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CHAPTER V

Planning and the trade regime in the 1960's

Whereas the Turkish foreign trade regime of the 1950's was largely independent of domestic objectives, that of the 1960's was closely interrelated with domestic economic policy. As indicated above, there was no conscious planning or coordination of economic policies in the 1950's, and economic goals did not closely interrelate with the nature of the trade regime except insofar as the expenditures undertaken were contributory to balance-of-payments stringency. Indeed, the lack of planning and coordination of economic policy was one of the criticisms leveled at the Menderes government in its last years and after its downfall.

When a new constitution was formulated under the Revolutionary government in 1960–1961, one of the key changes was that planning for social and economic development was defined as the duty of the State:

> Economic and social life shall be regulated in a manner consistent with justice, and the principle of full employment, with the objective of assuring for everyone a standard of living befitting human dignity.
>
> It is the duty of the State to encourage economic, social and cultural development by democratic processes and for this purpose to enhance national savings, to give priority to those investments which promote public welfare, and to draw up development projects.[1]

Further, the State Planning Organization was established as the planning organ within the constitution. Under the heading, "Development projects and the State Planning Organization," Article 129 reads:

> Economic, social and cultural development is based on a plan. Development is carried out according to this plan.
>
> The organization and functions of the State Planning Organization, the principles to be observed in the preparation and execution, and application and revision of the plan, and the measures designed to prevent changes tending to impair the unity of the plan, shall be regulated by special legislation.[2]

Thus development plans became central to government economic policy in the 1960's. Through the plans and their implementation, the foreign trade regime was much more closely related to other economic policies than it had been in the 1950's.

1. *Constitution of the Turkish Republic*, translated for the Committee of National Unity (Ankara), 1961, Article 41.
2. *Ibid.*, official translation, Article 129.

The purpose of this chapter is to examine the nature and evolution of economic policy in the 1960's and to evaluate the relationship between trade policy and domestic economic goals. The first section contains a brief description of the planning mechanism and its relationship to the execution of policy. The second section outlines the major characteristics of the Plans and examines the degree to which Plan targets were achieved. The third section is concerned with the role of the foreign trade sector within the Plans. Finally, the role of foreign aid, foreign indebtedness, and private foreign capital in the 1960's is considered.

I. The planning mechanism and execution of economic policy

The State Planning Organization (SPO), as stated in the constitution, is the government body assigned the responsibility for Plan preparation in Turkey. It is also given the duty of following up on the implementation of the Plan and advising on current economic policy. With one exception, the SPO does not have operational responsibilities and is advisory in nature.[3] But when the SPO's recommendations are adopted by the cabinet, as they must be before they become official policy, their impact is greater than that of most advisory organizations.

Since the inception of planning in the early 1960's, the SPO has drawn up two Plans: the First Five Year Plan (FFYP) covering 1963 to 1967, and the Second Five Year Plan (SFYP) covering 1968 to 1972.[4] The SPO prepares an Annual Program each year in which detailed annual plans are presented and the progress of the economy is monitored.

Although the SPO is not responsible for the implementation of policy except for matters coming under the purview of the Investment and Export Promotion Department,[5] it is empowered to monitor the actions of other government agencies with a view to determining the degree to which plan goals are carried out. In the late 1960's, for example, applications for licenses

3. The SPO itself has two closely interrelated bodies: the High Planning Council and the Central Planning Organization. The Central Planning Organization had three departments until 1967: Economic Planning, Social Planning, and Coordination. In 1967, a fourth department was added: Investment and Export Promotion. That department is operational, concerned with implementing export rebates and export and investment incentives. The Central Planning Organization is headed by an Undersecretary, who reports directly to the Prime Minister. The High Planning Council consists of the Prime Minister, the Undersecretary heading up the SPO, the heads of the original three Departments comprising the CPO, and three other members of the Prime Minister's cabinet.
4. At the time of writing, the Third Five Year Plan for 1973 to 1977 is being prepared.
5. Even these implementation functions were removed in 1971.

for capital goods imports had to be checked by the SPO to ensure that the proposed investments were consistent with the Plan before the license was approved. This power in itself gives the SPO considerable influence in economic policy.

II. The five year plans: goals and achievements

Overall goals

Prior to the FFYP a document, "Plan Objectives and Strategy," was prepared which laid forth the development goals to be achieved over the subsequent fifteen years. Although that document is relatively sparse in quantitative details, it set the two objectives which have remained fundamental in the FFYP and SFYP: (1) a target rate of growth of 7 per cent per annum and (2) continued development at the seven-per-cent rate without further foreign assistance, by 1977 at the latest:

> ...Turkey may reach a stage before the end of fifteen years and probably at the end of the second five years when she can continue her development efforts without being in need of exceptional external finance such as foreign aid.[6]

Foreign aid was counted upon to cover the gaps between investment and savings projected for the early years of the fifteen-year period.

The basic reasoning underlying the "Objectives and Strategy" was a straightforward Harrod–Domar capital-output-investment relationship. Although a few specific numbers were given for 1977, they were more in the nature of forecasts than of policy prescriptions. For example, the share of agriculture in GNP was expected to decline from 43.8 per cent in 1962 to 29.4 per cent in 1977, with increases in the shares of services and manufacturing from 12.8 and 9.8 to 26.3 and 15.6 per cent, respectively. An indication of the policies by which these forecasts or targets would be achieved was left to the Plans and the Annual Programs.

Although both Plans accepted the dual targets of the "Objectives and Strategy," there were differences between them in the choice of instruments to meet particular targets and also in the emphasis given to the public sector. As indicated in Chapter I, the 1965 elections brought the Justice Party under Prime Minister Demired to power, whereas the Republican Peoples' Party (RPP) had ruled in a coalition government prior to that time. The FFYP, formulated under the RPP coalition government, placed slightly greater emphasis upon direct intervention in the economy and on the public sector's

6. FFYP, *op. cit.* (Note 20, Chap. I), p. 37.

role in development than did the SFYP. The SFYP by contrast leaned more toward the use of price incentives and reliance upon the private sector. Thus the FFYP declared:

> The private sector alone cannot realize all the conditions necessary for economic development. Economic development will be attained by accelerating investment and making basic changes in the structure and methods of production. These changes cannot be accomplished solely by entrepreneurs who adjust their activities according to market conditions... It is neither necessary nor possible to draw a definite line between the activities of the public and private sectors. The State should be authorized to regulate economic activities with a view to create the conditions required for the attainment of the objectives of the plan. The State should be in the vanguard of progress in the industrial sectors...[7]

Contrast this with the statements in the SFYP:

> The static and dynamic efficiency of the economy will be achieved mainly through the market mechanism...The State will insure price stability and minimise the deficiencies of the price mechanism through indirect means such as tax, credit, money and foreign trade policies...The policies to be adopted in the Second Plan period will enable the private sector to take over the development of manufacturing industry in the long run...[8]

Thus although both Plans accepted the fact of SEEs, the emphasis upon price incentives was greater in the SFYP period, while that upon direct government investments was greater in the FFYP.

The FFYP.[9] Investment in the FFYP was to rise from 14.8 per cent of GNP to 18.3 per cent of GNP. This increase was to be accomplished by a rise in the average savings rate from 12.8 to 14.8 per cent and an increase in external financing from 2 to 3.5 per cent of GNP, with an estimated incremental capital-output ratio of 2.6. Government revenues were to increase from 24.7 to 27.5 per cent of GNP, while expenditures were to increase by the same amount, thereby implying that the increase in government investments would be financed by additional savings (including the surpluses of SEEs), and that private investment increases would be offset by increases in private savings.

Planned sectoral investments and income originating in those sectors in 1961 are given in Table V-1. Although the sector classifications are not entirely comparable, it is evident that heavy emphasis was placed upon infrastructure investments. As indicated in the FFYP,

7. FFYP, *op. cit.* (Note 20, Chap. I), p. 54.
8. *Ibid.* (Note 21, Chap. I), pp. 111–2.
9. Data given in this paragraph are drawn from *ibid.* (Note 20, Chap. I), pp. 104–117.

Table V-1
Share of sectors in national income and planned investments (percent)

Sector	Share of 1961 National Income	Share of Planned Investments
Agriculture	41.4	17.7
Mining	1.7	5.4
Manufacturing	14.8	16.9
Energy	0.6	8.6
Transport and communication	7.2	13.7
Services	21.4	6.6
Housing		20.3
Education	5.4	7.1
Other	8.0	3.7

Note: In the national income estimate, housing services are included in "Dwelling ownership."

Source: FFYP, *op. cit.* (Note 20, Chap. I), pp. 14 and 121, and *National Income, 1938, 1948–1970, Pub. No. 625,* SIS (Ankara), 1971. See Table I-3.

> Sustained development implies that the production of basic goods and services should be geared to meet long-term demand. Due importance has therefore been attached to basic infrastructure investments (e.g., transport, energy, education, etc.).[10]

Other principles upon which sectoral development plans were based included: the prevention of bottlenecks, maintenance of output of raw materials and intermediate goods production in line with final demands, and the promotion

> ...of sectors producing export goods and those producing import-replacing goods. In view of the foreign exchange difficulties likely to occur during the plan period importance was attached both to expanding exports and promoting import-substitution.[11]

As will be seen below, considerably greater quantitative importance was placed upon import-substitution than upon export promotion.

Although the goals of the FFYP were not entirely realized, Turkish economic growth over the 1963-to-1967 period was satisfactory from any standpoint and considerably better than it had been in earlier years. Real GNP, which had been expected to be 40 per cent above the 1962 level, was 38 per cent above it in 1967. Agricultural production fell somewhat short of the target, increasing 17 per cent contrasted with a projected 24 per cent increase. Manufacturing production rose 63 per cent compared to the 73 per cent targeted increase. Output of the service sector grew somewhat more rapidly than planned.[12]

10. *Ibid.*, p. 117.
11. *Ibid.*
12. Targets: *Ibid.*; actual rates calculated from national income statistics.

Real investment increased considerably less rapidly than expected, especially in the early years of the FFYP. Private sector investments grew more rapidly than had been anticipated, whereas public sector investments fell short of plan targets. A higher fraction of private sector investment was directed toward residential construction and a lower fraction toward industry than had been anticipated.

Perhaps the biggest discrepancy between domestic targets and achievements at the macro-level was the failure of public revenues to keep pace with their expected increase. The rate of price increase remained relatively low despite that, averaging about 5 per cent annually.

The balance of payments proved even more of a bottleneck than had been forecast, despite an export performance better than that projected in the Plan. Export projections had been based upon estimated export earnings of $325 million in 1962, whereas actual exports were $381 million. Targeted exports for 1967 were $457 million contrasted with actual 1967 exports of $523 million. Moreover, an unanticipated source of foreign exchange earnings emerged during the FFYP period: the remittances of Turkish workers in Western Europe. Whereas Turkish workers in Western Europe had been relatively few in number in the early 1960's, their numbers rapidly increased in the mid-1960's. Thus workers' remittances were less than $1 million in 1963, $9 million in 1964, $70 million in 1965, $115 million in 1966 and $93 million in 1967.

Actual imports were very close to the planned level of $3,200 million for the five-year period as a whole, but their timing differed somewhat. Imports in 1963 were $688 million compared to the FFYP figure of $567 million;[13] while in later years imports were smaller than the projected figures except for 1966. Moreover, imports were kept near their projected level by greater stringency in the import regime than had been planned or desired.

The big discrepancy between balance-of-payments projections and realizations was in foreign aid. The planners had estimated a PL 480[14] inflow of $290 million over the five years, whereas it was actually $166 million. Consortium credits had been put at $1,573 million, whereas they actually were

13. Workers' remittances are recorded as an invisible current account transaction in Turkish balance-of-payments statistics, and are therefore reflected as one of the components in the difference between the trade balance and the current account balance. Workers' remittances were $273 million in 1970. See Appendix C. The 1963 import figure reflected, *inter alia*, huge imports in connection with the construction of the Ereğli Steel Mill.

14. Under the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480) and its subsequent amendments, the United States exports agricultural commodities and provides financing on terms more favorable than commercially-available rates, including loans in soft-currency.

$827 million. Thus the current account deficit proved to be smaller than anticipated by $485 million, but that was offset by a shortfall on capital account of $746 million in consortium aid and $124 million in PL 480. The shortfall in aid resulted from a variety of factors, to be discussed below, but the initial expectations on the part of the Turkish planners were probably overoptimistic under the best of circumstances.[15]

The SFYP. The SFYP covered the period 1968 to 1972. The basic goal of a 7 per cent growth rate in GNP was retained, as was the aim of reduced dependence upon foreign aid which was to fall from 2 per cent of GNP to 1.7 per cent of GNP over the five-year period. Emphasis upon industrial development intensified somewhat, as industrial output was projected to increase at an average rate of 12 per cent per annum. Private investment was expected to increase at an annual rate of 12.5 per cent, and public investment at 10 per cent, with private consumption increasing 5.1 per cent annually.[16] As indicated above, the shift in the share of investment and other changes in emphasis reflected the philosophies of the different ruling parties between the early and late 1960's. Other features of the SFYP were similar to the FFYP: a continued shift away from agriculture and toward industry, with a view to changing the structure of the Turkish economy; increased savings in the public and private sectors to raise the rate of capital formation; and emphasis upon import-substitution and export promotion for non-traditional goods.

At the time of writing, data are not available to compare the SFYP goals with achievements. During the first three years of the Plan, GNP increased by 6.7, 6.3 and 5.7 per cent (provisional SPO estimates) evaluated at 1965 prices, while agricultural production grew by only 1.9, 0.0 and 1.1 per cent, respectively. Failure to attain the overall target growth rate thus primarily reflects a relatively slow increase in agricultural output. In view of the relatively poor performance of agriculture over the first three years, the growth rates of other sectors were probably generally higher than the Plan targets.

In broad outline, the two Turkish Five Year Plans have been quite similar and have corresponded closely with actual government development policy. We turn now to an examination of the role assigned to the trade and payments regime within the two Plans.

15. For a more detailed evaluation of the FFYP, see: Wayne Snyder, "Turkish Economic Developments: the First Five Year Plan," *Journal of Development Studies,* Oct. 1969; Baran Tuncer, "Development of the Turkish Economy: An Experience in Planning," *Yale Economic Growth Center, Paper No. 112,* May 1971; and the SFYP, *op. cit.* (Note 21, Chap. I).
16. SFYP, *op. cit.* (Note 21, Chap. I), pp. 74 ff.

III. The role of foreign trade in the Plans

In the macroeconomic projections underlying each Plan, the chief role assigned to the foreign trade sector was that of meeting a projected savings-investment gap, especially in the early years of the fifteen-year horizon period. Beyond that, both Plans assigned three functions to the foreign trade sector: (1) to enable the importation of capital goods and inputs needed for the growth of the industrial sector through growth of foreign-exchange earnings; (2) to provide a mechanism (in coordination with other policy instruments) to foster the growth of new industries; and (3) to diversify the structure of Turkey's exports and to aim at rapid growth of industrial exports as one means of altering the structure of the Turkish economy.

Significantly, neither the Plans nor the "Objectives and Strategy" focussed upon Turkey's projected Common Market membership, despite the fact that the initial protocols for Associate Membership were already in preparation and signed in 1963. The only statement in the FFYP was that:

> The economic implications for Turkey of the Common Market, which were taken into account while preparing the plan, will also be carefully estimated in preparing annual programs.[17]

The SFYP was even less specific on the implications of the Common Market, referring to the need to "strengthen the Turkish economy to the desired level" during the preparatory period then in progress.[18]

Investment and raw materials requirements

In addition to the need for foreign assistance to meet the projected investment-savings gap, both Plans viewed growth in foreign-exchange earnings as necessary in order to provide a means of importing capital and intermediate goods required to attain the Plan objectives:

> A considerable increase in imports is to be expected as a result of development efforts. New investments and the maintenance of existing establishments will create a demand for capital goods...[19]

It was stressed in the FFYP that one criterion upon which new industries should be evaluated was their expected utilization of domestic, as contrasted with imported, raw materials in an effort to reduce the demand for imports. Moreover, criteria for import licensing were to be:

> Import programs will give priority to imports which contribute to the realization of

17. FFYP, *op. cit.* (Note 20, Chap. I), p. 460.
18. SFYP, *op. cit.* (Note 21, Chap. I), pp. 136–7.
19. FFYP, *op. cit.* (Note 20, Chap. I), p. 459.

plan targets. The import requirement of the industries concerned will be examined and fulfilled in the light of their implication for the plan.[20]

Again,

The scarce foreign exchange resources will be directed to the economic activities which are directly related to economic development. The import of luxury goods will be avoided.[21]

This emphasis was borne out in the composition of imports projected under the two Plans. Table V-2 gives the actual composition of imports for the period 1961 to 1970 and the planned projections for the period 1963 to 1970. The planned figures are those given in the FFYP and SFYP. These figures were subsequently revised in the Annual Programs as evidence on actual imports emerged. In the FFYP the raw material requirements generated by the Plan were substantially underestimated. Imports of investment goods fell short of their planned levels due largely to the shortfall in investment. As Table V-2 indicates, SPO projections for the First Plan period were that raw materials imports would be less than investment goods imports in the early years of the Plan, reaching about equal magnitude in later years. In every year of both Plans to date, in fact, raw material imports have exceeded investment goods imports by sizeable margins. The planners took this into

20. *Ibid.*, p. 471.
21. SFYP, *op. cit.* (Note 21, Chap. I), p. 132.

Table V-2
Actual and planned import composition, 1961 to 1970 (millions of U.S. dollars)

	Investment Goods		Raw Materials		Consumer Goods	
	Planned	Actual	Planned	Actual	Planned	Actual
1961	–	185	–	208	–	116
1962	–	228	–	292	–	102
1963	241	254	235	332	71	102
1964	274	197	261	296	76	44
1965	296	197	300	313	85	62
1966	333	289	325	365	87	64
1967	363	260	363	380	94	45
1968	332	325	418	394	85	45
1969	350	251	460	431	90	119
1970	370	215	510	583	95	137

Note: PL 480 imports are not included.
Source: FFYP, *op. cit.* (Note 20, Chap. I) and SFYP, *op. cit.* (Note 21, Chap. I), for planned figures; and SPO, *Annual Programs* for actual figures.

account in formulating the SFYP, as can be seen by inspection of the altered relationship between investment goods and raw materials imports planned for the years 1968 to 1970. Even that was not enough, as imports of raw materials and intermediate goods generally exceeded Plan levels, while imports of investment goods fell far short of them.

Part of the strategy of the FFYP was to reduce drastically the level of consumer goods imports. In 1964, after the surge of imports in 1963, consumer goods imports were cut even below planned levels. The figures given for consumer goods imports are, as pointed out by SPO, misleading because of smuggling:

> During the last years of the [first] plan period, however, consumer goods of luxury nature which had been smuggled into the country began to appear in the markets of large cities. Therefore, the actual volume of consumer goods imports was higher than that indicated in the balance of payments.[22]

Fostering the growth of new industries

The second way in which the trade and payments regime was regarded as an instrument of development policy pertained to the industrialization objective. The strategy for industrialization was oriented toward import-substitution. To conserve scarce foreign exchange, it was declared in the FFYP that the list of items eligible for importation should be determined on

> ...the principle that goods of which internal production is quantitatively and qualitatively sufficient to meet internal requirements at fair prices should not be included...[23]

Similarly, goods for which there was some domestic production would be subject to import quotas and luxury goods would not be importable.[24] The SFYP reiterated the policy.[25]

Both Plans stressed the need for insuring that the choice of import-substitution industries should be based upon their long-term competitiveness, and that import restrictions and protection accorded to those industries should be of a temporary nature.

> Keeping in mind the necessity for the protection of newly established or developing branches of industry, imports will be restricted over a period of time specified in advance, when deemed necessary, and the possibility of importing goods outside the system will be avoided. This protection, however, will not be extended to the

22. *Ibid.*, p. 29.
23. FFYP, *op. cit.* (Note 20, Chap. I), p. 471.
24. SFYP, *op. cit.* (Note 21, Chap. I), p. 578.
25. *Ibid.*, p. 134.

> branches of industry which are not likely to gain a competitive position in the future.[26]

In practice, there have been virtually no instances of reentering an item on the import lists once domestic production has been established. Even with regard to new industries, the long-term competitiveness criterion does not appear to have become operational. In the shipbuilding industry, for example, it was determined that "significant exports are out of the question in this sector,"[27] owing to "too much competition from foreign markets."[28] However, the principle enunciated for that industry was that "the demand for shipbuilding will be met domestically."[29] Similarly, many assembly industries were started during the FFYP. For a typical item – farm machinery – the SFYP stated that:

> ...the percentage of locally manufactured components of agricultural equipment and machinery will be increased on a large scale and, to that end, the development of those branches of industry which will manufacture domestic inputs will be encouraged.[30]

Objectives for other assembly industries were similar.

There can be little doubt that the two Five Year Plans were heavily biased toward import-substitution. In the FFYP balance-of-payments, considerations (aside from the estimated required foreign aid) were evaluated in the final chapter of the document, almost as an afterthought. Little stress was placed upon the need for growth of foreign exchange earnings. Requirements for foreign aid were estimated by the macroeconomic investment-savings gap projections.

By the time the SFYP was formulated, balance-of-payments difficulties were highly visible and the import-substitution strategy was intensified. The SFYP repeatedly noted the relatively high prices of Turkish manufactured products:

> The price of industrial goods produced in Turkey is usually higher than world prices. This question constitutes a problem which requires study and which must be solved quickly.[31]

Interestingly, one of the causes of these high prices was said to be "protective customs policies."[32] Yet other causes were the "excessively high import duties on investment goods, the high cost of basic industrial raw materials and

26. *Ibid.*, p. 134, see also p. 404.
27. *Ibid.*, p. 578.
28. *Ibid.*, p. 575.
29. *Ibid.*, p. 574.
30. *Ibid.*, p. 540.
31. *Ibid.*, p. 403.
32. *Ibid.*

services to the manufactures ..."[33] Quantitative restrictions were not mentioned. Concern with high costs was a factor motivating the altered treatment of duties upon imported capital equipment in 1968.

Thus in the FFYP, import-substitution was adopted primarily as a means of attaining the industrialization goal. By the time of the SFYP the motivation for stress upon import-substitution had shifted and stemmed much more from balance-of-payments difficulties.

Export goals and achievements

Both Plans revealed considerable pessimism about the prospects for increased foreign exchange earnings from traditional exports:

> Demand elasticity for Turkey's export goods is low. The studies made on this subject show that the elasticity of the main export products, mohair excepted, is near zero. It follows from this that no significant development can be expected in export of these goods and that a change in the composition of Turkey's exports is essential.[34]

33. *Ibid.*, p. 403.
34. FFYP, *op. cit.* (Note 20, Chap. I), p. 465. Inconsistently, the next paragraph went on to state that, "Since 1958, ... the wholesale price indices of foodstuffs and raw materials have shown a steady increase ... On the other hand, raw material prices have been falling on international markets. This, together with the rise in internal prices has impaired Turkey's competitive position on export markets as a primary product exporter." No action was recommended, however.

Table V-3
Export projections, 1963 to 1972, and actual exports, 1963 to 1970 (millions of dollars)

	Agricultural Exports		Mineral Exports		Industrial Exports		Total	
	Planned	Actual	Planned	Actual	Planned	Actual	Planned	Actual
1963	270	284	22	11	56	73	348	368
1964	291	312	22	15	61	84	374	411
1965	298	352	24	21	71	90	394	464
1966	329	379	24	23	73	88	427	491
1967	348	426	26	21	82	76	510	522
1968	409	405	31	26	100	66	540	496
1969	427	402	34	35	114	99	575	537
1970	445	n.a.	37	n.a.	133	n.a.	615	588
1971	465	–	40	–	160	–	665	–
1972	481	–	42	–	197	–	720	–

Sources: FFYP, *op. cit.* (Note 20, Chap. I), p. 469; SFYP, *op. cit.* (Note 21, Chap. I), pp. 32 and 100; *Yıllı Programı 1971*, pp. 35–36.

The SFYP similarly stressed the need for structural change in the composition of export earnings, pointing out that,

> The export of agricultural products...which is more or less limited by foreign demand is estimated to register an increase of only 22.9 per cent [over the SFYP period] despite efforts to be made in this field.[35]

Insofar as either Plan stressed exports at all, the emphasis was on the development of new export products. In general, export performance was better than planned in the FFYP and below Plan levels from 1968 until 1970. This can be seen in Table V-3, where export projections and actual exports are contrasted. Throughout the FFYP agricultural exports did far better than had been anticipated in the Plan, whereas mineral exports did somewhat worse, particularly in the early years of the Plan period. The SPO classification of industrial exports is somewhat broader than that generally used, including most copper exports in particular. Until 1966 industrial exports grew more rapidly than had been anticipated in the Plan, but thereafter earnings from those commodities did noticeably less well than expectations.

Examination of the determinants of exports is left to Chapter VII, below. Here it need only be noted that the Plans placed relatively little reliance upon the development of traditional exports, and viewed export strategy as conforming to the overall strategy of industrialization of the Turkish economy. Even for industrialization, however, far less emphasis was placed upon export possibilities than upon import-substitution.

IV. The capital account and the foreign trade regime

As noted above, an important goal was the attainment of "self-sufficiency," the ability to continue 7 per cent growth without net receipts of foreign aid, by 1977. This goal was to be achieved through receipt of high levels of aid in the early years of the fifteen-year period which, it was expected, would induce a rising marginal and average domestic savings ratio. Aid in the early years was deemed essential, not only to make up the savings-investment gap, but also because of Turkey's relatively heavy debt-servicing obligations. Without aid in the early Plan years, debt servicing would have drained off sizeable resources from the development effort.

Debt service

Turkish debt-servicing obligations were thus integrally related to aid flows

35. SFYP, *op. cit.* (Note 21, Chap. I), p. 100.

Table V-4
Actual and planned capital flows, 1963 and 1964 (millions of U.S. dollars)

	1963	1964
Gross inflow		
planned	434	407
actual	216	187
Debt servicing		
planned	−148	−99
actual	−146	−141
Net inflow		
planned	286	308
actual	70	46

Sources: FFYP, *op. cit.* (Note 20, Chap. I), p. 467 and John White, *Pledged to Development,* Overseas Development Institute (London), 1967, p. 148.

and must be considered jointly with them. It was the conjunction of rapidly increasing import demands associated with the implementation of the FFYP and the failure of the net capital inflow to reach Plan levels that marked the transition to Phase II in 1964.

Table V-4 gives the basic data for 1963 and 1964. As can be seen, the gross capital inflow was less than half the planned level in each year. Given debt-servicing obligations, however, the result was a net inflow of one-quarter and one-sixth the planned amounts in the two years. Turkey's scheduled debt-servicing obligations for 1965 through 1967 were even greater than the 1963 and 1964 amounts. It became apparent that balance-of-payments difficulties would become massive and that the FFYP would be infeasible in the absence of some additional assistance. Finally, further debt rescheduling was agreed upon in the early months of 1965.[36]

The schedule of debt service in effect prior to rescheduling and the revised schedule are given in Table V-5. As can be seen, relief from debt obligations amounted to over $100 million in 1965, and an additional $115 million over the next two years. Additional loans, extended after April 1965, and loans that did not come under the purview of the revision led to heavier actual debt repayments and interest charges than were indicated in the revised amortization schedule. However, debt-servicing obligations in the 1966–1968 period were considerably less than had been anticipated, with a rising debt burden toward the end of the period. Even so, actual debt repayments plus interest amounted to $935 million over the period 1965 to 1970, compared to total export earnings of $3,098 million.[37] Thus by any standard, debt repayment

36. White, *op. cit.* (Table.V-4), p. 149.
37. See Table V-6.

Table V-5
Debt service schedules, December 1964 and April 1965 (millions of dollars)

	Schedule as of 12/64			Schedule as of 4/65		
	Principal	Interest	Total	Principal	Interest	Total
1965	185	31	216	87	27	114
1966	143	28	172	94	76	101
1967	120	24	144	73	25	98
1968	82	26	108	91	31	122
1969	70	20	90	91	24	115
1970	55	15	70	88	21	109
1971–2014	597	163	760	709	166	874
Total	1253	307	1559	1232	300	1532

Source: White, *op. cit.* (Table V-4).

and interest charges constituted a sizeable burden upon the Turkish economy.

The debt repayment schedule makes the interpretation of Turkish foreign aid figures difficult, since the lenders considered that debt postponement constituted part of their net aid contribution. Thus it makes a considerable difference whether net or gross aid figures are used.

Aid flows[38]

Turkey's history of chaotic indebtedness led to considerable reluctance, particularly on the part of the Western European countries, to extend development aid at the outset of the FFYP. There appear to have been doubts about Turkey's ability to carry out a rational debt management program, much less embark upon a systematic development effort. Only the United States among the potential donors exhibited any enthusiasm for the FFYP, whereas the Turks had assumed that sizeable foreign assistance would be forthcoming in the early stages.

For a variety of reasons, among which the history of past indebtedness was prominent, a Consortium under the aegis of the OECD was formed to coordinate the contributions of all donors to the Turkish development effort. The Consortium started operations in 1963 coincident with the start of the FFYP. Throughout the period during which the plans have been in operation, the preponderance of foreign aid has come through the Consortium.

Turkey's relationship with the Consortium was by no means an easy one,

38. The material in this section on the development of the Consortium is drawn from White, *op. cit.* (Table V-4).

Table V-6
Gross and net aid flows, 1963 to 1970 (millions of U.S. dollars)

	1963	1964	1965	1966	1967	1968	1969	1970
Aid flows								
Consortium credits	169	145	169	175	161	145	106	217
Project credits	97	36	57	56	60	127	174	179
Commodity imports	94	32	29	17			41	83
Total flow	360	213	255	260	221	272	321	479
Debt service								
Interest	31	31	30	29	34	34	44	47
Principal	114	110	161	119	99	72	108	158
Total	145	141	191	148	133	106	152	205
Net Aid	215	72	64	112	88	166	169	274

Note: All data are from Turkish balance-of-payments figures.
Sources: 1963–1965, SFYP, *op. cit.* (Note 21, Chap. I), p. 28.
1966–1967, *Yili Programı 1968*, p. 59.
1968–1970, *Monthly Economic Indicators*, Ministry of Finance, January 1972, p. 51.

especially in the early years. A major difficulty before 1965 was that Consortium aid to Turkey was made on an annual basis. From the planners' viewpoint, the fact that Consortium decisions as to aid in any given year were made in that year was worse yet. Thus the Turkish planners generally drew up their Annual Programs in a state of uncertainty about the amount of aid likely to be pledged.[39]

Data on the amount of gross and net aid received by Turkey are given in Table V-6. The high figure for 1963 reflects aid associated with the construction of the Ereğli Steel Mill and other once-and-for-all items. Similarly, the high 1970 figure reflects Consortium credits extended at the time of devaluation in August 1970. Only in those two years did net aid exceed 2 per cent of GNP. Project credits increased from \$36 million to \$179 million over the 1964-to-1970 period. Consortium credits by contrast reached a peak of \$175 million in 1966 and declined to \$106 million in 1969, rising again however to \$217 million in 1970, under the special conditions just noted. PL 480 aid was not received in 1967 and 1968, and was important only in 1963 and 1970.

The steady increase in project aid indicates one of the reasons for both the slow pace of aid-giving in the early years of the FFYP and the lower-than-planned real investment levels: there simply were insufficient investment pro-

39. The problem was especially severe in 1964 when no pledges for 1964 were made until the very end of the year.

jects drawn up and ready to be implemented. While this factor was not the only reason for the shortfall of aid and investment levels in the early years of the FFYP, the SPO itself attributed the lagging investment performance in part to a lack of detailed projects.[40] Part of the increased volume of project credits in later years undoubtedly resulted from the government efforts early in the FFYP to improve project preparation.

Private foreign capital

Throughout the 1950's and 1960's the Turkish government attempted to attract private foreign capital. One of the aims of the 1958 Stabilization Program was to improve conditions so that private capital inflows might increase markedly. Also, while a goal of the fifteen-year perspective plan was to eliminate dependence on official capital, it was stated that private capital inflows would be welcome and relied upon even after 1977.

Despite official policy to encourage it, private foreign capital has not been a major factor in Turkey's foreign exchange receipts and balance-of-payments experience.[41] The total net private capital inflow from 1963 to 1969 was $51 million and there was a net outflow in all but two of those years.[42] Thus private foreign investment has played a very small role in Turkey's balance of payments or growth over the years, unlike official capital flows.

V. Relationship of trade and development policy

The intent of the planners at the outset of the FFYP was to use the foreign trade regime as an instrument of policy to help achieve Turkey's development goals. In that sense it was intended that the foreign trade regime be permissive in enabling the implementation of development policy. The FFYP emphasized import-substitution as a component of development policy, although the emphasis was qualified by recognition of the need for economic efficiency. Relatively little attention was devoted to ways and means of promoting exports, in part because the import demands projected by the Plan were expected to be covered by anticipated export earnings and aid flows.

A variety of factors soon altered the situation. Although foreign exchange

40. SFYP, *op. cit.* (Note 21, Chap. I), p. 15.

41. The one exception was private foreign investment in petroleum, which was sizeable in the late 1950's. The petroleum investments were encouraged by special legislation and not by the general law covering private foreign investment.

42. See Table I-6.

earnings exceeded expectations, import demands under the import regime as it was at the outset would have greatly exceeded available foreign exchange resources. Imports over the FFYP as a whole were held very close to projections, but the attainment of target levels was accomplished because of increased stringency of the import regime rather than because the initial projections were accurate.

Even if net aid had been forthcoming at somewhere near planned levels, some change in the import regime would have been required to restrict imports to levels consistent with foreign exchange availability. However, if net aid had reached planned levels, the import regime in 1964 and after would have been considerably less restrictive than it was. The heightened exchange controls of the 1960's were in response to balance-of-payments difficulties rather than development goals, and emphasis upon import-substitution increased, not to attain the industrialization targets, but to offset unanticipated foreign exchange shortfalls. Hence a trade regime which started as permissive of development policy was quickly transformed into one which dictated the shape of development policy. While import-substitution would have been emphasized in any event, it is probable that more attention would have been given to "competitiveness" and to the criteria for selecting industries discussed in the Plans had it not been for the foreign exchange shortage which emerged as an impediment to the implementation of the development Plans. Development policy therefore quickly became shaped by the apparent dictates of the balance-of-payments rather than the converse.