foreign Trade Regimes
and Economic Development:
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