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The European Community – Opportunity or Hazard for Turkey's Economy?

by Werner Gumpel, Munich *

Turkey once chose the road into the EC of its own free will. This decision was consistent with its European orientation since the days of Atatürk. The association with the EC and the prospect of full membership are nevertheless attracting much criticism in Turkey today. Therefore it is important that West Europeans should try to find out the reasons for this attitude and draw the proper conclusions.

Turkey laid its course for the European Community when it signed the Treaty of Ankara on September 12, 1963. This treaty, which came into effect on December 1, 1964, made Turkey an associate member of the Community. Full membership was to be attained through a process of adjustment in three stages – a preparatory phase scheduled to last five years, a transitional phase, and a final phase at the end of which Turkey would enter the customs union. The Treaty of Ankara was complemented by a supplementary protocol (the Protocol of Brussels), in force since January 1, 1973, which has taken Turkey into the second phase envisaged in the Ankara Treaty, the transitional phase.

Turkish Criticism of the EC

The Brussels Protocol provided that Turkey was to lower its tariffs gradually – for a specified group of goods 12 years after the protocol had taken effect and for another group of goods 20 years after it had come into force. Besides, Turkey undertook to adjust its customs tariff as applied to third countries gradually to the common external tariff of the EC. The member states of the EC on their side entered into a commitment to reduce their tariffs for goods from Turkey, with the proviso however that extensive restrictions would remain in the agricultural sector, which is of special importance to Turkey, and that the country would not receive more favourable treatment than other Mediterranean countries which are not associates.

Turkey chose the road into the European Community of its own free will. Its decision was con-

sistent with the European orientation of the country since the days of Mustafa Kemal Atatürk. The association with the EC and the prospect of full membership are nevertheless attracting a great deal of criticism in Turkey today, and this has caused surprise in Western Europe where it is commonly believed that Turkey stands to gain from EC membership and that full membership presents the country with an opportunity rather than a hazard. It is important that West Europeans should try to find out why people in Turkey are taking this attitude and draw the proper conclusions, for Turkey sent 43.9 p.c. of its 1975 exports to EC countries and obtained 49.3 p.c. of its imports from them. (The Federal Republic alone accounted for 22.3 p.c. of Turkey's imports and 21.8 p.c. of its exports in that year.) With its close on 42 million inhabitants Turkey will also offer an important potential market in the future (to say nothing of its military-strategic importance in the Nato alliance).

The economic faculties of the Hacettepe University of Ankara and the University of Istanbul last year held a conference at Antalya at which relevant answers to this complex of questions were given, and these will be used here¹.

Economic Systems and Integration

Turkey is and remains a typical developing country – in spite of the extensive efforts in the direction of industrialization. In 1976 60.5 p.c. of the gainfully employed population were engaged in

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¹ The working papers presented at the conference are quoted here as "Antalya working paper".

agriculture and 12.7 p.c. only in industry. The per-capita GNP in 1975 was \$ 820 (in the FR Germany it was \$ 6,780)². The unemployment rate is estimated variously at between 10 and 13 p.c. The growth of population is currently proceeding at a rate of 2.4 p.c. annually.

In order to overcome its underdevelopment Turkey has resorted to a mixed economic system based on *étatisme* which differs quite considerably from the economic systems of the EC countries. Since the private initiative and capital formation are unequal to the needs of swift development, the state is taking an especially active part in the economic process. Whereas private investment activity is concentrated in the few conglomeration centres where purchasing power is relatively high, the state is striving to set a development process in motion also in the regions which are adversely affected by their geographical situation. Some 47 p.c. of Turkish industry are state-owned.

The state directs the economic development by means of so-called Five-Year Plans which are sub-divided into annual programmes. Plans and programmes are mandatory for the public sector and indicative for the private sector. Private firms must perforce adapt their business policy largely to the Plan objectives for the public sector because they depend upon suppliers and customers in the public sector, with the result that the Government can use its influence in support of its aims although the market mechanism is still operating. The Turkish mode of planning cannot be compared with that of the socialist states. Even in the public sector the Plan has far less compulsory force.

A large measure of state protectionism is the consequence of the state interventionism in all spheres of economic life. In furtherance of the development of indigenous industries in accordance with Friedrich List's argument for educational customs duties the Turkish economy has been sheltered in the domestic sphere for almost 30 years and is therefore by now so unaccustomed to international competition that the resurgence of international competition is, in the view of many economists in Turkey, bound to endanger the survival of the Turkish economy³.

There can be no doubt that the existing economic system of *étatisme* constitutes a grave obstacle on the way into Europe, especially as the elimination of state interventionism and protectionism

will have to be a slow process even if the will to do away with them exists. The historic experience of the Western capital transactions has left behind such deep distrust of Western business activities that it will take generations to clear it away. This distrust stands in the way of capital transfers from the industrialized states for the acquisition of business interests. It is fanned by the maladroit handling of Turkey's requests and grievances by the European Community. The quantitative restrictions on Turkish goods capable of competing in the West European market, like textiles and processed food, are hampering Turkey's development efforts and leading to the conclusion that Turkey has had no benefit so far either from the preparatory period or from the transitional period⁴.

Disadvantages Created by Relative Inefficiency

An examination of Turkey's balance of trade shows indeed that the apprehensions about the capabilities of the Turkish economy are only too well justified. The trade deficit in 1975 was \$ 3.3 bn, after \$ 2.2 bn in 1974 and \$ 0.8 bn only in 1973. It was only through the "invisible" exports, consisting in the main of remittances from guest workers, that the balance of payments deficit was kept down to a little over \$ 1.7 bn in 1975, compared with \$ 0.7 bn in 1974⁵. The remittances from Turkish workers abroad amounted in 1975 to \$ 1.3 bn; in 1974 they had been \$ 1.4 bn and in 1972 only \$ 740 mn. In March 1976 Turkey had \$ 4.2 bn of foreign debts which were repayable in foreign currencies⁶.

Evidence of the problems created by relative inefficiency can be found in almost all areas of the Turkish economy. Such sectors as the automobile industry may be regarded as special cases but the difficulties arising in them are typical. In spite of its lower wages compared with the EC the trend of the costs in this young industry is rather unfavourable. This is due to the relatively small plant sizes (which are below the operational optimum), to technological backwardness, inadequate accessory industries, difficulties in obtaining local and foreign inputs, the high cost of basic inputs compared with the international markets, the conditions in the capital market and the high indirect taxes in relation to the producing costs⁷. Similar complaints are heard in the textile indus-

² Turkish Economy, Turkish Industrialists' and Businessmen's Association, Istanbul 1976, Supplement: Turkey in Figures; Statistisches Jahrbuch der Bundesrepublik Deutschland (Statistical Yearbook of the Federal Republic of Germany), Wiesbaden 1976, p. 516.

³ Osman Okyar, Turkish Industrialisation Strategies. The Plan Model and the EEC, Antalya working paper, October 1976, p. 39.

⁴ Gulden Kazgan, Ortak Pazar ve Türkiye, Gerçek Yay (The Common Market and Turkey — the true position), Istanbul 1975, p. 128; Taner Berksay, Turkey, Greece and the European Economic Community, Antalya working paper, October 1976, p. 53 f.

⁵ Turkish Economy, *ibid.*, p. 104-105.

⁶ Turkish Economy, *ibid.*, p. 46.

⁷ Erol Manisali, Turkish Automotive Industry in the Light of Turkey's Integration with the European Economic Community, Antalya working paper, October 1976, p. 10 f.

try which accounts for as much as 9.1 p.c. (1975) of Turkey's exports. Turkey is complaining about continuing EC restrictions on imports of textiles. Expert investigations however have shown that the Turkish textile manufacturers are unable to match the prices of their competitors in the EC while local markets are offering them at the same time higher profits than are obtainable in the export trade. So the textile manufacturers have no need to bother about export formalities in their own country and the special wishes of foreign customers. Substantial tax concessions are available to them if they should nevertheless have to sell their goods in foreign markets. In 1975/76 these amounted to 40–45 p.c. The Turkish manufacturers have therefore no incentive to try to become more competitive.

The low quality of the Turkish textiles is also giving rise to complaints. "The textile industry in Turkey is enjoying a considerable measure of state support and protection. If it wants to become independent from state support, it will have to become more efficient – offering better qualities at lower prices."⁸ The labour productivity in the Turkish textile industry is about one-third of that in the USA and thus less than half of what it is in the Federal Republic. The advantage which lower wage costs give Turkey in the international markets will be nullified by the faster rise of its unit costs compared with those of its competitors⁹.

Problems of Capital Mobility

Under the existing conditions Turkey urgently needs the transfer of capital and know-how. Not only could the industrialization process be speeded up by the inflow of foreign capital, but it could also facilitate the modernization of plant capacities urgently required in wide areas. Modernization would admittedly have contrary effects as well: it would tend to raise the productivity of labour but at the same time release labour and thereby raise the high unemployment level further. This is one of the major problems facing developing countries: an attempt to further the development process and to seek early integration in the framework of the international division of labour necessitates the disbursement of scarce capital resources on the purchase of expensive technologies from the industrialized countries the installation of which creates few additional jobs. If, on the other hand, developing countries develop their national economies chiefly on an extensive basis, giving priority to the deployment of their manpower resources, they are liable to lag be-

hind the technical progress in the world and to encounter integration difficulties at a later stage.

There are, besides, other reasons which cause the Turkish Government, and probably also a large part of public opinion, to look askance at foreign investments and capital transfers. The mobility of capital desired by the EC does not fit in with the Turkish development concept. Several Turkish economists have expressed the fear that free mobility for capital may lead to the escape of scarce capital from Turkey and thereby to an economic disaster. They believe that this capital is kept in Turkey only by the existence of controls¹⁰.

Under the present regulations Turkish currency must not be either brought into the country or taken out. Turkish residents are not at liberty to engage in transactions in Turkish lira with persons living abroad. All foreign currency transactions, imports and exports of capital, credit guarantees, compensation deals, payments of royalties and all foreign exchange receipts from other sources are subject to strict control. The basic principle of these far-reaching controls is that the state authorities have the sole right of disposition over foreign currencies, precious metals and similar articles. "There is no possibility of Turkey changing from such a far-stretched system of foreign currency controls (which is reinforced by a system of penalties) to a free and liberal system such as prevails in the EEC." Nothing has so far been done in earnest to move towards a liberal money and currency policy although the Treaty of Ankara contained a few directives pointing in this direction¹¹.

As for the importation of capital, a special law, Law No. 6224, has been enacted which may be regarded as a great advance on the regulations which were previously in force. It does not offer unqualified support for investments by foreigners but does not forbid the importation of foreign capital. The general rule applying to capital imports is that the investment object must form part of the Five-Year Plan, that the investment volume must be above a certain minimum, that new technologies are being introduced into Turkey, that the investment increases Turkey's export potential, and that the foreign partner does not acquire a majority share of the capital¹².

Foreign capital has in the meantime gained increasing importance, especially in the chemical and electrical industries and in transport. Due to their advanced technologies, which are chiefly at

⁸ Korkmaz Ilkorur, Analysis of the Turkish Textile Industry, Antalya working paper, October 1976, p. 56.

⁹ Ibid., p. 48.

¹⁰ Cihat Iren, Free Movement of Capital in the EEC, Antalya working paper, October 1976, p. 34.

¹¹ Ibid., p. 11.

¹² Ibid., p. 20.

the disposal of multinational corporations, the joint ventures have been able to establish market positions in certain sections of these industries which give them a monopoly or oligopoly. The foreign firms have also better management than corresponding Turkish enterprises. They have more openings for qualified foreign staff. The use of modern marketing methods gives them a head start over Turkish undertakings in the private and public sectors. Foreign capital is also gaining influence through the establishment of joint ventures in cooperation with the strongest Turkish firms in the private sector.

An Autarkic Industrialization Policy

It is thought in Turkey that as a result of all this the big foreign enterprises derive greater benefits from Turkish financial resources than do indigenous firms. They can draw on foreign sources of capital at the same time. This explains why the foreign companies in Turkey are three times as profitable as purely Turkish firms. Their high productivity enables them to pay higher wages and salaries and concede greater social rights to their workers whether on the shopfloor or in the office. They are thereby setting an example which has repercussions on the employment conditions in less favourably placed Turkish firms. Needless to say, this raises problems, economic as well as social and political ones, and causes discontent among the population. These facts have to be borne in mind if one wants to understand why Turkey's policy to all foreign capital is at present a restrictive one. The strategy of the Third Five-Year Plan however is aimed even more definitely at import substitution than was the Turkish economic policy in the past. In this respect Turkey is going so far that one may well speak of an autarkic industrialization policy.

There are many economists in Turkey who feel great concern about this development. Foreign direct investments involve after all the transfer of technological know-how which is indispensable for any developing country. Liberalization of the flow of capital can greatly shorten the take-off phase and help to solve the unemployment problem. It is the view of the Federal Republic in particular that relocation of industries in Turkey is — for both countries — better than the admission of more Turkish workers to the Federal Republic, which is what Turkey demands and expects. To screen off the Turkish economy from the outside world cannot be the right remedy for lack of competitiveness. The more strongly a national economy is ensconced and the longer this state continues, the more difficult it becomes (as the socialist countries of Eastern and South-eastern

Europe have found out) to overcome its isolation later, especially if the general effects of segregation are strengthened by inflationary tendencies. This kind of strategy does not strengthen a country's competitive position but weakens it. The Turkish Government should ponder the fact that several foreign firms withdrew from Turkey in 1976, the first time this has happened since the foundation of the Republic¹³.

Free Mobility of Labour

What view does Turkey take of the other essential aim of the EC — to secure free mobility of the labour factor in the Community?

The Turkish attitude on this question is determined by the population trend and the labour market situation. The Turkish population grew in 1960–65 by 2.46 p.c. on average and in 1970–75 by 2.42 p.c. annually. The corresponding figures for the population growth in the EC of the Nine are 1.0 and 0.6 p.c. About 61 p.c. of the Turkish population is today still working in agriculture, compared with 8.9 p.c. in the EC countries. Unemployment, overt and hidden, is high in Turkey.

In the existing conditions Turkey is greatly interested in job opportunities for Turkish nationals in EC countries, the more so as their remittances are making a substantial contribution to the improvement of the Turkish balance of payments. At the end of 1974 the number of Turks working abroad was officially put at 666,000; 88 p.c. of them were in the Federal Republic. In actual fact the number of Turks working abroad is probably higher, and the pressure to seek work outside Turkey remains strong since the minimum wages in the EC are about three times as high as the hourly wages inside the country¹⁴. The free mobility in the EC is to be extended gradually to Turkish workers in the ten years from December 1, 1976.

Many Turks have great hopes that freedom of movement in the EC will help to solve their labour market problems. The state planning commission however is less optimistic. One of its officials, Mete Törüner, said at the Antalya conference that the unemployment problem in Turkey cannot be solved by freedom of movement in the EC. On the assumption that the manpower supply and demand continue to grow as at present and that in addition 1,000,000 Turkish workers find work in EC countries, the unemployment rate in the early eighties will still be 10 p.c. — although not 15 p.c. as estimated originally. The assumption of an additional 1,000,000 Turkish workers being placed

¹³ Ibid., p. 31.

¹⁴ Mete Törüner, *Labour Movements in the European Economic Community*, Antalya working paper, October 1976, p. 26.

in Western Europe is however "highly hypothetical" ¹⁵. Moreover, the state planning commission is not staking great hopes on a further increase of the remittances from Turkish workers abroad; these can only provide a limited offset against the foreign trade deficit.

A vicious circle exists here: A real solution of the problem of unemployment and underemployment can be achieved only through industrialization at a forced pace. The industrialization process however loses one of its main props through the emigration not only of unskilled workers but of qualified personnel. Mete Törüner urges for this reason that the migration of workers should be made the subject of control by competent Turkish authorities; the emigration of skilled manpower would have to be restricted. Even in this sphere, it thus appears, the state will not renounce its right of intervention. The opportunities for migration of workers from the Community to Turkey are said to be slight.

The number of Turks living outside Turkey will increase continuously, even without further emigration, because of the high birth rate in the group of people concerned. In 1975 alone 43,000 Turkish children were born in the Federal Republic. Considering that according to Federal Ministry of Labour statistics about 265,000 dependents of foreign workers will enter working life in the next five years ¹⁶, it is reasonable to speak of an "invisible" emigration which helps to ease the Turkish labour market. It does not however bring Turkey any nearer to a solution of its problems. Nor does the agreement on permits for permanent work and residence of Turkish workers in the EC which was negotiated between the EC and Turkey at the Brussels meeting of the Ministers of the Association Council in December 1976 bring any redress. The outcome of this meeting was indeed disappointing for Turkey since it gave Turkey in effect nothing more than the rights which Greece is already enjoying and have been conceded to other applicant countries, like Portugal and Spain, which have yet to become associates. The agreement gives Turkish guest workers after three years' employment in an EC country the right to go on performing the same kind of work; after five years they may freely engage in any kind of work in an EC country. When the recruitment stop has been lifted, of which there is as yet no sign, Turkish workers are to have a "second priority" status. (The "first priority" is the full freedom of movement enjoyed by workers of the EC member countries.)

¹⁵ Ibid., p. 28.

¹⁶ Cf. Handelsblatt, December 22, 1976, No. 239.

It emerges from our study so far that Turkey sees little in the aspirations of the EC that accords with its own development ideas or assists its development strategy. On the contrary, the development strategy of import substitution with a view to the creation of an autarkic national economy on which Turkey has embarked in the Five-Year Plans, and especially under the Third-Five-year Plan, is incompatible with a strategy of economic integration in the European Community. Should it be inferred from this that Turkey will draw back from the EC, that Turkey will look for other partners who show more interest for its worrying problems?

The general view that the "balance of achievements and commitments" has changed to Turkey's disadvantage ¹⁷ must, against the background of the economic situation in Turkey as described, lead to the conclusion that membership of the European Community is considered in Turkey today to be more of a hazard than of an opportunity for the Turkish economy. The relations between Turkey and the EC have reached a turning point.

No Alternatives

Nevertheless it seems that Turkey has no alternatives to EC membership — unless perpetuation of the country's economic backwardness or at least a considerable slowing-down of the industrialization process are regarded as such. A Common Market of the Islamic States is a remote possibility. It could not take on the functions of the EC either as a market for Turkish products or as a supplier of investment goods or as a source of capital. Turkey's attitude to the Soviet Union and the Council for Mutual Economic Aid is one of reserve. The Soviet share of the Turkish export trade in 1975 was no more than 5.3 p.c. and is thus of no great significance. The combined share of all CMEA countries was 8.8 p.c. of Turkey's exports and only 5.2 p.c. of its imports. Any capital aid by the Eastern bloc would necessarily be of limited proportions although the Soviet Union has already granted several credits to Turkey. In the technological sphere none of the CMEA countries is able to make offers matching those from the EC countries.

The large market of the European Community (also for agricultural products) with its great purchasing power, financial strength and advanced state of technological development is holding out a promise of opportunities to a country in Turkey's position. Even if the EC remains reluctant to meet Turkish wishes in its general policy and especially in regard to special concessions, it would be to

¹⁷ Cf. statement on the Turkish relations with the EC by the Turkish Chambers of Industry, Cumhuriyet, October 24, 1975.

Turkey's advantage to make use of the opportunities. The EC no doubt presents a challenge for the Turkish economy. To the Turks there is something "uncanny" about the high state of development and efficiency of the EC countries, impelling them to abandon their leisurely oriental ways, something which the partners in a presumed Market of Islamic States would not do. The Turks ought to realize however that this is the price which has to be paid for the industrialization which they desire.

The EC on its side should at last put beyond doubt that it regards Turkey as a future coequal partner. Tangible concessions which give Turkey privileges not available to other Mediterranean states which are not EC associates are the only means of overcoming the growing Turkish disen-

chantment with the EC. When lavish capital aid is given to avowedly hostile socialist states, Western Europe should certainly be more generous with such aid for Turkey. A new schedule of criteria for the grant of assistance may have to be drawn up in certain circumstances. Above all, there is a need for a greater effort on the part of the members of the European Community to understand the specific circumstances of the Turkish economy and the Turkish fears and anxieties.

It is therefore essential that both sides, Turkey and the countries of the EC, should think in fresh categories in order to proceed with the arduously begun integration in the European Community. This process must start very soon. Otherwise it will be impossible to halt adverse developments which would prove irreversible.

Integration and Underdevelopment in the Commonwealth Caribbean

by Ramesh Ramsaran, St. Augustine, Trinidad *

While the integration process in the Caribbean Community and Common Market (Caricom) has only been in force for a few years, it is, in the author's view, clear that the narrow free trade approach used so far will not be able to deal with the widening gap between the better-off and the less well-off member states or to provide a solution to fundamental problems facing the region as a whole.

The theoretical advantages of economic integration have much to attract developing countries, particularly small ones faced with the constraints of market size and a narrow resource base. To be sure, the concept of integration is not without relevance to developed economies. The focus, however, in each case tends to be different given the variation in the nature of the problems to which attention is being addressed.

Conceived in a context where production structures were already developed, it is not surprising that the traditional approach to integration has principally been from a trade angle, formulated

within the framework of prospective costs and benefits resulting from the removal of trade barriers between two or more countries. There are, of course, different degrees of integration, each stage having its own particular adherents in practice. Where the theoretical literature is concerned, however, the dialogue has tended to centre mainly around the customs union concept which assumes the operation of a common external tariff among countries participating in a free trade grouping. Within this model the question of rejection or acceptance of integration is often argued in terms

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