CHAPTER X

Conclusions

Since 1953, Turkey’s trade and payments regime has never been fully liberalized. The degree of restrictiveness has been modified with changes in the instruments used for control and with alterations in the manner that existing controls were exercised. And the purposes that the payments regime was intended to serve have been altered from time to time.

When controls were first imposed in the early 1950’s they were intended to suppress the emerging balance-of-payments deficit. The “planlessness” that characterized the Menderes Government pervaded the payments-control mechanism, and the increasing restrictiveness of the regime before 1958 was largely the unintended outcome of measures taken as ad hoc responses to declining foreign exchange earnings and increasingly limited borrowing opportunities.

The Turkish experience of 1953—1958 probably has little relevancy for other countries. The inflation, SEE deficit, inflation cycle into which Turkey plunged was the outcome of particularly unfortunate economic policies. The causes of the cycle were obvious at the time, and it was the deliberate refusal of the Prime Minister and those about him to accept economic realities that led to the difficulties. The only pertinent lesson from all this may be that political leaders are free to disregard whatever they wish, at least in the short run.

The Stabilization Program of 1958 was as drastic as the inflationary cycle that preceded it — and, unlike the 1953—1958 experience, it is instructive for other situations. For the episode provides an instance of a country’s transformation from rapid inflation to price stability. That transformation was accomplished primarily through a sharp shift from rapid expansion of the money supply to gradual contraction. A huge increase in the flow of imports and the deflationary effects of net revenues from foreign trade taxes augmented the primary effect of the shift in the rate of expansion of the money supply.

The transition to price stability was not painless, although the evidence seems to indicate that had the Stabilization Program not been reversed in 1959 the reallocation of resources that was necessary after the dislocations of the mid-1950’s might have been accompanied by a very short-lived and mild recession. The abandonment of the Stabilization Program in 1959 meant that when it was resumed after the Revolution in May of 1960 a second recession ensued, which was intensified if not prolonged by political uncertainties.
The second major lesson emerging from Turkey's experience with the Stabilization Program is that there appears to be a substantial lag in the response of exports to an altered incentive structure. Exports did not increase markedly after the adoption of the Stabilization Program, even if allowance is made for the fact that export EERs were not immediately increased by the full amount of the nominal devaluation. But exports grew rapidly from 1959 to 1964, reversing the downward trend of earlier years. In view of the fact that there were no changes in export incentives after the Stabilization Program until 1963 (and then the only change was the introduction of export rebates, which did not assume importance until the latter half of the 1960's), the resumed growth of export earnings must be attributed largely to the altered export EERs which were a part of the Stabilization Program.

As seen in Chapter VII, there are many commodities produced in Turkey which are either exports or potential exports for which domestic policies pursued by the government essentially determine production and distribution. (1) Many agricultural commodities are subject to domestic price supports which are unrelated to international prices at the prevailing exchange rate. In addition, consumer prices are often set. The Turkish excess supply of those commodities is thus a function of the price paid to producers and that paid by consumers, and not of the relevant EER. (2) Minerals are generally produced by SEEs which have not been forced to behave as profit maximizers. The minerals sector has generally not responded to export incentives.

When evaluated in the context of those domestic policies, the export response to the altered PLD-EERs in the early 1960's was really quite sizeable. The regression estimates given in Chapter VII (Table VII-13) suggest that cotton, mohair, olive oil and minor exports, the commodities in which government intervention policies have not been dominant — have exhibited considerable responsiveness to altered real EERs. A 1 per cent increase in the PLD-EER of each commodity has led to at least a 1 per cent increase in the quantity exported. Since Turkey has little or no monopoly power for any of those products, that implies at least a 1 per cent increase in foreign exchange earnings from them in response to a 1 per cent increase in the PLD-EER.

There are a number of reasons for believing that those estimates of export responsiveness understate Turkish export potential. But the experience of the 1960's should be discussed first. It is important to note that the Import Programs, introduced as the control mechanism for imports in the Stabilization Program, were employed throughout the 1960's as the regulatory instrument for imports, although the purposes the regulations were designed to achieve altered. At first the Import Programs were seen as a means whereby the payments-arrears situation of the 1950's could be prevented from re-
The initial intent was of course that imports would gradually be transferred to the Liberalized List so that the regime would become less and less restrictive over time.

The purposes which the Import Programs were designed to serve altered markedly when planning started. They became a major instrument for encouraging domestic production, particularly of import-substitutes. The “Prohibited List” emerged as an indiscriminate device for granting protection to any new industry. But there was no mechanism for making protection temporary.

As industrialization progressed, the lists of eligible imports became increasingly complex. New categories of intermediate goods were added to the lists and imports with domestic substitutes were deleted. To gain better control over the uses to which imports were destined, ministerial permission requirements were added to import licensing procedures.

The outcome was that the Import Programs, initially intended as a means of liberalizing the import regime, were gradually transformed into one for restricting it. To complete the transformation, the Liberalized List was, by 1969, regarded by many as at least as restrictive as the Quota List. Thus inspection of the mechanism by which a trade regime is administered tells little about the restrictiveness of that regime. The Turkish mechanism has remained the same for a period of more than a decade, while the restrictive content of that mechanism has altered substantially.

The side effects of the import regime upon excess capacity, inventory holdings and the capital-labor ratio were discussed in some detail in Chapter VIII. The evidence indicates that the excess costs of production resulting from the system were probably sizeable, especially in view of the limited degree to which quantification of those effects is possible. But those excess costs appear to have been small as compared with the costs of indiscriminate encouragement of new firms and industries.

The direct and indirect effects of the incentives provided by the import regime resulted in the emergence of a wide range of DRCs within and between industries. As the data in Table VIII-1 show, DRCs ranged from very low to extremely high. Of the number of factors undoubtedly contributing to this wide variation, several were probably especially important. (1) As emphasized repeatedly, the protection afforded by the “Prohibited List” was indiscriminate in the extreme, and precluded competition from abroad at any price. (2) The mechanism for allocating the Quota List imports essentially determined firms’ market shares at each point in time. (3) Since few capacity additions could be undertaken without imports, government control over new investments was achieved through the import regime and, in the late 1960’s, through administration of sizeable investment incentives. That control resulted in an inability of relatively low-cost firms to expand as much as they otherwise would have and the efficient firms.

In addition to the observable side effects, the important question as to the extent to which the growth strategy been less rational, profit-maximizing interest to attempt to develop Turkey’s potential growth under an extremely important one
Conclusions

otherwise would have and thereby provided sheltered positions to less efficient firms.

In addition to the observable losses associated with the trade regime, there is the important question as to the sort of growth Turkey could have achieved had the growth strategy been less import-substitution oriented. An attempt was made in Chapter IX to answer that question. "What-would-have-happened-if" estimates are always open to debate, but the assumptions made in Chapter IX are fairly conservative. By accepting each sector's coefficients as given, an important part of the gains that might have accrued with a development strategy more oriented toward growth of exports was omitted from the analysis. For example, Turkish industry developed in a sellers' market atmosphere, devoid of pressures to become internationally competitive. Under an alternative strategy, competitive pressures would have been greater. The relative inattention to quality control among Turkish producers may be another example. In a more open economy, there might have been greater efforts in that direction. Similarly, Turkey has had relatively little indigenous research and development. This too might have been stimulated had Turkish producers been forced into greater competition with their European counterparts.

Even without taking potential gains of this type into account, one sees that the estimates of Chapter IX indicate that a BEPIM, or even MIS, growth path could have resulted in a sizeable increase in the rate of growth of manufacturing output and employment, a reduction in the ICOR, reduced import demands for any level of output, and increased export earnings. The estimated magnitude of the gains is impressive, and the results clearly suggest that such an alternative strategy could better have achieved the goals of Turkish policy-makers than did the development path actually chosen.

In response to the results of the analysis in Chapter IX, most Turkish economists and planners would probably regard the export-oriented alternative as having been infeasible. The widely held view in Turkey is that Turkish manufacturing exports simply cannot compete in international markets. The conclusion reached in Chapter VII and the magnitude of the potential gain estimated in Chapter IX make that argument doubtful. But no decisive proof can be given unless a genuine and sustained effort is made to compete in international markets. It may well be, though, that Turkish producers' inability to compete is more the result of the trade regime than the cause. The extreme disincentive to export, in favor of the handsome rewards for import-substitution during the past decade, is enough to make one wonder whether a rational, profit-maximizing entrepreneur would have found it in his self-interest to attempt to develop a sizeable export business.

Turkey's decision to enter the Common Market makes the question of her potential growth under an alternative, export-oriented development strategy an extremely important one. Given her past import-substitution orientation,
there are two factors to be considered. The first is the manner in which a
transition to an export-oriented strategy is effected. The second is the nature
of the gains that might be achieved once the transition is accomplished.

The results of Chapter IX shed some light on the second factor. For all the
evidence of Chapters VI to IX indicates that, satisfactory as Turkey's growth
performance has been, it could be substantially improved if some of the
excess costs of indiscriminate import-substitution were avoided in the future
and her export potential were realized.

The problem of transition will be much more difficult. Over the past two
decades new industries have been built up regardless of their long-run poten-
tial in response to the incentives provided to them. Many of the firms in
these new industries would be confronted with difficult problems of transi-
tion.

Those problems have not been considered here because analysis has been
centered upon past developments. The lesson of those developments is that
the benefits from an altered growth strategy will more than compensate for
the costs of that transition.

The method of calculating the change-rate system was the basis for the
various export categories. A change-rate system, and different to it, was the
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Exports

The task of calculating EERs for various export categories is presented
in Table A-1. The estimates of EERs were based on the rates prevailing in the
years 1953 to 1960. For most major export categories, however, the rates
were as indicated, applied varied from time to time. High rates both increased an
d to them. It was not possible for the "marginal export rates given in Table A
1. Estimates of EERs for 1970 and the absence of detailed data. The

The bottom part of Table A-1 gives the estimates of EERs for various
commodity classes and for commodities within a class were

1. Estimates of EERs for 1970 and the absence of detailed data. The